

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PAD1339

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF EUR 50.00 MILLION

TO

BOSNIA AND HERZEGOVINA

FOR THE

EMPLOYMENT SUPPORT PROJECT

December 12, 2016

Social Protection, Labor and Jobs Global Practice
Europe and Central Asia Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

CURRENCY EQUIVALENTS
(Exchange Rate Effective June 28, 2016)

Currency Unit = Euro (EUR)
EUR 1.00 = US\$1.11
US\$1 = EUR 0.90

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ALMP	Active Labor Market Program
B40	Bottom 40 Percent Income Group
BiH	Bosnia and Herzegovina
CQS	Selection Based on Consultants' Qualification
DLI	Disbursement Linked Indicator
DLR	Disbursement Linked Result
EEP	Eligible Expenditure Program
EU	European Union
FBH	Federation of Bosnia and Herzegovina
FEI	Federal Employment Institute
FM	Financial Management
GDP	Gross Domestic Product
IA	Implementing Agency
IFR	Interim Financial Report
IT	Information Technology
KM	Bosnian Convertible Marka
LFS	Labor Force Survey
MIS	Management Information System
MoF	Ministry of Finance
MoLSP	Ministry of Labor and Social Policy
MoLVA	Ministry of Labor and Veterans Affairs
PDO	Project Development Objective
PES	Public Employment Services
PIU	Project Implementation Unit
PMU	Project Management Unit
POM	Project Operations Manual
PP	Procurement Plan
RBF	Results-Based Financing
RS	Republika Srpska
SDC	Swiss Agency for Development Cooperation
SESER	Socio-Economic Support, Training and Re-Employment

SMD	Standardized Mean Difference
SOE	State-Owned Enterprise
SSNESP	Social Safety Nets and Employment Support Project
STEP	Skills Towards Employability and Productivity (STEP)
TA	Technical Assistance
TTL	Task Team Leader
YET	Youth Employment Project

Regional Vice President:	Cyril Muller
Country Director:	Ellen Goldstein
Senior Global Practice Director:	Michal Rutkowski
Practice Manager:	Andrew Mason
Task Team Leader(s):	Mirey Ovadiya, Josefina Posadas

BOSNIA AND HERZEGOVINA
Employment Support Project

TABLE OF CONTENTS

	Page
I. STRATEGIC CONTEXT	1
A. Country Context.....	1
B. Sectoral and Institutional Context.....	2
C. Higher Level Objectives to which the Project Contributes	5
II. PROJECT DEVELOPMENT OBJECTIVES	6
A. PDO.....	6
B. Project Beneficiaries	6
C. PDO Level Results Indicators.....	6
III. PROJECT DESCRIPTION	7
A. Project Components	7
B. Project Financing	15
C. Lessons learned and reflected in project design	15
IV. IMPLEMENTATION	16
A. Institutional and Implementation Arrangements	16
B. Results Monitoring and Evaluation	18
C. Sustainability.....	19
V. KEY RISKS.....	19
A. Overall Risk Rating and Explanation of Key Risks.....	19
VI. APPRAISAL SUMMARY	21
A. Economic and Financial (if applicable) Analysis	21
B. Technical.....	22
C. Financial Management.....	23
D. Procurement	24
E. Social (including Safeguards).....	24
F. Citizen Engagement	25
G. Environment (including Safeguards)	25

H. World Bank Grievance Redress	25
Annex 1: Results Framework and Monitoring	27
Annex 2: Project Description	37
Annex 3: Implementation Arrangements	56
Annex 4: Implementation Support Plan	69
Annex 5: Economic Analysis.....	71
Annex 6: Lessons Learned	76
Annex 7: PES Management Performance Index	79

MAP: IBRD 33375R1

PAD DATA SHEET

Bosnia and Herzegovina

Bosnia and Herzegovina Employment Support Project (P152347)

PROJECT APPRAISAL DOCUMENT

EUROPE AND CENTRAL ASIA

Report No.: PAD1339

Basic Information			
Project ID P152347	EA Category C - Not Required	Team Leader(s) Mirey Ovadiya, Josefina Posadas	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 01-Jun-2017	Project Implementation End Date 01-April-2021		
Expected Effectiveness Date 01-June-2017	Expected Closing Date 01-October-2021		
Joint IFC No			
Practice Manager/Manager Andrew D. Mason	Senior Global Practice Director Michal J. Rutkowski	Country Director Ellen A. Goldstein	Regional Vice President Cyril E Muller
Borrower: Bosnia and Herzegovina			
Responsible Institutions: FBH Ministry of Labor and Social Policy and RS Ministry of Labor and Veterans Affairs			
Contact: Telephone: Contact: Telephone No.:	Azra Jahić Mira Vasic	Title: Email: Title: Email:	Advisor to Minister Azra.Jahic@fmrsp.gov.ba Assistant Minister m.vasic@mpb.vladors.net

Project Financing Data(in EUR, millions)										
<input checked="" type="checkbox"/>	Loan	<input type="checkbox"/>	IDA Grant	<input type="checkbox"/>	Guarantee					
<input type="checkbox"/>	Credit	<input type="checkbox"/>	Grant	<input type="checkbox"/>	Other					
Total Project Cost:		87.30				Total Bank Financing:		50.00		
Financing Gap:		0.00								
Financing Source								Amount		
Borrower								37.30		
International Bank for Reconstruction and Development								50.00		
Total								87.30		
Expected Disbursements (in EUR, millions)										
Fiscal Year	2017	2018	2019	2020	2021	2022	0000	0000	0000	0000
Annual	17.75	10.25	9.10	10.75	2.15	0.00	0.00	0.00	0.00	0.00
Cumulative	17.75	28.00	37.10	47.85	50.00	0.00	0.00	0.00	0.00	0.00
Institutional Data										
Practice Area (Lead)										
Social Protection & Labor										
Contributing Practice Areas										
Proposed Development Objective(s)										
The project development objective is to increase formal private sector employment among targeted groups of registered job seekers.										
Components										
Component Name								Cost (EUR, millions)		
Support for Employment Promotion								46.40		
Support for Management Systems, Monitoring, and Communications								1.80		
Unallocated								1.80		
Systematic Operations Risk- Rating Tool (SORT)										
Risk Category								Rating		
1. Political and Governance								Substantial		
2. Macroeconomic								Substantial		
3. Sector Strategies and Policies								Moderate		
4. Technical Design of Project or Program								Substantial		
5. Institutional Capacity for Implementation and Sustainability								Substantial		

6. Fiduciary	Substantial	
7. Environment and Social	Low	
8. Stakeholders	Moderate	
9. Other		
OVERALL	Substantial	
Compliance		
Policy		
Does the project depart from the CPF in content or in other significant respects?	Yes []	No [X]
Does the project require any waivers of Bank policies?	Yes []	No [X]
Have these been approved by Bank management?	Yes []	No [X]
Is approval for any policy waiver sought from the Board?	Yes []	No [X]
Explanation:		
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []
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
Legal Covenants		
Name	Recurrent	Due Date
Description of Covenant		
Conditions		
Source Of Fund	Name	Type

IBRD	Final version of the Project Operational Manual adopted	Effectiveness		
Description of Condition				
Adoption of final version of Project Operation Manual by the RS Ministry of Labor and Veterans Affairs as well as Federation Ministry of Labor and Social Policy.				
Source Of Fund	Name	Type		
IBRD	Final version of the Project Operational Manual adopted	Effectiveness		
Description of Condition				
Adoption of final version of Project Operation Manual by the Federation Ministry of Labor and Veterans Affairs as well as Federation Ministry of Labor and Social Policy.				
Source Of Fund	Name	Type		
IBRD	Project Management Unit established in each entity	Effectiveness		
Description of Condition				
Each entity established a Project Management Unit (Federation PMU and RS PMU) comprising staff with qualifications and experience satisfactory to the Bank.				
Source Of Fund	Name	Type		
IBRD	Federation Subsidiary Agreement executed	Effectiveness		
Description of Condition				
The Federation Subsidiary Agreement, Satisfactory to the Bank, has been executed on behalf of the Borrower and the Federation.				
Source Of Fund	Name	Type		
IBRD	RS Subsidiary Agreement executed	Effectiveness		
Description of Condition				
The RS Subsidiary Agreement, satisfactory to the Bank, has been executed on behalf of the Borrower and the RS.				
Team Composition				
Bank Staff				
Name	Role	Title	Specialization	Unit
Mirey Ovadiya	Team Leader (ADM Responsible)	Sr. Social Protection Specialist		GSP03
Josefina Posadas	Team Leader	Senior Economist		GSP03
Elena Corman	Procurement Specialist	Procurement Specialist		GGO03
Karina Mostipan	Sr. Procurement Specialist (ADM Responsible)	Procurement Specialist		GGO03

Lamija Marijanovic	Financial Management Specialist	Financial Management Specialist		GGO21
Erol Mujanovic	Team Member	Consultant		GSP03
Esma Kreso	Safeguards Specialist	Senior Environmental Specialist		GEN03
Ifeta Smajic	Team Member	Jr Professional Officer		GSU03
Johannes Koettl-Brodmann	Team Member	Senior Economist		GSP05
Natalia Millan	Team Member	Consultant		GSP03
Senad Sacic	Team Member	Program Assistant		ECCBM
Sreyov Tep	Team Member	Program Assistant		GSP03
Nightingale Rukuba-Ngaiza	Legal Counsel	Senior Counsel		LEGLE
Aissatou Diallo	Finance Officer	Senior Finance Officer		WFALA
Jose Janeiro	Finance Officer	Senior Finance Officer		WFALA

Extended Team

Name	Title	Office Phone	Location

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments

Consultants (Will be disclosed in the Monthly Operational Summary)

Consultants Required?	Consulting services to be determined
-----------------------	--------------------------------------

I. STRATEGIC CONTEXT

A. Country Context

1. Bosnia and Herzegovina (BiH) is a small, middle-income country with a population 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. Indeed, recent growth performance has been mixed. After relatively strong economic growth between 2005 and 2008, averaging 5.5 percent per year, BiH's economy was negatively affected by the global financial crisis, resulting in economic contractions in 2009 and 2012. While the country began to rebound in 2013, when growth reached 2.4 percent, progress was interrupted by floods in May 2014. Early estimates suggest that real growth resumed in 2015—around 3.2 percent—driven by manufacturing and services. In 2015, BiH also made important advances in identifying priorities for structural reforms, which may also help the country move toward a more sustainable growth path.

2. 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. Between the two entities, governance structures and budgetary arrangements are asymmetric. While the RS is subdivided only into municipalities (65 in total), the FBH is subdivided into 10 cantons, each with its own executive, legislative, and judicial branches of authority. Each canton is further subdivided into municipalities. The district of Brčko of BiH was added to the structure of BiH in 1999, as a separate territory and administrative unit with its own government.

3. Making progress on poverty reduction continues to be a challenge in BiH. The poverty headcount of BiH in 2011¹ stood at 15 percent of the population, the same level as the previous four years (2007–2011). 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. In contrast to poverty, for which there is little difference between the FBH and RS, a larger share of the total population falls within the bottom 40 percent income group (B40) in the RS than in the FBH. While some of the higher incidence of the B40 in the RS is due to its higher share of the rural population, it is also the case that the urban population in the FBH has higher welfare on average compared with the urban population in the RS; 27 percent of the FBH urban population was in the B40, compared with 36 percent of the urban population in the RS.²

4. High unemployment and inactivity rates significantly challenge the entity governments' ability to reduce poverty. Employment is one of the most important factors to lift people out of poverty. Only 12 percent of the employed are poor as compared to 22 percent of the unemployed. The B40 has lower employment rates, particularly among women, and especially high unemployment rates among young people. Moreover, a higher share of the B40 who are employed have temporary jobs or no contracts, and they are also much more likely to be in occupations and sectors of activity that rely on unskilled labor. Hence, the poor have difficulty in getting good formal jobs and keeping them.³

¹ Latest available Household Budget Survey is from 2011.

² The B40 is calculated using the national income.

³ BiH Systematic Country Diagnostic 2015.

5. In 2015, the BiH Council of Ministers and the governments of the RS and FBH officially adopted the reform agenda, a medium-term plan of structural reforms that represents a broad consensus among the Council of Ministers and entity governments on the key priorities for economic and social development aimed at placing BiH on a more sustainable growth trajectory. Progress in the implementation of the reform agenda will underpin the country's application for European Union (EU) membership. With public sector spending close to 50 percent of gross domestic product (GDP), ensuring efficiency of public expenditures is critical. By the same token, increasing formal employment will facilitate an increase in fiscal revenues through income taxes and a decrease in the burden of health insurance, social contributions, and other government transfers. Such efforts are important to ensure efficient use of public resources toward faster economic growth, poverty alleviation, and shared prosperity.

6. The reform agenda also recognizes 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. First, concrete reforms have been identified to improve the enabling environment for existing and new businesses. While the labor code has been amended as part of the reform agenda, this is only the first step of the planned reforms. Both entities also plan to adjust labor taxes and contributions to facilitate—not discourage—formal private sector employment while still protecting workers. Second, the reform agenda recognizes that health benefits need to be delinked from unemployment registration to reduce the incentives for 'informal work' (work in the 'grey economy') and to reduce the administrative and fiscal burden on public employment services (PES). The entity governments are also moving on this front trying to find an administrative solution first, followed by a longer-term financially sustainable one such as extending health benefits to the poor and vulnerable groups—and not only the unemployed. Third, it will be important that the secondary and tertiary education curricula, as well as adult education system, respond to the needs of the private sector and equip workers/job seekers with the right set of skills. Fourth, unprofitable and insolvent state-owned enterprises (SOEs) will need to be restructured and/or sold to increase productivity in these sectors and private sector job creation. Finally, social assistance programs need to be reformed to encourage work. Importantly, the institutional capacity of the PES is low and needs to be strengthened so they can effectively intermediate labor demand and labor supply, assisting the unemployed in finding employment and helping firms find qualified individuals to meet their needs. Having strong PES and active labor market programs (ALMPs) is critical to support the reform agenda, as they will serve as a tool to mitigate potential adverse effects on employment of some of the pending reforms.

B. Sectoral and Institutional Context

7. Poor labor market outcomes and an incomplete transition to a market economy continue to be major concerns in BiH. Recent analysis confirms low activity and employment rates and a high unemployment rate. In 2015, 27.7 percent of the adult population (age 15 and older) was unemployed, one of the highest unemployment rates in the region.⁴ Arguably, an even bigger problem is the high level of inactivity—that is, the share of the adult population that is neither

⁴ Source: Statistics Agency of Bosnia and Hercegovina. 2015. *Labor Force Survey 2015. Preliminary Results* and Economic Institute of Sarajevo. *Labor Market Diagnostic*, study commissioned under the World Bank Project SSNESP.

working 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 is actually employed, yet even among these only few have formal jobs, and even fewer have private sector formal jobs.

8. 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 toward 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. An astonishing 43.8 percent of the unemployed were not able to find a formal job for more than five years. Among 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.⁵ 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.

9. The reform agenda 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 a subset of these priorities, namely improving employment outcomes by increasing the effectiveness and scale of 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 hires 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 SOEs or other structural reforms planned in the reform agenda.

10. 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 are essential for a well-functioning labor market. BiH still needs to tackle this challenge. This will require equipping the PES with adequate human resources, knowledge, and tools—including ALMPs—to reorient them toward modernizing job intermediation services. 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 PES 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 (for example, mediation counseling, assistance for training, and professional orientation). In the FBH, the staff-to-beneficiary ratio is 1:1,300, which is far below the EU recommended standard of 1:250–300. This means that, on average, staff spend 4–6 minutes per job seeker in the worst cases in the FBH and up to 19 minutes in the RS (Kuddo 2013). In particular, staff devote significant human resources to processing health benefits and issuing a variety of certificates to the registered unemployed. Moreover, there is a wide divergence in the capacity of the local employment offices, and it is important to promote more homogeneous and

⁵ Using 25+ as a reference group.

modern practices across the country for profiling and tailoring services to different types of job seekers and for assessing employers' needs. Thus, it is important to strengthen management processes and methodological capacity of the PES to improve the quality and range of its core services.

11. Twice as many people are registered as unemployed than the actual number of the unemployed,⁶ suggesting that many informally employed and inactive people register with the PES although they are not seeking support in finding employment. Many of the registered unemployed 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 them from focusing resources on the real job seekers. Given the limited staff capacity, the only way forward to provide better public employment support is to modernize the way the PES are managed and find efficiency gains.

12. ALMPs are another key policy tool to enhance job seekers' prospects to find employment. Organisation for Economic Co-operation and Development countries make use of such programs extensively, especially during times of economic downturns, to shorten unemployment spells, keep job seekers attached to the labor market, and avoid deterioration of workers' skills through training. Again, BiH faces many challenges in this area. First, coverage of ALMPs is low for the size of the unemployed population.⁷ In 2015, both the FBH and RS governments spent 0.07 percent⁸ of their GDP on ALMPs, covering on average 5,000 people a year. This is well below average spending of about 0.5 percent of GDP for the EU-27 countries. Older EU countries spend much more: about 1.5 percent of GDP in the case of Denmark.⁹ Second, targeting of ALMPs is ineffective. The decision about which program is right for 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 the design of existing ALMPs and introduce new programs that best address BiH's employment challenges. The successful implementation of ALMPs is closely linked to the successful reforms of PES capacity to intermediate, manage cases, reach out to employers, and monitor and evaluate to then strengthen service provision.

13. There is explicit interest from both entity governments to focus resources on measures that will maximize the promotion of employment in the formal private sector and reduce employment in the 'grey economy' (informality) and inactivity. In light of the positive experiences under the World Bank Social Safety Nets and Employment Support Project (SSNESP), the U.S. Agency for International Development GOLD project, the Swiss Agency for Development Cooperation Youth

⁶ The difference is between the Labor Force Survey (LFS) data and administrative data of those who are registered with the PES as 'unemployed'.

⁷ As previously mentioned, the size of the registered unemployed population is much larger than the population actively seeking work.

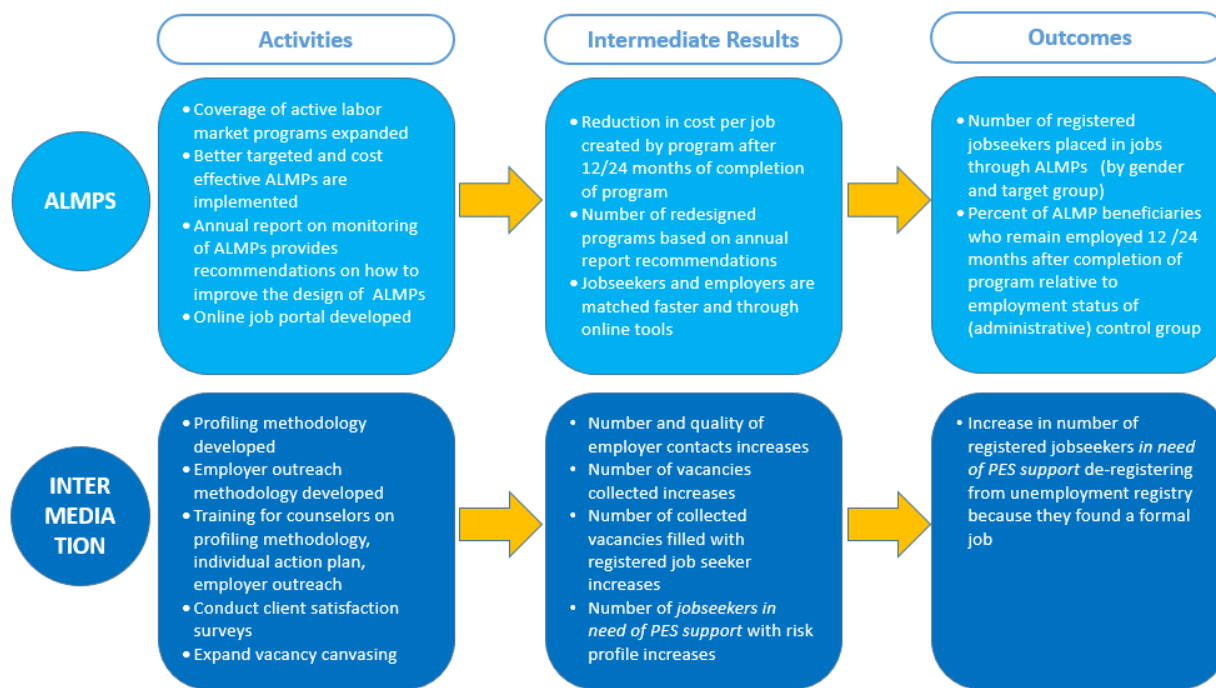
⁸ This includes expenditures strictly for ALMPs and not counseling and employer outreach.

⁹ These numbers are only for ALMPs and do not include expenditures on intermediation and case management or early retirement and passive programs. *Source:* Kuddo, A. 2009. "Employment Services and Active Labor Market Programs in Eastern European and Central Asian Countries." Social Protection Discussion Paper 0918, World Bank, Washington, DC.

Employment Project (SDC YUP), other entity government initiatives, and the findings of the recent labor market diagnostic,¹⁰ the entity governments in BiH are most interested in expanding wage subsidies, on-the-job-training programs, supporting self-employment and entrepreneurs, promoting small business formalization and growth in agriculture and agribusiness, and pursuing the reforms to enhance effectiveness of intermediation services provided by the PES. The chosen investment loan modality with a results-based financing (RBF) portion will enable the entity governments to implement the necessary reforms in the areas of ALMPs and intermediation services while ensuring that the large majority of funds will focus on employment support provided through ALMPs.

14. Figure 1 presents the results chain of this lending operation, summarizing activities, intermediate results, and outcomes. The first results chain focuses on the improvement of ALMPs along the dimensions discussed earlier, while the second results chain focuses on enhancing the capacity of the PES to intermediate and manage cases and to monitor and evaluate and enhance design of programs. There are important linkages between these two results chains that require investments in technical assistance (TA) and information technology (IT). These are discussed in detail in section III.

Figure 1. Results Chain



C. Higher Level Objectives to which the Project Contributes

15. The proposed project will contribute to the key country goals of stimulating private sector employment and reducing unemployment in BiH. The Council of Ministers and two entity

¹⁰ See footnote 1.

governments have elaborated these goals in their reform agenda for 2016–2018¹¹ and the accompanying implementation plan. The project contributes to two pillars of the BiH Country Partnership Framework (2016–2020). It directly responds to the goals related to job creation under the focus area ‘Creating Conditions for Accelerated Private Sector Growth’, and it will also contribute to the focus area ‘Increasing Public Sector Efficiency and Effectiveness’. This project will directly contribute to job creation by providing financial incentives to promote formal private sector employment; improving employability (that is, improving employment outcomes such as access to jobs, job retention rates or employment over an extended period of time, and wages) of job seekers; and improving intermediation services provided by the PES. The project will also support the successful implementation of the activities under the ‘public sector reform’ pillar by strengthening the PES capacity to respond in a timely and adequate manner to redundancies that will result from the SOE reforms. The proposed project will support the twin goals of reducing poverty and boosting shared prosperity. In this vein, the project will provide services to unemployed job seekers, particularly selected groups who are identified as further away from the labor market (such as long-term unemployed, those 40 years and above, those with secondary education or less, women, and other socially and economically disadvantaged groups), and work experience for youth and will aim to improve the employability and job prospects for the B40.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

16. The project development objective (PDO) is to increase formal private sector employment among targeted groups of registered job seekers. The project will achieve this by financing a menu of ALMPs, supporting strengthening of job intermediation, and modernizing monitoring and evaluation practices of the PES.

B. Project Beneficiaries

17. Project direct beneficiaries are selected groups of job seekers and private employers participating in ALMPs. The project will also benefit the Ministries of Labor in both entities, the PES in the RS, and regional and cantonal employment offices in the FBH as it will enhance their management practices and information systems. The project, through ALMPs and other PES, will target youth, women, and specific vulnerable groups such as long-term unemployed, those with secondary education or less, and other disadvantaged groups who face higher risks of being unemployed or who have been out of work due to a variety of constraints. Improved PES will benefit all registered job seekers actively seeking their services.

C. PDO Level Results Indicators

18. Achievement of the PDO will be measured by the following indicators:

¹¹ This reform agenda also forms the basis of advisory and financial support to BiH from the European Commission, European Bank for Reconstruction and Development, International Monetary Fund, and the World Bank Group, as well as a range of bilateral donors.

- (a) Number of active job seekers de-registering from the unemployment registry because they found a formal private sector job
- (b) Number of registered job seekers placed (youth and disadvantaged groups) in private sector jobs through ALMPs (total and by target group) (DLI 1)
- (a) Percentage of ALMP beneficiaries who remain employed as a result of participation in ALMPs 12/24 months after completion of the program relative to employment status of administrative data control group

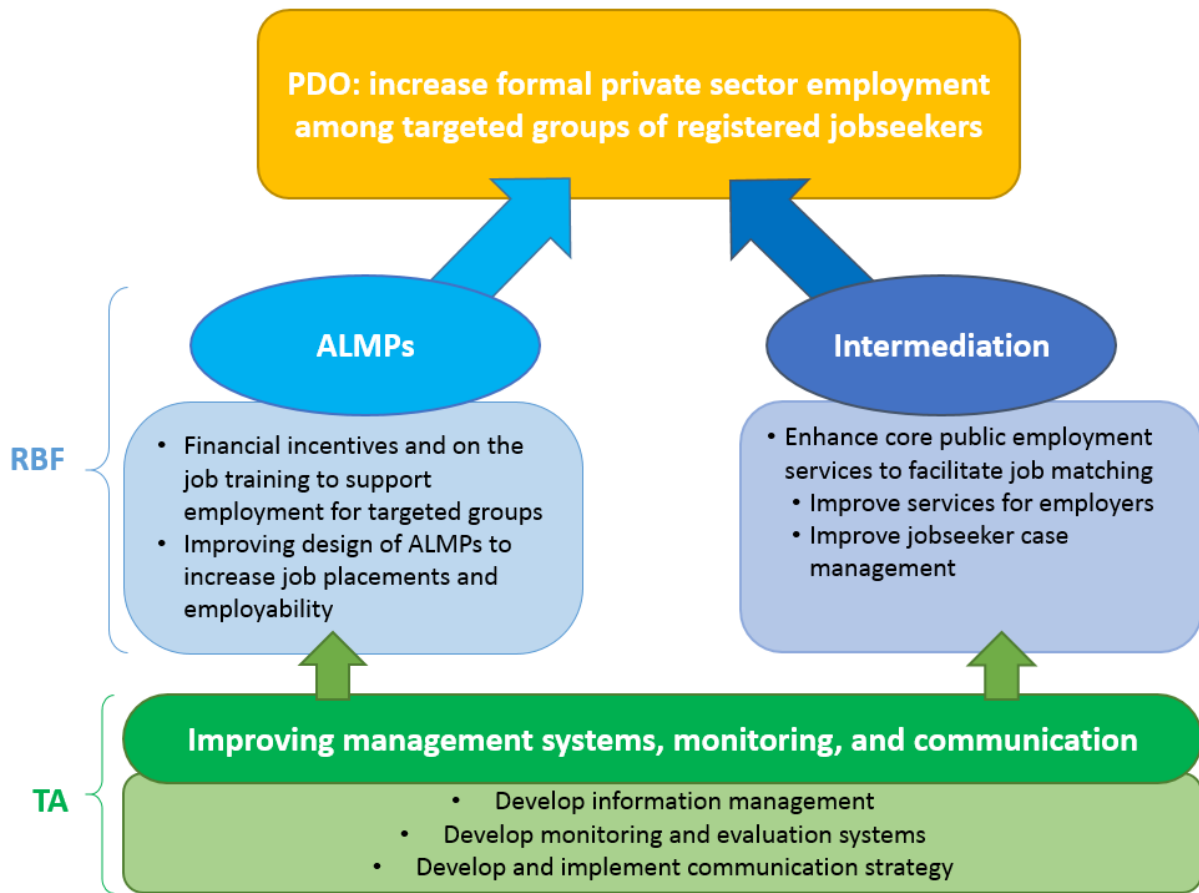
III. PROJECT DESCRIPTION

A. Project Components

19. The project will have two components (Figure 2): (a) Support for Employment Promotion and (b) Support for Management Systems, Monitoring, and Communications. The first component will be financed through RBF, while the second component will be financed through traditional investment lending. The first component will be co-financed by entity government resources. The two components are essential to achieve the PDO as they complement and reinforce each other. The PDO will be monitored by tracking two results areas: (a) Results Area 1: Increased formal private sector job placements for targeted groups of registered job seekers through improved ALMPs and (b) Results Area 2: Increased formal private sector job placements for targeted groups of registered job seekers through improved job intermediation. Both results areas are supported by improved management systems, monitoring, and communication and will be used to organize the disbursement linked indicators (DLIs) and the Results Framework.

20. The project will include unallocated funds. These funds will serve as contingency funds if some of the entity government financing for Component 1 does not fully materialize, in particular for those activities under Subcomponent 1b (intermediation) or if further financing is needed for Component 2. Since both Component 1 and Subcomponent 1b are essential to achieve the PDO, this will serve to minimize risk and maximize impact of the project on employment outcomes. If the additional funding is not needed, the portion of the financing could be reallocated to Subcomponent 1a (ALMPs), Component 2, or cancelled.

Figure 2. Project Design



Component 1: Support for Employment Promotion (RBF) (IBRD: EUR 46.4 million)

21. The objective of the component is to help the government scale up and increase the effectiveness and efficiency of its ALMPs and job intermediation to help improve labor market outcomes.

Subcomponent 1a: Employment Promotion through Improved ALMPs

22. The financing from the project will allow expansion of the coverage of ALMPs and will improve the effectiveness and efficiency of selected ALMPs over time by better targeting and better definition of program design parameters.

23. This subcomponent will finance a package of financial incentives directed at job seekers and employers, which will be accompanied by contractual obligations and co-responsibilities to ensure financing of medium-term productive jobs in the formal private sector. These measures will include targeted wage subsidies, on-the-job training, and self-employment programs. The subcomponent will build on wage subsidy programs that are currently being implemented and aim to improve their design and targeting. It will also aim to maximize the complementarities between intermediation and ALMPs to improve the effectiveness of the wage subsidy programs that are currently under implementation. This subcomponent will provide RBF; the funds allocated for this

subcomponent will be disbursed upon achievement of agreed results to be measured by DLIs (see annex 2).

24. The governments of the two entities may opt for different parameters for these ALMPs that cater best to their priorities and the needs of their target populations. Each year the program will finance two or three of the programs included in the annual work plans of the employment services with emphasis on adjusting targeting and other design features of the programs to improve their cost-effectiveness and/or impact. The programs to be funded every year should change based on learning and results from previous years. Target groups will include youth, long-term unemployed, those with low skills, individuals above 40 years of age, and disadvantaged groups. Women are expected to benefit from these programs as they are overrepresented in each of these target groups. The target groups are the same for both entities, but the measures will differ on the basis of the unemployment trends and priorities for each entity (see annex 2 for details). This subcomponent builds on the successful experiences of the recently completed SSNESP as well as recent experiences with wage subsidies, voucher, and on-the-job training programs implemented by the employment services. All ALMPs will be co-financed 50/50 from general entity government revenues. The project will support several ALMPs including on-the-job training/apprenticeship, self-employment, and wage subsidies for select groups. Details of the employment programs that will be supported can be found in annex 2.

Results Area 1: Increased formal private sector job placements for targeted groups of registered job seekers through improved ALMPs		
Activities	Intermediate Results	Outcomes
<ul style="list-style-type: none"> • Better targeted and cost-effective ALMPs are implemented • Coverage of ALMPs expanded 	<ul style="list-style-type: none"> • Reduced cost per job created by the program after 12/24 months of completion of program • Annual report that monitors programs by various subgroups (age, gender, target group, branch office) and provides recommendations on how to improve either targeting or design of programs • Number of redesigned programs based on annual report recommendations 	<ul style="list-style-type: none"> • Increased number of registered job seekers placed in jobs through employment support programs (by gender and target group) • Increased number of youth placed in jobs through employment support programs • Increased number of disadvantaged job seekers placed in jobs through employment support programs • Percentage of ALMP beneficiaries who remain employed as a result of participation in ALMPs 12/24 months after completion of program relative to employment status of control group

Subcomponent 1b: Employment Promotion through Improved Job Intermediation

25. This subcomponent will aim to increase job placements by providing improved employment services for job seekers and employers. These activities are aligned with those that the PES (FBH and RS) have already included in their employment strategy and annual action plans. These activities will be primarily financed out of entity governments' own budget funds.

26. **Services for job seekers.** These will consist of activities such as use of improved methodologies for the intake/registration of newly unemployed, categorization of job seekers by risk of falling into long-term unemployment, and tailored counseling to clearly identify and focus

resources on the job seekers in need of support from the employment services. Improved processes within employment services are expected to increase face time with job seekers, shorten waiting time between first registration and development of an individual action plan, and increase monitoring of progress and needs of the job seeker.

27. **Services for employers.** These will consist of activities such as development of new employer outreach methodologies (more calls and visits to employers), local skills needs surveys/interviews with employers, promotion of online services to increase the number of registered vacancies with the employment services, and facilitation of vacancy opening and filling by providing tailored human resource services to employers.

28. This will mean minimizing the time dedicated to administrative tasks by automating certain processes and using online services and electronic media to the extent possible, as well as establishing division of functions for staff in those employment offices that have not started this practice. It will also mean physically reorganizing employment offices to separate business processes (division between administration and counseling). In addition, it will emphasize better communication with clients through better information dissemination and intensified outreach.

29. Recognizing different starting points for each employment office, the project will aim to support achievement of gradual uniformity in the manner in which employment services are delivered. Although intake, registration, and profiling processes will be improved for all job seekers, the counseling efforts will be focused on those who declare that they need support and, in particular, on those who have been out of the labor market for a short period and are closest to the market as well as those who are hard to employ. Effort between these two groups can be split in proportion to their share in the total population of registered job seekers, based on the administrative data of the employment services. A draft manual of procedures that outlines improved processes has been developed with support from the SDC, but it will need to be further revised, adopted, and implemented gradually by all employment offices over the project implementation period.

30. To roll out the implementation of the activities, training and technical support modalities will be developed and implemented by the entity-level PES (FBH and RS). These modalities will include training of a core team of technical staff (training of trainers) to provide training to key technical staff in a cascading fashion on new methodologies for job seeker profiling, employer outreach, and use of information technologies for tracking job seekers and contacting with employers.

31. The project will support targeted knowledge exchange and communication activities aimed at promoting uniform understanding and use of improved employment service management practices and implementation of ALMPs. The activities will include support for learning events, establishment of peer-to-peer learning protocols across canton and entity staff, exchange of visits, and broader information campaigns for the general public.

32. The agreed activities will be accomplished with a combination of government own financing and a small portion of the loan (see Table 3). Many proposed activities relate to changes in processes that have zero cost, while others are of relatively low cost.

Results Area 2: Increased formal private sector job placements for targeted groups of job seekers through improved job intermediation		
Activities	Intermediate Results	Outcomes
<ul style="list-style-type: none"> • Services for employers 	<ul style="list-style-type: none"> • Number of employer contacts increases • Number of vacancies collected increases • Number of collected vacancies filled with registered job seekers increases • Client satisfaction of employers improves over time or stays at high level 	<ul style="list-style-type: none"> • Increased number of registered job seekers in need of PES support de-registering from unemployment registry because they found a formal job
<ul style="list-style-type: none"> • Services for job seekers 	<ul style="list-style-type: none"> • Improved central database for case management of registered unemployed introduced • Share of case workers certified with new case management methodology increases • Number of job seekers in need of PES support with risk profile increases • Number of job seekers in need of PES support with an individual action plan increases (total and by risk category) • Client satisfaction of job seekers in need of PES support improves over time or stays at high level 	

Component 2: Support for Management Systems, Monitoring, and Communications (IBRD: EUR 1.8 million)

33. This component will support effective monitoring of the project and provide financing for strengthening management systems to monitor ALMPs and employment services and developing and implementing an effective communications strategy targeting job seekers, employers, policy makers, and the overall population. It will build the basis for the evidence collection and learning required to improve ALMPs and job intermediation over the implementation period. It will provide financing using traditional investment lending mechanisms. It will finance enhancements of IT systems to (a) enable data exchange among employment bureaus and other institutions; (b) offer online services; (c) monitor services offered to job seekers and employers; (d) introduce/monitor branch office performance; and (e) monitor and disseminate labor market trends. This presupposes connectivity of all offices to an upgraded IT system that will allow interface and data exchanges with other relevant institutions for verification of job seeker status and basic data (for example, social assistance, agriculture subsidies recipients). This component will finance and ensure a strong communications and outreach strategy to plan, develop, and disseminate information on project resources, activities, and results through multiple channels to job seekers, employers, policy makers, and the general population. It will also finance process and impact evaluations of select ALMPs and/or institutional measures to be implemented by entity PES and Ministries of Labor as well as beneficiary surveys. In the RS, a randomized control trial impact evaluation of selected programs will be conducted.

34. Dedicated project management teams under the FBH Ministry of Labor and Social Welfare and the RS Ministry of Labor and Veterans Affairs (MoLVA) will administer the funds, monitor and report on the implementation of project activities and achievement of DLIs, commission evaluations of select ALMPs, and implement selected activities under Component 2.

35. As with Component 1, these activities will be accomplished with a combination of government own financing (through annual work plans and budgets) and financing from the loan.

Table 1. FBH Disbursement Linked Indicators

DLI/Indicative Years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
1. Increasing job placement through ALMPs (EUR 15.3 million)	1.1. 2,500 job placements for youth and disadvantaged groups (EUR 5.1 million)	1.2. 1,800 job placements for youth (EUR 1.2 million)	1.4. 3,600 job placements for youth (EUR 1.10 million)	1.6. 5,000 job placements for youth (EUR 1.10 million)	1.8. 6,000 job placements for youth (EUR 0.80 million)
		1.3. 5,000 job placements for disadvantaged groups (EUR 1.80 million)	1.5. 10,000 job placements for disadvantaged groups (EUR 1.60 million)	1.7. 14,500 job placements for advantaged groups (EUR 1.60 million)	1.9. 15,000 job placements for disadvantaged groups (EUR 1.0 million)
2. Improving design of ALMPs to increase job placement (EUR 2.0 million)		2.1. Design of one program modified (EUR 0.50 million)	2.2. Design of one program modified (EUR 0.50 million)	2.3. Design of one program modified (EUR 0.50 million)	2.4. Design of one program modified (EUR 0.50 million)
3. Increasing job placements through intermediation (EUR 5.5 million)		3.1. Amended or new rulebook of cantonal employment services adopted (EUR 1.5 million)	3.2. 10,000 job seekers in need of support profiled and have an individual action plan reflected in the database (EUR 1.0 million)	3.3. Number of vacancies collected increased by 10% from 2017 (EUR 1.0 million)	3.4. 30,000 of job seekers in need of support profiled and have an individual action plan in the database (EUR 1.0 million) 3.5. Successful matches increased by 15% from 2017 (EUR 1.0 million)
4. Improving management systems and monitoring (EUR 3.6 million)		4.1. ALMP monitoring system has produced at least one report (EUR 1.5 million)	4.2. Monitoring of labor market trends produced at least one report (EUR 1.0 million)		4.3. Online jobs portal with labor market trends published annually through jobs portal being used (EUR 1.1 million)

Table 2. RS Disbursement Linked Indicators

DLI/Indicative Years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
1. Increasing job placement through ALMPs (EUR 14.0 million)	1.1. 2,000 job placements for youth and disadvantaged groups (EUR 4.0 million)	1.2. 1,200 job placements for youth (EUR 1.0 million)	1.4. 2,400 job placements for youth (EUR 1.0 million)	1.6. 3,600 job placements for youth (EUR 1.0 million)	1.8. 4,800 job placements for youth (EUR 1.0 million)
		1.3. 2,800 job placements for disadvantaged groups (EUR 1.5 million)	1.5. 5,600 job placements for disadvantaged groups (EUR 1.5 million)	1.7. 8,400 job placements for disadvantaged groups (EUR 1.5 million)	1.9. 11,200 job placements for disadvantaged job seekers (EUR 1.5 million)
2. Increasing the number of redesigned ALMPs to improve job placements (EUR 2.0 million)		2.1. Design of one program modified (EUR 0.5 million)	2.2. Design of one program modified (EUR 0.5 million)	2.3. Design of one program modified (EUR 0.5 million)	2.4. Design of one program modified (EUR 0.5 million)
3. Increasing job placements through intermediation (EUR 2.5 million)			3.1. 7,000 job seekers in need of employment services support profiled and have an individual action plan reflected in the database (EUR 1.0 million)	3.2. Number of vacancies collected increased by 10% from 2017 (EUR 0.5 million)	3.3. 20,000 job seekers ‘in need of employment services support’ profiled and have an individual action plan developed in the last 12 months and reflected in the database (EUR 0.5 million)
			3.4. Successful matches increased by 15% (EUR 0.5 million)		
4. Improving management systems and monitoring (EUR 1.5 million)		4.1. ALMP monitoring system has produced at least one report (EUR 1.0 million)			4.2. Online job matching tool being used (EUR 0.5 million)

B. Project Financing

36. This will be an Investment Project Financing loan that uses results-based features in one of its components. The total amount of the loan will be about EUR 50.0 million. The loan will be shared between the two entities, the RS and the FBH, in different proportions: the total amount of the loan will be EUR 21.0 million for the RS and EUR 29.0 million for the FBH. Of the total amount, EUR 1.8 million (EUR 0.5 million for the RS and EUR 1.3 million for the FBH) is unallocated and is to be used for any unforeseen expenditures. This amount can be allocated to any project activity during the implementation period. The total cost of the project over four years, including all sources of financing, will be about EUR 87.3 million including government own financing.

Table 3. Project Cost and Financing

Project Components	Project Cost			IBRD Financing		Government Financing		Percent IBRD Financing per Entity	
	Total	RS (EUR, millions)	FBH (EUR, millions)	RS (EUR, millions)	FBH (EUR, millions)	RS (EUR, millions)	FBH (EUR, millions)	RS (%)	FBH (%)
1. Support for Employment Promotion	83.70	36.00	47.70	20.00	26.40	16.00	21.30	55.53	55.31
2. Supporting Monitoring, Management Systems, and Communications	1.80	0.50	1.30	0.50	1.30	0.00	0.00	100.00	100.00
3. Unallocated	1.80	0.50	1.30	0.50	1.30	0.00	0.00	n.a.	n.a.
Total Costs	87.30	37.00	50.30	21.00	29.00	16.00	21.30	n.a.	n.a.

Note: Component 1 includes retroactive financing EUR 5.1 million for the FBH and EUR 4.0 million for the RS. Retroactive financing is 100 percent IBRD financing. During the project, Component 1 is 50 percent IBRD and 50 percent government financing.

C. Lessons learned and reflected in project design

37. A key element of Subcomponent 1a involves wage subsidies. Wage subsidies—payments to employers or workers to reduce the cost the total wage bill or increase the take-home pay—are increasingly used both in developed and developing countries to promote employment and increase employability. While in the past, wage subsidies were considered a useful instrument to help employers and employees weather times of crises, presently, they are also acknowledged as a means to build the skills of specific groups of workers, in particular youth and low-skilled and older deskilled workers. On the one hand, new hires benefiting from wage subsidies will gain skills and experience by on-the-job training; on the other hand, employers can use the subsidy to finance on-the-job training to overcome failures of the education system.

38. Lessons from impact evaluations in developed countries indicate that wage subsidies are worthwhile only when they provide job opportunities to workers who would otherwise remain

unemployed or take jobs that do not maximize their potential productivity. Thus, it is essential to design them such that they target the right groups and minimize substitution and windfall effects—the former being nonsubsidized workers being replaced by subsidized workers with zero impact on total employment, and the latter being a waste of resources on already employed persons or those who would have been hired anyway.¹²

39. One key point emphasized by international evidence is that employment programs have higher impact when combined with effective intermediation. A meta-analysis study¹³ on youth employment programs finds that when employment programs are comprehensive—that is, combine intermediation with other forms of support such as skills training, wage subsidies, or self-employment support—the total effect is higher than the sum of the individual program effects. This message is very important, as improving the effectiveness of intermediation services not only helps save government resources in the administration of public services but also contributes to greater success of ALMPs.

40. Many lessons can also be drawn from the experience of both entities implementing wage subsidy programs, in particular, from those financed under the previous World Bank project, the SSNESP. First, four program features should be carefully considered while designing wage subsidies: (a) delivery modality; (b) level of financial compensation granted to participants; (c) method and extent of targeting; and (d) duration and sustainability of programs. Second, it is possible to achieve results, in particular for vulnerable active job seekers, without generous financial incentives (some of the current and past government programs reached up to five times the average cost per job offered under the SSNESP). Finally, strong administrative systems to support implementation of multiple ALMPs, case management, and employer outreach are critical. Development of an integrated PES management information system (MIS) with the ability to record, manage, monitor, and disseminate information on ALMPs, ALMP beneficiaries, and labor market demand- and supply-side trends will greatly improve the impact of the PES.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

41. In both the RS and FBH, the project will be housed under the MoLVA and Ministry of Labor and Social Policy (MoLSP), respectively. These institutions will have the reporting and monitoring responsibility in relation to the World Bank. Specific implementation and institutional arrangements by entity are described in the following paragraphs. Detailed project implementation procedures will be compiled in a short Project Operations Manual (POM), to be ready by project effectiveness.

¹² Almeida, Orr, and Robalino. 2014. “Wage Subsidies in Developing Countries as a Tool to Build Human Capital.” *IZA Journal of Labor Policy* 3 (12).

Neumark. 2013. “Spurring Job Creation in Response to Severe Recessions: Reconsidering Hiring Credits.” *Journal of Policy Analysis Management* 32 (1).

¹³ Rother et al. 2016.

42. In the FBH, the FBH PES will be responsible for the implementation of ALMPs to be financed by the project.¹⁴ The specific arrangements to be followed may differ by each ALMP and will be indicated in the POM, public calls, and instructions issued to cantonal services. It is expected that implementation will follow existing guidelines issued by the FBH PES. Most ALMPs implemented by the FBH PES are financed with own resources; however, two programs—the First Employment Program and the Self-Employment Program introduced in 2016—are financed by the FBH Ministry of Development, Entrepreneurship, and Crafts.¹⁵

43. A dedicated team will monitor project implementation, and this is a requirement for successful implementation and timely disbursements. The FBH MoLSP will be in charge of monitoring the project, verifying the achievement of DLIs as reported by the FBH PES, and reporting to the World Bank. The MoLSP will also guide the development of procedures and methodologies for improved intermediation. There is a recently created Special Projects Unit within the organizational structure of the MoLSP. There is also a Project Implementation Unit, PIU SESER, which is under the purview of the MoLSP. This PIU has experience with implementation of various World Bank projects and is awaiting an FBH government decision on whether it would be mainstreamed into the ministry. This PIU or an equally qualified team (with necessary reinforcements in case of need) is expected to take over the project management responsibility. Having a Project Management Unit (PMU) in place with names of the individuals responsible for monitoring, financial management (FM), and procurement communicated to the World Bank will be an effectiveness condition.

44. A Steering Committee will be in place to oversee project implementation and to which the MoLSP will present biannual reports on the progress toward achievement of DLIs and project indicators. The members of the Steering Committee will include representatives of the Ministry of Finance (MoF); Ministry of Development, Entrepreneurship, and Crafts; Prime Minister's office; FBH PES; MoLSP; and any other relevant institution that might benefit project implementation. Representatives should be nominated by each institution and confirmed by the FBH Government. The formation of the Steering Committee will be a dated covenant indicated in the Loan and Project agreements.

45. In the RS, the entity-level PES will be responsible for the implementation of ALMPs to be financed by the project. The specific arrangements to be followed may differ by each ALMP and will be indicated in the POM or included in the public calls. It is expected that implementation will follow existing guidelines issued by the RS PES unless agreed otherwise or indicated in the POM.

46. The MoLVA will be in charge of managing the project, verifying the achievement of DLIs as reported by the RS PES, and reporting to the World Bank. The MoLVA will also oversee and guide the development of improved methodologies and any improvements to the monitoring systems including commissioning evaluations. A dedicated team to monitor project implementation will be named and in place within the MoLVA before project effectiveness. This will be an effectiveness condition. The Government of the RS will need to confirm the precise composition of the PMU with the names of the individuals responsible for monitoring, FM, and

¹⁴ The Ministry of Entrepreneurship currently has the oversight responsibility for one of the new ALMPs (First Employment Program) that became effective in February 2016. The day-to-day implementation responsibility is still with the FBH PES.

¹⁵ These programs are financed with the retroactive financing, as indicated in table 1.

procurement. It is expected that some of the staff who were in charge of the SSNESP implementation can be transferred from the Ministry of Health and Social Assistance to the MoLVA to form the PMU.

47. A Steering Committee will be put in place to oversee project implementation and to which the MoLVA will present quarterly or biannual progress reports on progress toward achievement of DLIs and project indicators. The members of the Steering Committee will include representatives of the MoF; Office of the President of the Government, Ministry of Industry, Energy, and Mining; RS PES; MoLVA; and any other relevant institution that might benefit project implementation. Representatives should be nominated by each institution and appointed by the RS Government. The formation of the Steering Committee will be indicated as a dated covenant in the Loan and Project Agreements.

B. Results Monitoring and Evaluation

48. This is a hybrid lending operation, and therefore, in addition to an agreed Results Framework, an agreed DLI matrix will also guide both IBRD and the two entity governments to follow implementation progress and achievement of DLIs.

49. Results monitoring and evaluation will be the responsibility of the RS MoLVA and FBH MoLSP. There will be dedicated persons in each ministry who will be in charge of project monitoring. Data on the implementation of ALMPs and delivery of other services will come from the respective entity-level PES and will be compiled by the ministries into biannual reports to be submitted to IBRD and to the Project Steering Committee. The Results Framework (annex 1) will guide the tracking of the project outcome and intermediate outcome indicators. It should be noted that the outcome indicators primarily focus on placement of job seekers and performance of PES and not private sector firms even though firms will be beneficiaries of ALMPs. This is because outcomes related to revenues, firm survival, and so on will be subject to the changes in the macroeconomic situation, which is not under the direct control of this project and will be hard to attribute to project activities.

50. The monitoring unit/specialists will also be responsible for the verification of achievement of DLI targets over the implementation period. The verification will follow the procedures agreed and detailed in the verification protocols associated with each DLI. The report on the achievement and verification of any DLI can be sent to the IBRD at any time to request disbursements. The RS MoLVA and FBH MoLSP will be responsible for administering evaluations of select ALMPs as well as for monitoring of day-to-day activities and tracking of beneficiaries (job seekers and employers) of services. Both agencies have benefitted from TA from the World Bank to set up an improved tracking system for beneficiaries of ALMPs (in process in the RS), and it is expected that the agencies will institutionalize this system and continue using it to monitor and report on the impact of their services.

51. During the implementation period, at least four annual evaluations of different ALMPs will be conducted by the entity Ministries of Labor and entity PES. The evaluations will use administrative data and rely on econometric techniques to construct control groups with similar characteristics as those individuals benefitting from ALMPs to measure the net impact of ALMPs

(in terms of employment outcomes). Data will be drawn from the administrative databases of the employment institutes.

C. Sustainability

52. The project investments and results are expected to have a long-term impact with respect to labor market outcomes as they will help the entity governments achieve their own goals of improving labor market outcomes and increasing formal private sector employment in BiH within 2016–2018. IBRD financing will complement entity government own financing and support initiatives that are already in place with a view to improve their design and sharpen their targeting. The results that are chosen will be reflected in the annual work plans and budgets of the implementing agencies (IAs) as they are essentially part of core activities of Ministries of Labor/PES. Therefore, the results are expected to be largely sustainable given the results-based approach and the project design. In addition, even though the IBRD financing will provide additional resources to expand ALMP coverage in the next four years, these programs are not expected to remain at that scale following project completion. Once BiH’s economic transformation is complete and, in particular, public sector reforms are finalized, ALMPs are expected to be scaled down and/or consolidated to adjust to the improved economic environment. Disbursements will be only made once the agreed-upon targets have been achieved, both for ALMPs and delivery of PES. Therefore, the design and results-based mechanism are expected to enable a process of change with long-lasting effects. The enabling actions of Subcomponent 1b and Component 2 are intermediate results included in the DLIs and will be mostly achieved with entity government own resources during the life of the project.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

Table 4. Systematic Operations Risk-Rating Tool (SORT) Summary Table

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Low
8. Stakeholders	Moderate
OVERALL	Substantial

53. **Overall, the project risk rating is Substantial.** The following paragraphs focus on the most important risk categories as well as potential mitigation measures.

54. **Political and governance.** The success of the program relies on continuous commitment from the entity governments and, in the case of the FBH, the 10 cantonal governments. The MoFs

in both entities need to continue their financial support for ALMPs through the annual budget process since the loan is not directly financing programs. The Ministries of Labor need to continue to support the programs and intermediation measures of the PES over the life of the operation; otherwise, results will not be achieved and the loan will not disburse. In the FBH, one of the main programs to be supported by the operation ‘First Employment Program’ is formally housed under the Ministry of Entrepreneurship but implemented by the FBH PES, which reports to the MoLSP. For successful implementation, both Ministries as well as the MoF need to cooperate and continue to support the project. In addition, the FBH PES has a highly decentralized structure with fairly autonomous cantonal employment services. The reform of the PES processes and the implementation of central data collection will require considerable cooperation from the cantonal services and possibly the cantonal governments. Political risks will be mitigated through strong communications with the general public, private sector, civil society, the EU delegation, and other international organizations to maintain a broad-based platform of support for reforms. Strong support from the FBH prime minister’s office and RS president’s cabinet will also help sustain momentum. Periodic consultations with the private sector, international organizations such as the EU delegation, and civil society representatives are expected to be conducted periodically. In addition, all international financing agreements need to be adopted by the RS national assembly and FBH parliament. Average time for effectiveness following project approval in BiH has been about 10 months. Although both entity governments intend to use accelerated procedures for adoption, there is a high risk that project effectiveness will be delayed.

55. **Macroeconomic.** There are significant downside risks to the macroeconomic framework. External risks related to economic growth in the EU could have an adverse effect on BiH’s economic outlook through decreased exports, remittances, and capital flows. Weakening economic growth might force the Government to introduce greater fiscal consolidation. Reduced exports and foreign direct investment due to the external situation or greater fiscal consolidation could dampen the impact of the anticipated reforms through decreased labor demand. To mitigate these risks, the World Bank is working closely with the entity governments and the International Monetary Fund to ensure that the project remains on track.

56. **Technical design.** The project will be housed in the Ministries of Labor in both entities; however, the IAs are the entity-level PES, which in the case of the FBH is highly decentralized. In addition, in the FBH, the Ministry of Entrepreneurship is involved, as well as the MoFs as the budget keeper in both entities. This level of complexity presents challenges for project implementation, within both BiH and the World Bank. In addition, some of the reforms that must be undertaken to achieve the DLIs will require substantial TA from external consultants. It will be challenging to provide adequate technical and operational advice with World Bank supervision resources for each of the subcomponents. At the same time, the entity governments have expressed reluctance to borrow large sums for TA. While some funds have been allocated in the loan for TA and project management, the entity governments would like to minimize the use of loan funds for this purpose. There is a risk that the TA resources out of the loan are not adequate or the potential external resources are inadequate from a technical, financial, or timing perspective since they would be outside of the control of the project. To safeguard against this risk, a small portion of the loan has been set aside as unallocated. This amount can be used toward any unforeseen expenditures and needs, in particular for the TA part and those expenditures that PES would be required to make to improve intermediation and achieve related DLIs.

57. **Institutional capacity for implementation and sustainability.** Overall project coordination will be the responsibility of the PMUs in the Ministries of Labor of the two entities. These PMUs should be able to draw upon the experiences of the PIUs of the past World Bank project on social safety nets and employment. Assuming that at least part of this experience of implementing World Bank-financed projects can be carried over to the new PMUs, the capacity for coordination across other ministries that is required for the new project should be there, both for implementation of the project—with regard to fiduciary and safeguards requirements and reporting of results across ministries—and coordination of the inter-ministerial processes. Nevertheless, there are risks associated with the timeliness of the appointment and operationalization of these units. Hence, the risk related to this aspect of the project is considered Substantial.

58. **Fiduciary.** Overall fiduciary responsibility will be the responsibility of the Federation MoLSP and RS MoLVA. As there is need for reinforcement of both entity Ministries' capacities in this respect, the PMUs to be set up will follow financial management and procurement aspects of the project. Both Ministries should be able to draw on the experiences of the PIUs of the past World Bank projects and carry over the capacity built to the new PMUs; however, as mentioned earlier, there are risks associated with the appointment and operationalization of these units. Hence, the risks related to this aspect of the project is considered Substantial.

VI. APPRAISAL SUMMARY

A. Economic and Financial (if applicable) Analysis

59. The project will have direct economic benefits of wages and incomes for 51,000 job seekers placed in jobs. While it is difficult to estimate a priori the aggregate impact of wages with or without program intervention, it is likely that the program impact on vulnerable groups, including low-skilled individuals, long-term unemployed, and those above 40 years of age will be positive, as job opportunities for these groups are scarce and employment barriers high. Impact for high-skilled job seekers placed is less clear as there is a higher likelihood that many of these individuals would have found a job regardless of program participation (see details in annex 4). Nevertheless, individual earnings are expected to have a positive impact on entity government revenues with respect to taxes and social security contributions to be collected over the life of the project as well as on consumption, and this will contribute to the sustainability of the social protection system and help boost the economy. Both higher wages and increased social security contributions have substantial positive externalities that are difficult to measure. However, they will improve quality of life for individuals and society through their effects on the economy and the quality of social services. In addition, improvements to the PES (coverage and quality) will result in more job seekers being served and an increase in their ability to find a job.

60. With regard to more measurable impacts, a cost-benefit analysis reveals that the project impact of direct costs and benefits to the Government will be positive. The net return for each dollar spent is estimated to range between 40 percent and 103 percent, depending on the program. Programs vary in impact on labor outcomes and cost-effectiveness, which in turn depend on (a) the target population; (b) the parameters of the program (mainly percentage of the monthly wage covered by the subsidy/transfer, duration of period of subsidy/transfer, and conditions on

employment continuation); and (c) the implementation mechanisms (for example, transfer delivered to employers versus job seekers) (see annex 4 for details).

61. A rate of return for the project presented here is estimated conservatively, using only the ALMPs' direct costs (pecuniary transfers to employers and job seekers) and the monetary benefits measured as (a) the present value of future income revenues over the working life of the newly placed job seekers or (b) the increase in the present value of future income revenues due to wage increases resulting from higher productivity jobs (resulting from improved job matching).¹⁶ The benefit is estimated considering the three most important programs already in place in each entity and a distribution of beneficiaries among programs based on targeting aimed at maximizing the cost-effectiveness of the measures. Details of the assumptions and methodology are presented in annex 4.

B. Technical

62. The design of the project is aligned with the PDO of supporting interventions to increase formal private sector job placements among job seekers of select target groups. The design and results to be attained also emphasize enhancing intermediation practices of employment services to better prepare them to respond to changing needs of the labor market over the long term and promote employment. A menu of ALMPs and activities to enhance intermediation will be financed under the project to support this objective. The choice of ALMPs to be supported is aligned with the needs of the unemployed and inactive in BiH (mostly youth, long-term unemployed, those who are above 40 years of age, low-skilled individuals, women, and other disadvantaged groups)¹⁷ and experiences and results to date of existing ALMPs.

63. In the first two years of the project, there is an emphasis on wage subsidies, although adjustments will be made in the design parameters of existing wage subsidies (duration, amount and conditionality) to make them more cost-effective and impactful over time. This focus gradually will shift toward on-the-job training programs and combining incentives to employers with mandatory on-site or off-site training and incentives to job seekers based on learning from the program experiences.

64. The project also emphasizes enhancing core employment services for job seekers and employers such as job counseling, referrals to ALMPs, vacancy collection, employer outreach to promote job openings, and placements of registered job seekers as well as improving employment services' capacity to monitor impact of active labor market measures and performance of employment services.

65. A hybrid investment lending project with a large results-based component has never been implemented in BiH before. Therefore, there will be a learning curve associated with its implementation. In light of the novelty of this hybrid instrument and risks it may pose in terms of timely implementation and achievement of results, the DLI matrix takes into account the two entity governments' reform agenda and its goals for the next four years and includes realistic disbursement linked results (DLRs) and targets in line with capacity constraints and control span of implementing institutions. It distributes risk between DLRs that are more difficult to achieve

¹⁶ Savings from health insurance contributions are also taken into account in both cases.

¹⁷ LFS 2015.

and those that are achievable quicker and with minimal time, effort, and financing. The mix of indicators/results, targets, and attached disbursements is meant to provide the two entity governments with a steady cash flow, in particular for the financing of ALMPs. The indicators/results are also formulated to ensure monitoring and adjustment of select ALMPs based on evidence. The verification protocols to monitor the DLIs/DLRs have been developed in collaboration with the RS MoLVA, the FBH MoLSP, and entity-level PES. The protocols will ensure that results are objectively verifiable. In this vein, the two entity governments have agreed to put in place the monitoring mechanisms and dedicated staff to comply with the requirements of this project. Dedicated staff will be housed in the RS MoLVA and FBH MoLSP. A Steering Committee will also oversee the project and monitor implementation.

66. The investment lending part of the project will finance essential activities to enhance monitoring and information management capacity of entity-level PES. These activities will ensure that the Ministries of Labor and entity-level PES are able to monitor job seeker and employer services as well as ALMPs and disseminate quality information on labor market trends and program results to the general public and policy makers.

C. Financial Management

67. An assessment of the FM capacity was carried out by the World Bank in June 2016, during the appraisal mission. The assessment concluded that the FM arrangements within the PMUs to be established in the FBH MoLSP and the RS MoLVA are acceptable to the World Bank and that the overall FM risk is substantial with the application of the mitigation measures.

68. The PMUs will maintain an FM system acceptable to the World Bank. The project financial statements will be audited by independent auditors acceptable to the World Bank and on terms of reference acceptable to the World Bank. The annual audited financial statements and the audit reports will be provided to the World Bank within six months of the end of each fiscal year. The PMUs shall also prepare and furnish to the World Bank not later than 45 days after the end of each calendar quarter unaudited interim financial reports (IFRs) for the project covering the quarter, in form and substance satisfactory to the World Bank. However, to improve the existing FM arrangement, an action plan has been agreed with the ministries as follows:

Table 5. Financial management actions and timeline

Action	Responsible	Time Line
The POM including separate sections on (a) Subcomponents 1a and 1b: DLI-based disbursements; (b) Component 2; and (c) inter-agency/institution collaboration prepared	All implementing ministries/institutions	Condition of effectiveness
The FBH MoLSP and RS MoLVA will hire or designate an FM staff for the respective PMUs	All implementing ministries/institutions	Before project effectiveness
The entity PES, FBH MoLSP, and RS MoLVA will develop action plans for resolving audit qualifications that were reported in their regular annual audit reports conducted by the entity state audit offices	PES, FBH MoLSP, and RS MoLVA	During project implementation
The Project Steering Committee proactively oversees the effectiveness and ongoing efficacy of overall fiduciary arrangements. Specific responsibilities including fiduciary oversight and risk management to be included in the POM	Project Steering Committee	During project implementation—responsibilities defined in the POM

Action	Responsible	Time Line
Preparation and submission of audited project financial statements. The scope of financial audits will include reviews of claims made for reimbursement of eligible expenditures during the period covered by the audit.	All ministries and agencies included in the project	Covenant: Within six months after the end of each financial year
FM supervision plan to include review of arrangements for ALMPs and other eligible expenditure programs (EEPs)	World Bank task team	During project implementation support/supervision
FM to complement task team leader (TTL) review of claims for ALMPs and other DLI-related replenishments by reviewing quarterly unaudited IFRs	World Bank task team	During project implementation support/supervision

D. Procurement

69. Procurement under the portion of the project that will disburse based on traditional investment lending procedures will be carried out in accordance with the World Bank ‘Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers’, published in January 2011 and revised in July 2014, (Procurement Guidelines) and ‘Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers’, published in January 2011 and revised in July 2014, (Consultant Guidelines) and with the latest Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants. An assessment of the adequacy of procurement and related systems in place, as well as the capability of each IA to administer procurement in general and World Bank-funded procurement in particular, was carried out by the World Bank in May–June 2016. The team assessed the risks that may negatively affect the ability of IAs to carry out procurement processes. The findings of this assessment, the risks, and the proposed mitigation measures are described in annex 3.

70. Given the findings of the assessment, the risks identified, and the proposed implementation arrangements, the overall risk for procurement is considered Substantial.

E. Social (including Safeguards)

71. The project is expected to have numerous positive social and economic impacts, such as enhancing employability, entrepreneurship skills, and self-employment of inactive groups, especially youth, low-skilled individuals, long-term unemployed, and vulnerable groups. Improvement of ALMPs through diversification of measures and improved targeting based on unemployment profile (for example, long-term unemployed, low-skilled youth, women, those over 40 years of age, and university graduates) is anticipated to contribute to successful job placements by improving the match between job seekers’ qualifications and employers’ needs. Improvement of PES employer and job seeker services is anticipated to enhance the competencies of PES staff to provide better counseling and individualized support to job seekers. Focusing attention on intake/registration and counseling, that is, more face time, is considered to be particularly important in an employment environment where more than 40 percent of job seekers have been unemployed for more than 5 years and the chances for finding employment are perceived as being slim. Increase and diversification of counseling services and employment programs will be

essential for reversing the disillusion that prevails in the country due to poor employment opportunities.

72. Women are one of the groups that are more likely to be unemployed or inactive and are expected to benefit from the employment programs. Little evidence from past programs suggests that women could benefit as much as men from ALMPs. This project will closely monitor the impact of the ALMPs on women with the objective of tailoring the redesign of ALMPs to the needs of this group if needed.

F. Citizen Engagement

73. Design of the project included consultations with multiple stakeholder groups, including relevant state agencies, research institutes, and business and professional associations. The project will continue to draw on these groups for their expertise on the local labor market during the project preparation. Under Component 2, the project will introduce client satisfaction surveys as part of its effort to strengthen management systems to monitor employment services efficiency. The survey will monitor changes in client satisfaction with PES that can be attributed to project interventions such as IT upgrades, introduction of online services, and improved matching between job seekers and employers. The survey will be administered on a yearly basis to provide ample opportunities to use the feedback provided to make adjustments and further improve services. The survey will monitor feedback between two key PES users, namely employers and job seekers, to ensure that targeted measures to improve services for each are being perceived as effective and satisfactory. The sample frame will include different categories (for example, youth, vulnerable groups) of job seekers and employers (for example, small, medium, large, and different geographic areas and sectors of the economy). The effectiveness of the PES will be monitored at the project level separately for the two main groups of service users (see indicators incorporated into the project Results Framework in annex 1).

G. Environment (including Safeguards)

74. The project will not include civil works of any kind and OP 4.12 is not triggered. As part of the wider government program supported by the SDC YEP and grant, reorganization of employment offices in the form of minor remodeling of internal PES workspace is planned. The project will not finance the reorganization, nor will it create a need for construction of additional PES facilities or extensions to existing PES offices, the project does not include any activities that may induce land acquisition/expropriation. The planned office reorganization may cause temporary disruption to the PES day-to-day operations, but will not result in long-term economic displacement of any groups. Likewise, the introduction of new training modules for PES counselors will be done within existing PES facilities and will not require construction of new training centers. All ALMPs will be implemented within the confines of the national guidelines on environmental safety and health standards, and necessary checks will be part of the selection process for the ALMP beneficiary firms.

H. World Bank Grievance Redress

75. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress

mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WBG's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and WB Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate GRS, please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Country: Bosnia And Herzegovina

Project Name: Employment Support Project (P152347)

Employment Support Project (FBH)

Project Development Objective: To increase formal private sector employment among targeted groups of registered job seekers											
Project Development Objective Indicators		DLI/DLR	Unit of Measure	Baseline	Target Values				Data Collection and Reporting		
					YR1	YR2	YR3	YR4	Frequency	Data Collection Instruments	Responsibility for Data Collection
1	Number of active job seekers de-registering from unemployment registry because they found a formal private sector job	NO	Number	76,000	Baseline	Baseline + 2.5%	Previous year + 2.5%	Previous year + 2.5%	Annual	Data on deregistration from the unemployment registry	FBH PES
2	Number of registered job seekers placed (youth and disadvantaged groups) in private sector jobs through ALMPs by the end of the project (total, by target group (minimum target for one of youth, women, long-term unemployment))	YES, DLI 1	Number	5,000 (in 2016)	8,500	16,000	23,500	28,000	Annual, cumulative	Data on program participants	FBH PES
3	Percentage of ALMP beneficiaries who remain employed as a result of participation in ALMPs 12/24 months after completion of the	NO	Percentage	50	50	50	50	50	Annual; monitoring system is in place	To be calculated based on data collected through the ALMP monitoring system (FBH PES and tax administration data); to be calculated 12 and 24	FBH PES, MoLSP

Project Development Objective: To increase formal private sector employment among targeted groups of registered job seekers												
Project Development Objective Indicators		DLI/DLR	Unit of Measure	Baseline	Target Values				Data Collection and Reporting			
					YR1	YR2	YR3	YR4	Frequency	Data Collection Instruments	Responsibility for Data Collection	
	program relative to employment status of administrative data control group										months after program completion using a control group of registered job seekers not benefitting from ALMPs. Average to be calculated with weights assigned to each program proportionate to the number of beneficiaries. Control group will be constructed using propensity score matching. See Box 4.1 in annex 4 for definition details on measurement.	

Intermediate Outcome Indicators											
Intermediate Results Indicators		DLI/DLR	Unit of measure	Baseline	Target Values				Data Collection and Reporting		
					YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Results Area 1: Increased formal private sector job placements for targeted groups of registered job seekers through improved ALMPs											
4	Cost per job created by the program after 12/24 months of completion of youth and disadvantaged people programs by type of program)	NO	Percentage	EUR 3,000 per job retained after 12 months	Average cost per job for youth and disadvantaged group programs decreases	Average cost per job for youth and disadvantaged group	Average cost per job for youth and disadvantaged group	Average cost per job for youth and disadvantaged group	Annual after monitoring system is in place	To be calculated based on data collected through the ALMP monitoring system; to be calculated 12 and 24 months after program completion. See Box	FBH PES, MoLSP

Intermediate Outcome Indicators											
Intermediate Results Indicators		DLI/DLR	Unit of measure	Baseline	Target Values				Data Collection and Reporting		
					YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
						programs decreases	programs decreases	programs decrease s		4.1 in annex 4 for definition of cost-effectiveness	
5	Annual report that monitors programs by various subgroups (age, gender, long-term unemployed, branch office) and provides recommendations on how to improve either targeting or design of programs	NO	Yes/No	No	Annual report (condensed version)	Annual report	Annual report	Annual report	Annual	Report includes monitoring of net impact (defined as the difference of change over time between program participants and control group) in employment and wages. See annex 4.	FBH PES, MoLSP
6	Number of redesigned programs based on annual report recommendations to increase cost-effectiveness	YES (DLI 2)	Number	0	1	2	3	4	Annual, cumulative	Gazette and call for applications for programs See Box 4.1 in annex 4 for definition of cost-effectiveness.	FBH PES
Results Area 2: Increased formal private sector job placements for targeted groups of registered job seekers through improved job intermediation											
7	Job seeker self-assessment introduced	YES (Part of DLR 3.1)	Yes/No	No	Yes					PES database	FBH PES
8	Profiling methodology introduced	YES (Part of DLR 3.1)	Yes/No	No	Yes					PES database	FBH PES

Intermediate Outcome Indicators											
Intermediate Results Indicators		DLI/DLR	Unit of measure	Baseline	Target Values				Data Collection and Reporting		
					YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
9	Share of case workers certified with new case management methodology	NO	Percentage	0	20	60	90	90	Continuous	PES database	FBH PES
10	Number of job seekers in need of PES support with risk profile	YES (DLR 3.2)	Number	0	0	10,000	15,000	30,000	Annual	PES database	FBH PES
11	Number of job seekers in need of PES support with an individual action plan (total and by risk category)	YES (DLR 3.2)	Number	0	0	10,000	15,000	30,000	Annual	PES database	FBH PES
12	Client satisfaction of job seekers in need of PES support improves over time or stays at high level	NO	Percentage	No	Baseline (pilot survey)	+5% if baseline equal to or above 60%; 10% if below 60%; or stays above 80%		+5% if baseline equal to or above 60%; 10% if below 60%; stays above 80%	In line with survey years	PES database/survey	FBH PES
13	Employer outreach methodology introduced	YES (DLR 3.1)	Yes/No	No	Yes				Introduced in the first year of the project		FBH PES
14	Number of employer contacts increases	NO	Number	No		Baseline	+15%	+10%	Annual (in relation to previous year)	PES database	FBH PES

Intermediate Outcome Indicators											
Intermediate Results Indicators		DLI/DLR	Unit of measure	Baseline	Target Values				Data Collection and Reporting		
					YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
15	Number of vacancies collected increases	YES (DLR 3.6)	Number	No		Baseline	+5%	+10%	Annual (in relation to baseline)	PES database	FBH PES
16	Number of collected vacancies filled with registered job seekers increases	YES (DLR 3.7)	Number	No		Baseline	+5%	+15%	Annual (in relation to baseline)	PES database	FBH PES
17	Functionalities of multiple databases of registered unemployed are adjusted	NO	Yes/No	No	No	Yes			Adjusted in 3rd year of project**		FBH PES
18	Improved monitoring system of ALMPs (by program) introduced	YES (DLR 4.1)	Yes/No	No	Yes	No	No	No	Introduced in the first year of the project		FBH PES
19	Average and minimum performance of employment services improves (based on composite index in annex 6)	NO		No	Baseline				Annual, compared to baseline		FBH PES, MoLSP
20	Occupational survey conducted	NO	Yes/No	No	Yes	No	Yes	No	Every other year	Survey	FBH PES
21	Report/analysis on labor market trends introduced	YES (DLR 4.2)	Yes/No	No	No	Yes	No	Yes	Every other year	Occupational survey; LFS; STEP surveys; administrative data	FBH PES
22	Online jobs portal in place with labor market trends published	YES (DLR 4.3)	Yes/No	No	No	No	No	Yes		Occupational survey; LFS; STEP surveys; administrative data	FBH PES

Intermediate Outcome Indicators											
Intermediate Results Indicators	DLI/DLR	Unit of measure	Baseline	Target Values				Data Collection and Reporting			
				YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection	
Project management and implementation											
23	Project implementation progress report	NO	Yes/No	No	Yes	Yes	Yes	Yes	Semiannual MIS reports	MIS reports and project management reports	PMU of MoLSP

Note: **To be determined if first or second year.

Employment Support Project (RS)

Project Development Objective: To increase formal private sector employment among targeted groups of registered job seekers											
Project Development Objective Indicators	DLI/DLR	Unit of measure	Baseline	Target Values				Data Collection and Reporting			
				YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection	
1	Number of active job seekers de-registering from the unemployment registry because they found a formal private sector job	NO	Number	Around 26,000 in 2015	Baseline + 2.5%	Previous year + 2.5%	Previous year + 2.5%	Previous year + 2.5%	Annual compared to 2016 baseline	Data on deregistration from the unemployment registry (cross-check with tax records and verify word of mouth)	RS PES
2	Number of registered job seekers placed (youth and disadvantaged groups) in private sector jobs through ALMPs by the end of the project (total, by target group (minimum target for one of youth, women, long-term unemployment)	YES (DLR 1.1, 1.2, 1.3, 1.4)	Number	4,000 (in 2016)**	4,000	4,000	4,000	4,000	Annual	Data on program participants	RS PES
3	Percentage of ALMP beneficiaries who remain employed as a	NO	Percentage	50	50	50	50	50	Annual; monitoring	To be calculated based on data collected through the ALMP	RS PES, MoLVA

Project Development Objective: To increase formal private sector employment among targeted groups of registered job seekers										
Project Development Objective Indicators	DLI/DLR	Unit of measure	Baseline	Target Values				Data Collection and Reporting		
				YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
result of participation in ALMPs 12/24 months after completion of the program relative to employment status of administrative data control group								system is in place	monitoring system (RS PES and tax administration data [infer wages from contributions]); to be calculated 6, 12, and 24 months after program completion using a control group of registered job seekers not benefitting from ALMPs. Average to be calculated with weights assigned to each program proportionate to the number of beneficiaries. Control group will be constructed using propensity score matching. See Box 4.1 in annex 4 for definition details on measurement.	

Note: **Was 2,800 in 2015.

Intermediate Results Indicators										
Intermediate Results Indicators	DLI/DLR	Unit of measure	Baseline	Target Values				Data Collection and Reporting		
				YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
Results Area 1: Increased formal private sector job placements for targeted groups of registered job seekers through improved ALMPs										

Intermediate Results Indicators											
Intermediate Results Indicators		DLI/DLR	Unit of measure	Baseline	Target Values				Data Collection and Reporting		
					YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
4	Average cost per job created by program after 12/24 months of completion of program for youth and disadvantaged group programs (by type of program)	DLI 1 IS AN INPUT	Percentage	EUR 6,000 per job after 12 months	Average cost per job for youth and disadvantaged group programs decreases	Average cost per job for youth and disadvantaged group programs decreases	Average cost per job for youth and disadvantaged group programs decreases	Average cost per job for youth and disadvantaged group programs decreases	Annual after monitoring system is in place	To be calculated based on data collected through the ALMP monitoring system; to be calculated 12 and 24 months after program completion. See Box 4.1 in annex 4 for definition of cost effectiveness	RS PES, MoLVA
5	Number of redesigned programs based on annual report recommendations (cost-effectiveness for 2017)	YES (DLI 2)	Number	0	1	1	1	1	Annual	Gazette and call for applications for programs	RS PES
6	Annual report that monitors all programs by various subgroups (age, gender, branch office), assesses cost-effectiveness, and provides recommendations on how to improve either targeting or design of programs	NO	Yes/No	No	Annual report	Annual report	Annual report	Annual report	Annual	Report includes monitoring of net impact (defined as the difference of change over time between program participants and control group) in employment and wages. See annex 4.	RS PES, MoLVA
Results Area 2: Increased formal private sector job placements for targeted groups of registered job seekers through improved job intermediation											
7	Profiling methodology introduced	NO	Yes/No	No	Yes			Yes		PES database	RS PES

Intermediate Results Indicators											
Intermediate Results Indicators		DLI/DLR	Unit of measure	Baseline	Target Values				Data Collection and Reporting		
					YR1	YR2	YR3	YR4	Frequency and Reports	Data Collection Instruments	Responsibility for Data Collection
8	Share of case workers certified with new case management methodology increases	NO	Percentage	0	0	20	60	90	continuous	PES database	RS PES
9	Number of job seekers in need of PES support with risk profile increases	Part of DLR 3.1	Number	0	0	3,500	15,000	20,000	Annual	PES database	RS PES
10	Number of job seekers in need of PES support with an individual action plan increases (total and by risk category)	Part of DLI 3.1	Number	0	0	1,750 (TBC)	7,500 (TBC)	10,000 (TBC)	Annual	PES database	RS PES
11	Employer outreach methodology introduced	Part of DLI 3.1	YES/NO	No	Yes				Introduced in first year of project		RS PES
12	Number of employer contacts increases	NO	Number	No	Baseline	+5%	+10%	+15%	Cumulative (in relation to baseline)	PES database	RS PES
13	Number of vacancies collected increases	YES, 3.3	Number	No	Baseline	+5%	+10%	+15%	Cumulative (in relation to baseline)	PES database	RS PES
14	Number of collected vacancies filled with registered job seekers increases	INPUT FOR 3.4	Number	No	Baseline	+5%	+10%	+15%	Cumulative (in relation to baseline)	PES database	RS PES
15	Redesigned central database (LKR) for case management of	NO	Yes/No	No	No	No	Yes		Introduced in year		RS PES

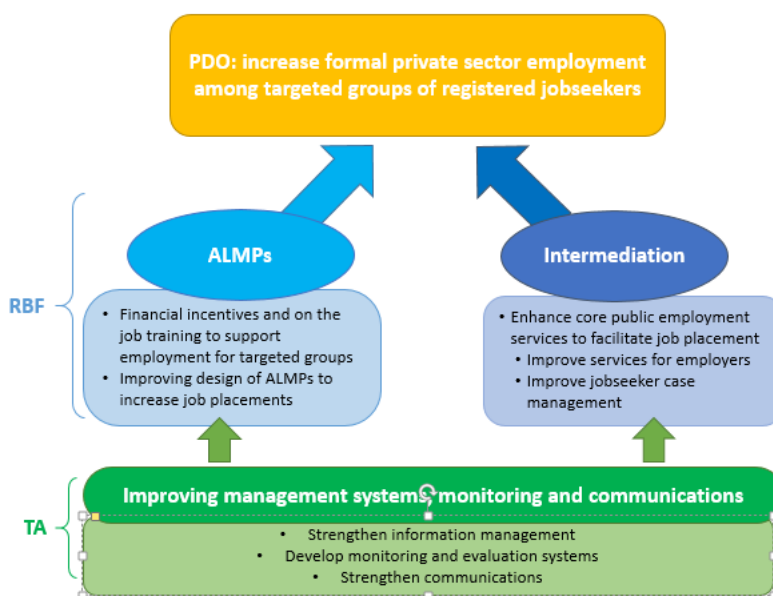
Intermediate Results Indicators											
Intermediate Results Indicators		DLI/DLR	Unit of measure	Baseline	Target Values				Data Collection and Reporting		
					YR1	YR2	YR3	YR4	Frequenc y and Reports	Data Collection Instruments	Responsibili ty for Data Collection
	registered unemployed introduced								3 of project		
16	Improved monitoring system of ALMPs (by program) introduced	YES, 4.1	Yes/No	No	No	Yes	Yes	Yes	Already in place; improved in year 2 and maintained		RS PES
17	Average and minimum performance of employment services improves (based on composite index in annex 6)			No	Yes	Yes	Yes	Yes	Annual (in relation to previous year)		RS PES, MoLVA
18	Online jobs matching tool in place	INPUT for 4.2	Yes/No	No	No	No	Yes	Yes			ZZZRS
Project management and implementation											
19	Project implementation progress report	NO	Yes/No	NO	Yes (twice)	Yes (twice)	Yes (twice)	Yes (twice)	Semiannual MIS reports	MIS reports and project management reports	PMU of MoLVA

Annex 2: Project Description

BOSNIA AND HERZEGOVINA: Employment Support Project

1. The project aims to increase job placements in the formal private sector among targeted groups of registered job seekers.
2. The project will have two components (figure 2.1): (a) Support for Employment Promotion and (b) Support for Management Systems, Monitoring, and Communications.

Figure 2.1. Project Design



Component 1: Support for Employment Promotion (RBF)

3. The objective of this component is to help the two entity governments scale up and improve the effectiveness of its ALMPs and PES intermediation to increase formal job placements in the private sector for select target groups. More specifically, the financing from the project will allow expanding the coverage of the ALMPs, and effectiveness and net impact of select ALMPs will improve over time by better targeting and better defining design parameters. In addition, project financing will support improvements in intermediation—for job seeker and employer services.

Subcomponent 1a: Employment Promotion through Improved ALMPs

4. This component will finance a package of incentives (financial and other) directed at job seekers and employers, which will be accompanied by contractual obligations and co-responsibilities that ensure financing of medium-term productive jobs in the formal private sector and discourage subsidizing seasonal employment. The funds allocated to this component will disburse through an RBF mechanism upon achievement of agreed results described as DLIs. The Governments of the two entities may opt for different parameters for these ALMPs that cater best to their priorities and the needs of their target populations.

5. This component builds on the successful experiences of the existing SSNESP operation as well as recent experiences with wage subsidies, voucher, and on-the-job training programs implemented by the employment bureaus. It is expected that the programs to be funded every year may change based on learning and results from previous years. All ALMPs will be co-financed 50/50 from entity government general revenues. The project will support several ALMPs, including on-the-job training/apprenticeship, self-employment, and wage subsidies for select groups. The targeted groups will include youth, unemployed with low skills (those with secondary education or lower), long-term unemployed, unemployed 40 years of age or older, women, and other disadvantaged groups. The types of programs that will be supported include the following:

- (a) **Wage subsidies.** Majority of the funding will be devoted to ALMPs to support well-targeted wage subsidies based on local experience and current global good practice. These programs will target skilled youth, low-skilled persons, long-term unemployed, unemployed above 40 years of age, women, and other disadvantaged groups. The parameters for each of these programs will be different. In principle, the programs will reimburse employers either in full or for a portion of the social security contributions of a worker employed under each program. The duration and amount of the subsidy will vary with the target group, their perceived distance from the labor market, and the probability of finding employment without the subsidy. Wage subsidy programs will be implemented through direct transfers to employers or through vouchers to job seekers. Discussions with cantonal and federal employment services staff in the FBH indicate that the job voucher program can be a good measure to expand given its flexibility, ease of implementation, transparency, and adaptability as an instrument.
- (b) **On-the-job training.** On-the-job training or ‘training for a known employer’ measures will combine both technical and on-site training and focus on those job seekers who have been out of the labor market more than 12 months (long-term unemployed). The contracting or provision of the training will be the responsibility of the employer who will be reimbursed for a portion of the training costs. Other design features that are subject to modification and will need to be specified in the implementation guidelines or public calls to be issued by public employment include (i) duration of the training; (ii) target job seeker population (iii) amount of incentive for the employer; (iv) amount of incentive for the potential employee; and (v) contractual obligations of the employer, employee, and employment services.
- (c) **Self-employment.** Small amount of funding will be devoted to self-employment measures. The project will support services and financial incentives to encourage the interested unemployed to become entrepreneurs, formalize their businesses, or expand them. Since this is the competency of other ministries such as Industry, Entrepreneurship, and Agriculture, and employment services are already constrained with regard to staff time, it will only support select activities such as business skills training in collaboration with other specialized agencies.

6. **FBH.** Under Component 1, at least three wage subsidy/on-the-job training programs (that are ongoing and expect to be financed in the coming years) have been identified to be supported, and other programs are also proposed to be considered for financing. The First Employment

Program for youth and the self-employed, which reimburses eligible employers for social security contributions of new employees for 12 months (to be calculated as a percentage of minimum wage) and provides the same for the self-employed, will receive support with retroactive financing (for 2016). Financial support for this program for the subsequent years will be subject to discussion. Two other wage subsidy programs were also identified for refinement and scaling-up with project financing: Opportunity for All Program and the Voucher Program that target in particular low-skilled groups and those above 40 years of age within the job seeker population. The programs, in essence, reimburse a portion of the social security contributions up to a certain ceiling, and the Voucher Program also provides for transportation and lunch allowance. They differ from the First Employment Program with respect to economic sectors covered, size of subsidy, duration, target population, and conditions of employment retention after financing expired. Another program to be considered for financing under this project is the Job Placement of Vulnerable Persons Program, which aims to complement existing programs by targeting vulnerable groups and economic sectors not covered by the First Employment Program. This program also promotes decentralized implementation, giving more responsibility to the cantonal employment services (see table 2.1 for the DLIs and agreed targets for 2016–2020 for Subcomponent 1a).

7. All of these programs will be implemented in collaboration between the Federal Employment Institute (FEI) and cantonal employment services. Cantonal employment services will be responsible for making the referrals out of the job seeker pool to employers who express interest to participate in any of these programs and vice versa. Even though the application process for all the ALMPs is electronic through a public call for applications, cantonal offices are responsible for verifying eligibility by reviewing all supporting documents to be submitted locally. Once contracts are signed with employers, the cantonal offices will be responsible for regular reporting on progress and will interface with employers and job seekers. The financial transfers will be managed by the FEI through direct electronic transfers to employers’ accounts. The resources for each ALMP will be allocated to each canton proportionate to the numbers of unemployed (based on administrative data) and target population for the measure.

Table 2.1. DLIs for Results Area 1 - FBH

DLI/Indicative Years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
1. Increasing job placement through ALMPs	1.1. 2,500 job placements for youth and disadvantaged groups	1.2. 1,800 job placements for youth	1.4. 3,600 job placements for youth	1.6. 5,000 job placements for youth	1.8. 6,000 job placements for youth
		1.3. 5,000 job placements for disadvantaged groups	1.5. 10,000 job placements for disadvantaged groups	1.7. 14,500 job placements for disadvantaged groups	1.9. 15,000 job placements for disadvantaged groups
2. Improving design of ALMPs to increase job placements		2.1. Design of one program modified	2.2. Design of one program modified	2.3. Design of one program modified	2.4. Design of one program modified

8. **RS.** Three wage subsidy/on-the-job training/self-employment support programs that are included in the RS Employment Strategy and Annual Activity Plan have been identified that cover the target populations of interest and that could be refined and scaled up with project financing: (a) the Employment in the Real Sector Program (for those registered as unemployed for at least 12 months); (b) the Employment Support Project (for persons over 40 years of age); and (c) the YUP (for university graduates). The allocation of resources across these three programs is expected to vary over the implementation period, and there may be other programs that come online during the same period. However, the focus on youth, long-term unemployed, low-skilled individuals, and those above 40 years of age will remain constant over the implementation period. The cost of each program varies with the number of beneficiaries, duration, and the total value of the transfer to employers and is expected to change with improvements introduced during the implementation period. The Employment in the Real Sector Program has three options to co-finance wages/social contributions of a person to be employed by an employer, to be self-employed, or to be trained or retrained by an employer. Similarly, the Employment Support Project will co-finance employment with an employee or self-employment. Design parameters and any changes will be reflected in implementation guidelines or public calls for application (see table 2.2 for the DLIs and agreed targets for 2016–2020 for Subcomponent 1a).

9. As in the FBH, all of these programs will be implemented by the Employment Bureau and its branch offices. Branch/regional offices will be responsible for making the referrals out of the job seeker pool to employers who express interest to participate in any of these programs and vice versa. Even though the application process for all the ALMPs is electronic through a public call for applications, regional offices are responsible for verifying eligibility by reviewing all supporting documents to be submitted locally. Once contracts are signed with employers, the regional offices will be responsible for regular reporting on progress and will interface with employers and job seekers. The financial transfers will be managed by the central Employment Bureau through direct electronic transfers to employers’ accounts. For on-the-job training, selection and contracting of training providers will be the responsibility of the employer. The Employment Bureau will provide advice on possible options of service providers.

Table 2.2. DLIs for Results Area 1 - RS

DLI/Indicative Years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
1. Increasing job placement through ALMPs	1.1. 2,000 job placements for youth and disadvantaged groups	1.2. 1,200 job placements for youth	1.4. 2,400 job placements for youth	1.6. 3,600 job placements for youth	1.8. 4,800 job placements for youth
		1.3. 2,800 job placements for disadvantaged groups	1.5. 5,600 job placements for disadvantaged groups	1.7. 8,400 job placements for disadvantaged groups	1.9. 11,200 job placements for groups
2. Increasing the number of redesigned ALMPs to		2.1. Design of one program modified	2.2. Design of one program modified	2.3. Design of one program modified	2.4. Design of one program modified

DLI/Indicative Years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
improve job placements					

Subcomponent 1b: Employment Promotion through Improved Job Intermediation

10. This subcomponent will aim to improve delivery of core employment services, namely (a) services for job seekers and (b) services for employers to eventually achieve better labor market outcomes and contribute to increases in formal private sector job placements. This subcomponent will disburse allocated funds through RBF mechanisms.

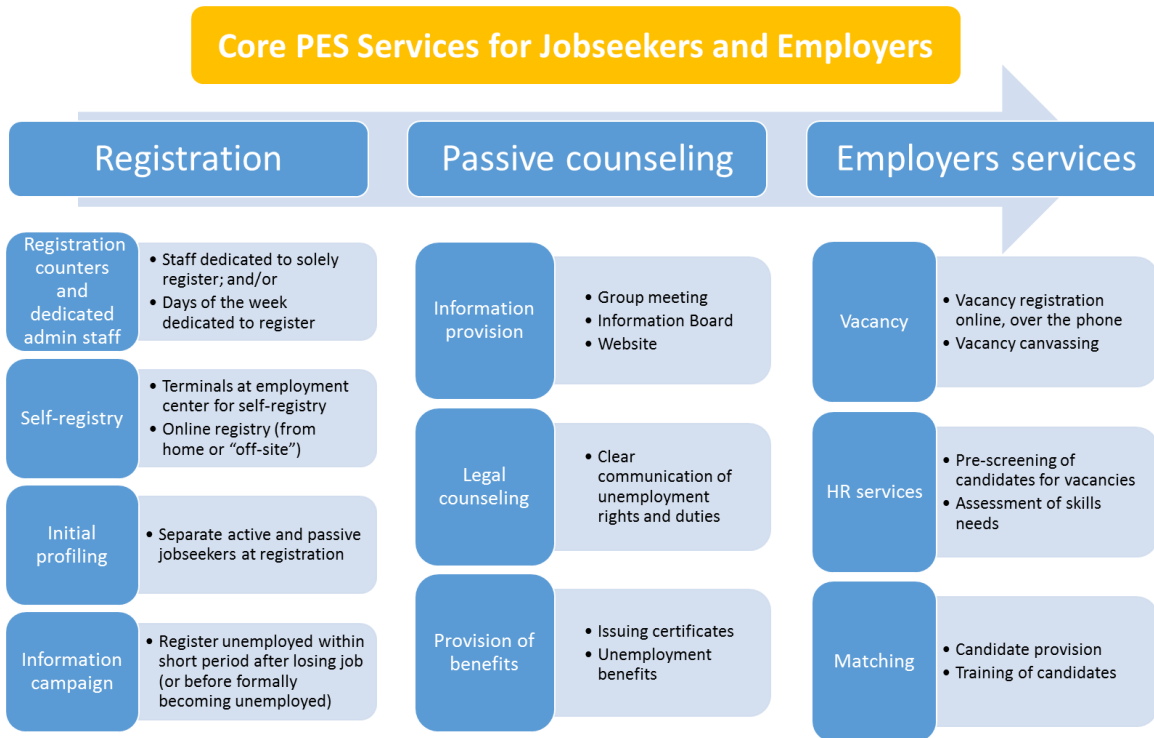
11. **Services for job seekers.** The subcomponent will support activities to improve the intake/registration processes and counseling to clearly identify and focus resources on the job seekers in need of employment services: increase face time with the job seekers, shorten waiting time between first registration and development of an individual action plan, and increase monitoring of progress and needs of the job seeker.

12. **Services for employers.** The subcomponent will support activities to increase the number of registered vacancies with the employment services and facilitate vacancy opening and filling by providing tailored human resource services to employers.

13. This will mean minimizing the time dedicated to administrative tasks by automating certain processes and using online services and electronic media to the extent possible, as well as establishing division of functions for staff in those employment offices that have not started this practice. It will also mean physically reorganizing employment offices to separate business processes (division between administration and counseling).

14. Recognizing different starting points for each employment office, the project will aim to support achievement of gradual uniformity in the manner basic employment services are delivered. The specific activities (figure 2.2) to be supported will include, among others, the following (a) reorganizing PES office workspace; (b) promoting use of uniform methodologies to identify needs of job seekers and employers; (c) developing and utilizing effective and regular communication and information dissemination techniques to reach out to employers and job seekers; and (d) promoting and utilizing standard referral and matching techniques for ALMPs.

Figure 2.2. Core Employment Services for Job Seekers and Employers



15. Although intake, registration, and profiling processes will be improved for all job seekers, counseling efforts and formulation of individual actions plans will be focused on different categories of job seekers proportionate to their weight among registered job seekers within each locality. An improved registration (with more online functions) and profiling methodology will allow counselors to better assess job seeker needs and assign them to more intensive counseling services, ALMPs, or other.

16. A more intensive employer outreach approach will allow employment services to collect and even create more vacancies and be able to match more effectively registered job seekers with employers. The intensified outreach strategy will primarily consist of increasing contact with employers in one locality through increased site visits and other means to inquire about potential vacancies and also provide information about the different programs and services offered by employment offices. Different localities will have different focus and will adjust to employers' needs.

17. A draft manual of procedures that outlines improved processes has been developed with support from the SDC, but it will need to be improved and updated in modules (that is, registration, job seeker services, employer services, and so on) and adopted and implemented gradually by all employment offices over the project implementation period.

18. The draft manual of procedures contains the activities and co-responsibilities outlined in Figure 2.2. To roll out the implementation of the activities, training and technical support modalities will be developed and implemented by the FEI and RS Employment Bureau. These modalities will include training of a core team of technical staff (training of trainers) to provide training to key technical staff in a cascade fashion on new methodologies for profiling, employer

outreach, and use of information technologies for tracking job seekers and contact with employers.

19. The project will support targeted knowledge exchange and communication activities aimed at promoting uniform understanding of improved employment services management practices and implementation of ALMPs. The activities will include support for learning events, establishing of peer-to-peer learning protocols across canton and entity staff, exchange of visits, and broader information campaigns for the general public.

20. The agreed activities will be accomplished with a combination of entity government own financing and a small portion of the loan. Many proposed activities relate to changes in processes that have zero cost, while others are of relatively low cost.

Table 2.3. DLIs Related to Results Area 2 - FBH

DLI/Indicative Years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
3. Increasing job placements through intermediation		3.1. Amended or new rulebook of cantonal employment services adopted	3.2. 10,000 job seekers in need of support profiled and have an individual action plan reflected in the database	3.3. Number of vacancies collected increased by 10% from 2017	3.4. 30,000 of job seekers in need of support profiled and have an individual action plan reflected in the database 3.5. Successful matches increased by 15% from 2017
4. Improving management systems and monitoring		4.1. Monitoring system for ALMPs has produced at least one report	4.2. Monitoring of labor market trends produced at least one report		4.3. Online jobs portal with labor market trends published annually through jobs portal being used

Table 2.4. DLIs Related to Results Area 2 - RS

DLI/Indicative years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
3. Increasing job placements through intermediation			3.1. 7,000 job seekers in need of employment services support profiled and have an individual action plan reflected in the database	3.2. Number of vacancies collected increased by 10% from 2017	3.3. 20,000 job seekers in need of employment services support profiled and have an individual action plan developed in the last 12 months and reflected in the database 3.4. Successful matches increased by 15%

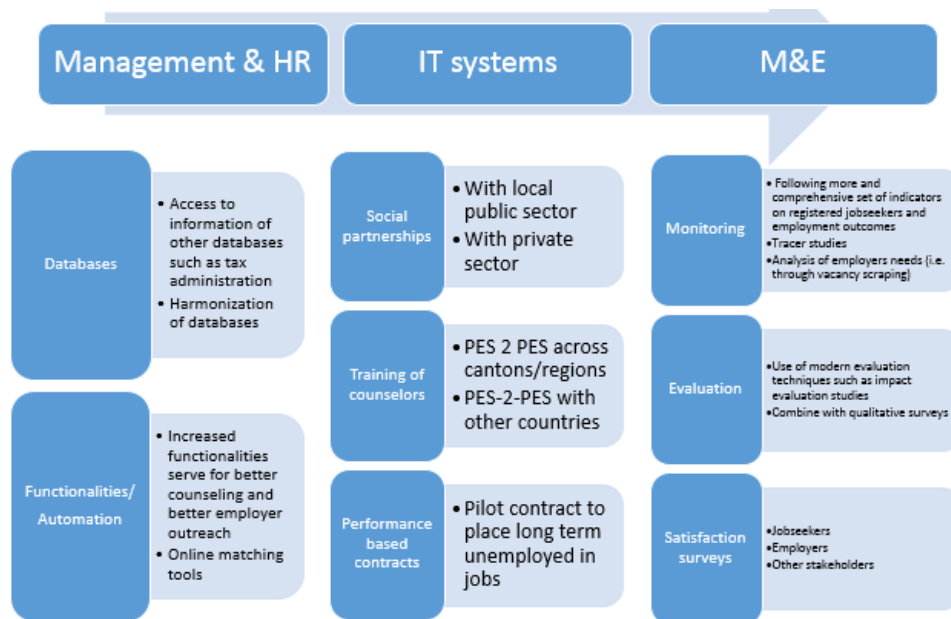
DLI/Indicative years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
4. Improving management systems and monitoring		4.1 ALMP monitoring system for ALMPs has produced at least one report			4.2 Online job matching tool being used

21. Tables 2.3 and 2.4 contain the DLIs related to Subcomponent 1b for the FBH and RS.

Component 2: Support for Management Systems, Monitoring, and Communications

22. This component will support effective monitoring of the project and provide financing for strengthening management systems to monitor ALMPs and job intermediation and developing and implementing an effective communications strategy targeting job seekers, employers, and policy makers. It will finance enhancements of IT systems (a) to enable data exchange among employment offices and other institutions; (b) to offer online services; (c) to monitor services offered to job seekers and employers; (d) to introduce/monitor branch office performance; and (e) to monitor and disseminate labor market trends. This presupposes connectivity of all offices to an upgraded IT system that will allow data exchanges and interface with other relevant institutions for verification of job seeker status and basic data (for example, social assistance, agriculture subsidies recipients). Any inputs that support this objective can be financed by the project. This component will finance and ensure a strong communications and outreach strategy to plan, develop, and disseminate information on project resources, activities, and results through multiple channels to job seekers, employers, and policy makers.

Figure 2.3. Employment Services Management Systems



Note: HR = Human resources; M&E = Monitoring and evaluation.

23. In the FBH and the RS, dedicated project monitoring teams under the Ministry of Labor and Social Welfare and MoLVA, respectively, will administer the funds, monitor and report on

the implementation of project activities and achievement of DLIs, commission evaluations of select ALMPs, and implement select activities under Component 2.

24. These activities will be accomplished with a combination of entity government own financing (through annual work plans and budgets) and financing from the loan.

25. A POM (implementation guidelines for the Employment Support Project), which describes the objectives, targets, organization of this operation, and co-responsibilities of different institutions at the central and local levels and DLI verification and reporting protocols, will be completed before effectiveness and shared with all stakeholders shortly after effectiveness of the project at a 'project launch' event. The detailed implementation arrangements for the project will be elaborated in this document and the 'Manual of Procedures for the Employment Bureaus' which will be revised and updated periodically throughout the implementation period of the project.

RS Disbursement Linked Indicator Matrix

DLI/Indicative years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
1. Increasing job placement through ALMPs (EUR 14.0 million)	1.1. 2,000 job placements for youth and disadvantaged groups (EUR 4.0 million)	1.2. 1,200 job placements for youth (1.0 million)	1.4. 2,400 job placements for youth (1.0 million)	1.6. 3,600 job placements for youth (1.0 million)	1.8. 4,800 job placements for youth (1.0 million)
		1.3. 2,800 job placements for disadvantaged groups (EUR 1.5 million)	1.5. 5,600 job placements for disadvantaged groups (EUR 1.5 million)	1.7. 8,400 job placements for disadvantaged groups (EUR 1.5 million)	1.9. 11,200 job placements for disadvantaged groups (EUR 1.5 million)
Definitions, Evidence, and Verification Protocol					
Definitions: <ul style="list-style-type: none"> The retroactive target counts job placements within the 12 months before the signing of the loan; subsequent project-year targets (2017–2020) are cumulative, that is, the target of the year includes the previous year’s target. Job placement is defined as a person who is employed in formal private sector jobs under the support of an employment program implemented by the RS PES and has received at least three wage payments. A formal private sector job is a full-time job that pays health insurance and social contributions reflected in the tax administration database. Self-employment in agriculture or any other activity deemed harmful to the environment as defined by the POM is not supported by this loan. Eligible beneficiaries of employment programs are registered job seekers who have been requested to be hired by employers through the formal application process to an employment program implemented by the RS PES. Eligible job seekers have to be registered with the RS PES for at least six months before the employer’s application to the public call. Disadvantaged target groups include long-term unemployed defined as registered job seekers with the RS PES for 12 months or more, low-skilled individuals (people with secondary education or less), 40 years old and above, women with six months of registered unemployment, persons with disabilities, former beneficiaries of orphanages, victims of violence, single parents, and parents of severely ill children (this includes a broader group—invalids, children with special needs, children with carcinoma and other severe diseases), independent of their length of unemployment. Youth refers to all registered job seekers between 16 and 30 years of age. 					
Means of Verification: <ul style="list-style-type: none"> DLIs are scalable. The total DLI amount for youth is EUR 4.0 million, and the total DLI amount for disadvantaged groups is EUR 6.0 million. Reimbursements will be done proportionally to the end target: $\frac{\text{number of job placements achieved} - \text{number of job placements previously claimed}}{\text{end} - \text{of} - \text{project target}} \times \text{DLI total amount},$ where the number of job placements previously claimed are the summation of all job placements for which reimbursement was made in that DLI category. Agreed monitoring template/reports from the RS PES with the anonymized list of registered job seekers under employment programs (ALMPs) and payment list for electronic payments made to employers for the number of people placed. 					

DLI/Indicative years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
Procedures: <ul style="list-style-type: none"> The RS PES collects and compiles information through the application process and cross-checks data with the tax administration on employment status and social security payments of those placed. The RS PES collects and complies information on payments made to employers and generates monthly payment reports. The RS PES publishes monthly or quarterly information on its website on aggregate number of program participants. The RS PMU sends to the World Bank Group quarterly unaudited IFRs on eligible expenditures with PES staff salaries and ALMPs. The RS PMU sends the evidence of achievement of DLRs when they have been achieved to World Bank Group TTL for verification. 					
2. Increasing the number of redesigned ALMPs to improve job placements (EUR 2.0 million)	—	2.1. Design of one program modified (EUR 0.5 million)	2.2. Design of one program modified (EUR 0.5 million)	2.3. Design of one program modified (EUR 0.5 million)	2.4. Design of one program modified (EUR 0.5 million)
Definitions, Evidence, and Verification Protocol <p>Definitions:</p> <ul style="list-style-type: none"> Each target is binary, that is, achieved or not achieved. A program is modified to improve cost-effectiveness and/or net impact on employment and wages. The improvements in cost-effectiveness and/or net impact will be estimated/simulated using an agreed methodology according to bullet 4. Eligible programs to be modified are those that support the target groups of job seekers supported by this loan (youth and disadvantaged groups as defined earlier). The modification responds to economic analysis published in annual reports produced by the RS PES and RS MoLVA. During the first year of the loan, the reports will include those programs that were initiated before the start of this project but are still in place and supported by this loan. Analysis to determine the cost-effectiveness and net impact on labor market outcomes before and after design modification comprise the following variables: (a) cost per program participant (per job placement retained at the job 12 and 24 months after completion of the program), (b) employment status of beneficiaries after 12 and 24 months after completion of the program, (c) employment status of job seekers of similar characteristics who did not participate in the program during the same period (from the start of the program until 12 and 24 months after its completion); (d) earnings (that will translate into government revenues) from the start of the program until 12 and 24 months after its completion; and (e) earnings of job seekers of similar characteristics who did not participate in the program during the same period of the program (since start of the program until 12 and 24 months after its completion). Cost-effectiveness is defined as the cost (in Bosnian convertible marka [KM]) of each job placement 12 and 24 months after completion of the employment program. Net impact is defined as the employment status of program participants 12 and 24 months after completion of the employment program relative to a control group (job seekers of similar characteristics who did not participate in employment programs during the same period) constructed using RS PES administrative data and tax administration data. <p>Means of Verification:</p> <ul style="list-style-type: none"> Targets are annual. If the targets for the said DLIs have not been met in a certain year, the amount shall remain available for subsequent withdrawal until the respective DLI is met in a manner satisfactory to the World Bank, or may be cancelled by the World Bank. 					

DLI/Indicative years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
<ul style="list-style-type: none"> The modified design will be reflected in (a) the implementation guidelines to be adopted, (b) published in the Official Gazette (if the government internal procedure requires), and (c) in the calls for application that follow. Measures of net impact and/or cost-effectiveness should be reflected in annual monitoring reports. The modified program has to be acceptable to the World Bank. <p>Procedures:</p> <ul style="list-style-type: none"> The RS PES and MoLVA produce analysis to determine the cost-effectiveness and/or net impact on labor market outcomes. The RS PMU sends to the World Bank Group an annual report with measurement and recommendations and calls for application to employment programs published in media. 					
<p>3. Increasing job placements through intermediation (EUR 2.5 million)</p>	—	—	3.1. 7,000 job seekers in need of employment services support profiled and have an individual action plan reflected in the database (EUR 1.0 million)	3.2. Number of vacancies collected increased by 10% from 2017 (EUR 0.5 million)	3.3. 20,000 job seekers in need of employment services support profiled and have an individual action plan in the last 12 months and reflected in the database (0.5 million) 3.4. Successful matches increased by 15% (EUR 0.5 million)
<p>Definitions, Evidence, and Verification Protocol</p> <p>Definitions:</p> <ul style="list-style-type: none"> Each target/DLR is binary (that is, achieved or not) (not cumulative as in the case of DLI 1). Job seekers are classified as ‘in need of employment services support’ when job seekers declare if they seek support from employment services. (DLR 3.1) The profiling methodology is a way of categorizing job seekers into low/medium/high risk of becoming long-term unemployed, based on their characteristics and the assessment of the case worker. (DLR 3.1) The individual action plan is the set of actions agreed between the job seeker and the case worker to help find a job for the job seeker. (DLR 3.1) Registered job seekers in need of employment services support are profiled and with an individual action plan when their risk category and the action plans are registered in the new database. (DLR 3.1 and DLR 3.3) Vacancies collected are those that are registered in the employment services database to be developed during the first year of the program. With the new employer outreach methodology, a protocol to collect vacancies will be developed. This includes phone calls, face-to-face, Internet posting, and other means of collecting vacancies. The increase in the number of vacancies collected is measured with respect to a baseline to be set in 2017. (DLR 3.2) Successful matches are those registered job seekers referred to employers who have been hired for vacancies that have been recorded in the RS PES database. The increase in the number of successful matches is measured with respect to a baseline to be set in 2017. (DLR 3.4) 					

DLI/Indicative years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
Means of Verification:					
<ul style="list-style-type: none"> • Directive sent to the employment services advising on the new profiling methodology to be used to categorize job seekers after registration and before developing an individual action plan. The new methodology has to be agreeable to the World Bank. (DLR 3.1) • The internal database of employment services allows recording (a) self-assessment of the job seeker (in need of employment services support), (b) risk category of profiling methodology, and (c) record of the individual action plan. (DLR 3.1) • There is an electronic record in the database of 7,000 job seekers reflecting (a) self-assessment of job seeker on whether they are in need of employment services support or not, (b) risk category result of applying the new profiling methodology, and (c) steps of the individual action plan. (DLR 3.1) • There is an electronic record in the database of 20,000 job seekers reflecting (a) self-assessment of job seeker on whether they are in need of employment services support or not, (b) risk category result of applying the new profiling methodology, and (c) steps of the individual action plan. (DLR 3.3) • The number of vacancies recorded in the RS PES database and reported on the website at the beginning and end of 2017. All vacancies collected by whatever means should be recorded in this database. An effort should be made to include majority of jobs advertised on private sites. (DLR 3.3) • The change in the number of successful matches recorded in the RS PES database at the beginning of 2017 and end of 2019. (DLR 3.3) 					
Procedures:					
<ul style="list-style-type: none"> • Written agreement of the World Bank on the profiling methodology. (DLR 2.1) • RS PES communication to the services outlining the profiling methodology for categorization of registered job seekers in need of support. (DLR 3.1) • The RS PMU submits anonymized database report of 7,000 job seekers profiled and with an individual plan. (DLR 3.1) • The RS PMU submits anonymized database report of 20,000 job seekers profiled and with an individual plan. (DLR 3.1) • The RS PMU submits database report of collected vacancies indicating a 10 percent change. (DLR 3.2) • The RS PMU submits a database report of successful matches recorded between 2017 and 2019. (DLR 3.4) 					
4. Improving management systems and monitoring (EUR 1.5 million)	—	4.1. ALMPs monitoring system has produced at least one report (EUR 1.0 million)	—	—	4.2. Online job matching tool being used (EUR 0.5 million)
Definitions, Evidence, and Verification Protocol					
Definitions:					
<ul style="list-style-type: none"> • The ALMP monitoring system is defined as one that produces regular reports that track program participants' employment status and earnings during the program and 12 and 24 months after the completion of the intervention. The set of variables that will be analyzed in this report will be agreed on. (DLR 4.1) • The matching tool is an online application that allows employers to search and download curricula vitae of registered job seekers who have a set of specified qualifications and skills and allows job seekers to search and download job vacancies that seek specific qualifications and skills. (DLR 4.2) 					
Means of Verification:					
<ul style="list-style-type: none"> • The RS PMU submits RS PES monitoring reports from the ALMP monitoring system. (DLR 4.1) 					

DLI/Indicative years	Disbursement Linked Results			
	Retroactive	Year 1	Year 2	Year 3
<ul style="list-style-type: none"> Online matching tool accessible by the general public, including various functionalities and acceptable to the World Bank. (DLR 4.2) <p>Procedures:</p> <ul style="list-style-type: none"> The PMU submits reports from the monitoring system covering at least one report on ALMPs to the World Bank. (DLR 4.1) The PMU submits a log of use for the online tool showing the number of users/downloads from the website since the online tool has become operational and available to the public. (DLR 4.2) 				

FBH Disbursement Linked Indicator Matrix

DLI/Indicative years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
1. Increasing job placement through ALMPs (EUR 15.3 million)	1.1. 2,500 job placements for youth and disadvantaged groups (EUR 5.1 million)	—	—	—	—
	—	1.2. 1,800 job placements for youth (EUR 1.2 million)	1.4. 3,600 job placements for youth (EUR 1.1 million)	1.6. 5,000 job placements for youth (EUR 1.1 million)	1.8. 6,000 job placements for youth (EUR 0.8 million)
	—	1.3. 5,000 job placements for disadvantaged groups (EUR 1.8 million)	1.5. 10,000 job placements for disadvantaged groups (EUR 1.6 million)	1.7. 14,500 job placements for disadvantaged groups (EUR 1.6 million)	1.9. 15,000 job placements for disadvantaged groups (EUR 1.0 million)
<p>Definitions, Evidence, and Verification Protocol</p> <p>Definitions:</p> <ul style="list-style-type: none"> The retroactive target counts job placements within the 12 months before the signing of the loan; subsequent project year targets (2017–2020) are cumulative, that is, the target of the year includes the previous year’s target. Job placement is defined as a person who is employed in formal private sector jobs under the support of an employment, self-employment, and training program implemented by the FBH PES and cantonal PES and has received at least three wage payments. A formal private sector job is a full-time job that pays health insurance and social contributions reflected in the tax administration database. Self-employment in agriculture or any other activity deemed harmful to the environment as defined by the POM is not supported by this loan; eligible beneficiaries of employment programs are registered job seekers who have been requested to be hired by employers through the formal application process to an employment program implemented by the PES. Eligible job seekers have to be registered with the FBH PES for at least six months before the employer’s application to the public call. Disadvantaged target groups include long-term unemployed defined as registered job seekers with the FBH PES for 12 months or more, low-skilled individuals (people with secondary education or less), 40 years old and above, women with six months of registered unemployment, persons with disabilities, former beneficiaries of orphanages, victims of violence, single parents, and parents of severely ill children (this includes broader group—invalids, children with special needs, children with carcinoma and other severe diseases), independent of their length of unemployment. Youth refers to all registered job seekers between 16 and 30 years of age. <p>Means of Verification:</p> <ul style="list-style-type: none"> DLIs are scalable. The total DLI amount for youth is EUR 4.2 million, and the total DLI amount for disadvantaged groups is EUR 6.0 million. Reimbursements will be made proportionally to the end target: $\frac{\text{number of job placements achieved} - \text{number of job placements previously claimed}}{\text{end - of - project target}} \times \text{DLI total amount},$					

DLI/Indicative years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
<p>where the number of job placements previously claimed are the summation of all job placements for which reimbursement was made in that DLI category.</p> <ul style="list-style-type: none"> Agreed monitoring template/reports from the FBH PES with the anonymized list of registered job seekers under employment programs (ALMPs) and payment list for electronic payments made to employers for the number of people placed. <p>Procedures:</p> <ul style="list-style-type: none"> The FBH PES collects and compiles information through the application process and cross-checks data with the tax administration on employment status and social security payments of those placed. The FBH PES collects and compiles information on payments made to employers and generates monthly payment reports. The FBH PES publishes quarterly information on its website on aggregate number of program participants. The FBH PMU sends to the World Bank Group quarterly unaudited IFRs on eligible expenditures with PES staff salaries and ALMPs. The FBH PMU sends the evidence of achievement of DLRs when they have been achieved to World Bank Group TTL for verification. 					
2. Improving design of ALMPs to increase job placements (EUR 2.0 million)	—	2.1. Design of one program modified (EUR 0.5 million)	2.2. Design of one program modified (EUR 0.5 million)	2.3. Design of one program modified (EUR 0.5 million)	2.4. Design of one program modified (EUR 0.5 million)
<p>Definitions, Evidence, and Verification Protocol:</p> <p>Definitions:</p> <ul style="list-style-type: none"> Each target is binary, that is, achieved or not achieved. A program is modified to improve cost-effectiveness and/or net impact on employment and wages. The improvements in cost-effectiveness and/or net impact will be estimated/simulated using an agreed methodology according to bullet 4. Eligible programs to be modified are those that support the target groups of job seekers supported by this loan (youth and disadvantaged groups as defined earlier). The modification responds to economic analysis published in annual reports produced by the FBH PES and FBH MoLSP. During the first year of the loan, the reports will include those programs that were initiated before the start of this project but are still in place and supported by this loan. Analysis to determine the cost-effectiveness and net impact on labor market outcomes before and after design modification comprise the following variables: (a) cost per program participant (per job placement retained at the job 12 and 24 months after completion of the program); (b) employment status of beneficiaries after 12 and 24 months after completion of the program; (c) employment status of job seekers of similar characteristics who did not participate in the program during the same period (from the start of the program until 12 and 24 months after its completion); (d) earnings (that will translate into government revenues) from the start of the program until 12 and 24 months after its completion; and (e) earnings of job seekers of similar characteristics who did not participate in the program during the same period of the program (since start of the program until 12 and 24 months after its completion). Cost-effectiveness is defined as the cost (in KM) of each job placement 12 and 24 months after completion of the employment program. Net impact is defined as the employment status of program participants 12 and 24 months after completion of the employment program relative to a control group (job seekers of similar characteristics who did not participate in employment programs during the same period) constructed using FBH PES administrative data and tax administration data. 					

DLI/Indicative years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
<p>Means of Verification:</p> <ul style="list-style-type: none"> • Targets are annual. If the targets for the said DLIs have not been met in a certain year, the amount shall remain available for subsequent withdrawal until the respective DLI is met in a manner satisfactory to the World Bank or may be cancelled by the World Bank. • The modified design will be reflected in (a) the implementation guidelines to be adopted, (b) published in the Official Gazette (if required by government internal processes, and (c) the calls for application that follow. • Measures of net impact and/or cost-effectiveness should be reflected in annual monitoring reports. The modified program has to be acceptable to the World Bank. <p>Procedures:</p> <ul style="list-style-type: none"> • The FBH PES and/or MoLSP produce analysis to determine the cost-effectiveness and/or net impact on labor market outcomes. • The FBH PMU sends to the World Bank Group an annual report with measurement and recommendations and public media announcements on changes in the guidelines and calls for application to employment programs. 					
3. Increasing job placements through intermediation (EUR 5.5 million)	—	3.1. Amended or new rulebook of cantonal employment services adopted (EUR 1.5 million)	3.2. 10,000 job seekers in need of support, profiled and have an individual action plan reflected in the database (EUR 1.0 million)	3.3. Number of vacancies collected increased by 10% from 2017 (EUR 1.0 million)	3.4. 30,000 of job seekers in need of support profiled and have an individual action plan reflected in the database (EUR 1.0 million) 3.5. Successful matches increased by 15% from 2017 (EUR 1.0 million)
<p>Definitions, Evidence, and Verification Protocol</p> <p>Definitions:</p> <ul style="list-style-type: none"> • Each target/DLR is binary (that is, achieved or not) (not cumulative as in the case of DLIs 1 and 2) • Job seekers are classified as ‘in need of employment services support’ when job seekers declare if they seek support from employment services. (DLR 3.1) • The profiling methodology is a way of categorizing job seekers into low/medium/high risk of becoming long-term unemployed, based on their characteristics and the assessment of the case worker. (DLR 3.1) • The individual action plan is the set of actions agreed between the job seeker and the case worker to help find a job for the job seeker. (DLR 3.2) • Registered job seekers in need of employment services support are profiled and with an individual action plan when their risk category and the action plans are registered in the new database. (DLR 3.1, DLR 3.2, and DLR 3.4) • Vacancies collected are those that are registered in the employment services database to be developed during the first year of the program. With the new employer outreach methodology, a protocol to collect vacancies will be developed. This includes phone calls, face-to-face, Internet posting, and 					

DLI/Indicative years	Disbursement Linked Results				
	Retroactive	Year 1	Year 2	Year 3	Year 4
<p>other means of collecting vacancies. The increase in the number of vacancies collected is measured with respect to a baseline to be set in 2017. (DLR 3.3)</p> <ul style="list-style-type: none"> Successful matches are those registered job seekers referred to employers who have been hired for vacancies that have been recorded in the FBH PES database. The increase in the number of successful matches is measured with respect to a baseline to be set in 2017. (DLR 3.5) <p>Means of Verification:</p> <ul style="list-style-type: none"> Rulebook is approved and enacted. Directive sent to the cantonal employment services advising on the new profiling methodology to be used to categorize job seekers after registration and before developing an individual action plan. The new methodology has to be agreeable to the World Bank. (DLR 3.1) The internal database of the cantonal employment services allows recording (a) self-assessment of the job seeker (in need of employment services support), (b) risk category of profiling methodology, and (c) record of the individual action plan. (DLR 3.1) There is an electronic record in the database of 10,000 job seekers reflecting (a) self-assessment of job seeker on whether they are in need of employment services support or not, (b) risk category result of applying the new profiling methodology, and (c) steps of the individual action plan. (DLR 3.1) There is an electronic record in the database of 30,000 job seekers reflecting (a) self-assessment of job seeker on whether they are in need of employment services support or not, (b) risk category result of applying the new profiling methodology, and (c) steps of the individual action plan. (DLR 3.4) The number of vacancies recorded in the FBH PES database and reported on the website at the beginning and end of 2017. All vacancies collected by whatever means should be recorded in this database. An effort should be made to include majority of jobs advertised on private sites. (DLR 3.3) The change in the number of successful matches recorded in the FBH PES database at the beginning of 2017 and end of 2019. (DLR 3.3) <p>Procedures:</p> <ul style="list-style-type: none"> Written agreement of the World Bank on the profiling methodology. (DLR 3.1) FBH PES communication to the cantonal services outlining the profiling methodology for categorization of registered job seekers in need of support. (DLR 3.1) The FBH PMU submits anonymized database report of 10,000 job seekers profiled and with an individual plan. (DLR 3.2) The FBH PMU submits anonymized database report of 30,000 job seekers profiled and with an individual plan. (DLR 3.4) The FBH PMU submits database report of collected vacancies indicating a 10 percent change. (DLR 3.3) The FBH PMU submits a database report of successful matches recorded between 2017 and 2019. (DLR 3.5) 					
4. Improving management systems and monitoring (EUR 3.6 million)	—	4.1. Monitoring system for ALMPs has produced at least one report (EUR 1.5 million)	4.2. Monitoring of labor market trends produced at least one report (EUR 1.0 million)	—	4.3. Online jobs portal with labor market trends published annually through jobs portal being used (EUR 1.1 million)
Definitions, Evidence, and Verification Protocol					
Definitions:					

DLI/Indicative years	Disbursement Linked Results			
	Retroactive	Year 1	Year 2	Year 3
	<ul style="list-style-type: none"> The ALMP monitoring system is defined as one that produces regular reports that track program participants' employment status and earnings during the program and 12 and 24 months after the completion of the intervention. The set of variables that will be analyzed in this report will be agreed upon. (DLR 4.1) The monitoring of labor market trends is the analysis/report produced using multiple sources such as occupational surveys, STEP, LFS, and administrative data that discuss the labor market outlook. Annex 7b shows a minimum list of indicators to be included in the analysis/report. (DLR 4.2) The online jobs portal is a website that publishes labor market trends and is accessible by the general public. (DLR 4.3) <p>Means of Verification:</p> <ul style="list-style-type: none"> Agreed FBH PES monitoring reports. (DLR 4.1) Labor market analysis produced. (DLR 4.2) Portal functional and accessible by the general public. Labor market trends available through the portal in a format acceptable to the World Bank. (DRL 4.3) <p>Procedures:</p> <ul style="list-style-type: none"> The FBH PMU submits the means of verification to the World Bank. (DLRs 4.1, 4.2, and 4.3) 			

Annex 3: Implementation Arrangements

BOSNIA AND HERZEGOVINA: Employment Support Project

Project Institutional and Implementation Arrangements

1. The proposed project will be implemented over a four-year period and, given that disbursements will be mainly linked to indicators, the project will require a high level of cooperation and communication in each entity between the MoF, the Ministry of Labor, the Ministry of Development, Entrepreneurship, and Crafts in the FBH, the PES, and the Ministry of Finance and Treasury of BiH for the purpose of disbursements. This is of particular importance given that the results-based lending instrument is new for BiH authorities and implementing partners. The four-year implementation period is established based on (a) the time required to implement, evaluate, and improve the design of ALMPs; (b) technical considerations for designing and implementing the proposed improvements for employment services; (c) the severity of the problem in BiH; and (d) time requirements for procurement processes.
2. The FBH MoLSP through its Special Projects Unit (formerly the PIU SESER under the SSNESP) to be referred to as a PMU and the RS MoLVA through its PMU will be responsible for the coordination, procurement, and monitoring of the project. There will be a strong tripartite relationship among the Ministries of Finance (entity and BiH) receiving disbursements from the World Bank Group, the line ministries monitoring and supervising the implementation, and the entity PES and their branch offices and cantonal offices responsible for the implementation of the project.
3. In the FBH, the MoLSP has to either confirm formally and legally the former PIU SESER as civil servants or contract them or other qualified individuals to constitute the PMU. This is a precondition for that ministry to have full capacity to perform monitoring, procurement, and FM duties during this project. The entity governments will need to confirm the precise implementation arrangements with the names of the individuals responsible for monitoring, FM, and procurement for the project to become effective.
4. In the FBH, the MoLSP through its PMU will supervise the proposed project that will be implemented by the FEI and the network of cantonal employment offices, all of them constituting the FBH PES. The PMU will be responsible for the verification of the DLIs and regular reporting to the World Bank, BiH MoF, and the Steering Committee as well as implementation of some of the activities under Component 2. The FBH PES (FZZZ) will be responsible for the implementation of ALMPs to be financed by the project. The specific arrangements to be followed may differ for each ALMP. It is expected that implementation will follow existing guidelines and/or calls for application issued by the FEI unless agreed otherwise. The POM will include a summary of these guidelines.
5. A Steering Committee will be established by the Government of FBH. It will oversee project implementation to which the MoLSP will present biannual reports on the progress toward achievement of DLIs. The members of the Steering Committee will include representatives of the MoF, the Ministry of Development, Entrepreneurship, and Crafts and the prime minister's office, the FBH PES, the MoLSP, and any other relevant institution that might benefit project

implementation. Representatives should be nominated by each institution and confirmed by the FBH Government no later than three months after project effectiveness.

6. In the RS, the MoLVA through a dedicated PMU will supervise/monitor project implementation. The RS Employment Bureau will be responsible for the implementation of ALMPs, intermediation measures, and some of the activities under Component 2 to be financed by the project. The specific arrangements to be followed may differ for each ALMP and will be indicated in the calls for application and POM. It is expected that implementation will follow existing guidelines issued by the Employment Bureau unless stated otherwise in the POM or calls for application.

7. The PMU will be responsible for verifying the achievement of DLIs as reported by the RS Employment Bureau and reporting to the World Bank as well as implementing some activities under Component 2 on behalf of the MoLVA. The RS Government will need to confirm the precise implementation arrangements with the names of the individuals responsible for monitoring, FM, and procurement to declare project effectiveness. The RS MoLVA and RS MoF initiated the transfer of some staff who were in charge of the SSNESP implementation from the Ministry of Health and Social Assistance into the MoLVA to be part of the PMU. This process is expected to be completed before project effectiveness.

8. A Steering Committee will be established to oversee project implementation, and the MoLVA will present biannual progress reports to the committee on the progress toward achievement of DLIs. The members of the Steering Committee will include representatives of the MoF, office of the President of the Government, Ministry of Industry, Energy, and Mining, Employment Bureau, MoLVA, and any other relevant institution that might benefit project implementation. Representatives should be nominated by each institution and appointed by the RS Government.

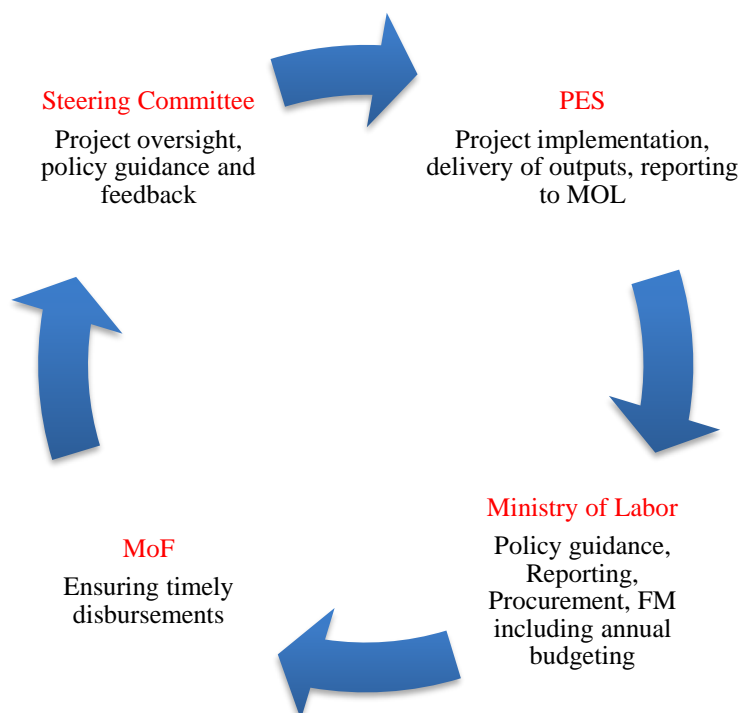
9. A POM describing the objectives, targets, DLI verification protocols, and organization of this operation (including FM and monitoring) as well as co-responsibilities of different institutions at the central and local levels will be completed before effectiveness and shared with all stakeholders shortly after effectiveness of the project at a ‘project launch’ event. The detailed implementation arrangements for the project will be elaborated in this document and in the ‘Manual of Procedures for the Employment Bureaus’ that will be revised and updated periodically throughout the implementation period of the project.

10. In summary, the roles of different stakeholders (in both entities) shall be as follows (see figure 3.1):

- (a) **Steering Committees.** Advise on project implementation, monitor implementation progress, and provide policy guidance. In the RS, it consists of the MoF; Ministry of Industry, Energy, and Mining; MoLVA; Employment Bureau, and office of the President of the Government and in the FBH, the MoF, Ministry of Development, Entrepreneurship, and Crafts; Ministry of Industry, Energy, and Mining; MoLSP; FEI; and the prime minister’s office.

- (b) **Ministry of Labor in each entity.** House teams responsible for adequate annual budgeting (as reflected in Table 3 on project cost and financing) and for monitoring of project implementation.
- (c) **MoF in each entity.** Ensure timely disbursements for project-related inputs and activities.
- (d) **Employment services in each entity.** Ensure timely implementation of activities and deliver agreed outputs in a timely manner.

Figure 3.1. Role of Different Stakeholders



Financial Management

Areas of Assessment

11. **Arrangements for the eligible expenditure programs.** Implementation of Subcomponents 1a and 1b will rely on entity governments' existing FM architecture for the ALMP and salaries of the PES, MoLSP, and MoLVA (selected as the EEPs). Based on quarterly IFRs prepared by the PMU, the World Bank will reimburse the Government for a share (50 percent as indicated in Table 3 that shows the government co-financing) of ALMP expenditures and PES salaries after specified results (DLIs) have been achieved and verified. Each reimbursement request can include up to 40 percent of expenditures on salaries and the rest on ALMPs. Under the salaries, only payments to term staff or open ended, including any contributions and taxes, can be included (services contracts, if any, are to be excluded from salaries). The qualifying staff need to perform activities related to ALMPs or intermediation, which is estimated to be 90 percent of the PES staff. Amounts disbursed by the World Bank will be included in the regular entities' budget financing and expended in accordance with entities' budget policies and procedures. To enable the

World Bank to monitor progress in releasing resources for these programs, the PMUs will submit quarterly reports on the execution of the EEPs under the budgets.

12. **Assessment of ALMP implementation arrangements.** The ALMPs' existing implementation arrangements are assessed as adequate including sufficient levels of transparency; operating under an adequate system of checks and controls; comparison and reconciliation of relevant data with the tax authorities and inspectorates; and producing reliable financial and budget execution reports. Payments for the ALMPs are subject to a complex and complementary system of oversight and controls that will be further improved under the project's error, fraud, and corruption results area. The project will support the PES, FBH MoLSP, and RS MoLVA to increase capacity in certain FM areas, particularly to improve the monitoring function of the PESs, with the overall goal to increase accountability and reduce error, fraud, and corruption risks.

13. **Salaries.** Salaries that are considered under the EEP are the salaries of the FBH MoLSP and RS MoLVA as well as of the PES each entity (FEI, cantonal employment services, and RS Employment Bureau). Both entities' SAO reported in its recent audit reports (FY2014) that payroll processing and calculation carried out by the PES of both entities and two line ministries (MoLSP and MoLVA) have been satisfactory. However, in the FY2014 audit report for the MoLSP there was a qualification given by the entity audit office that the four advisers to the minister were not fulfilling professional requirements for such positions in line with relevant regulations. Such expenses would have been considered ineligible for project funding. As a result, the World Bank reserves the right to review and assess the level of salaries that will be acceptable for the EEP.

14. **PMUs.** The PMUs within the MoLSP and MoLVA will be responsible for the project's overall FM and disbursements processes and will take the lead in FM arrangements of the project. Both PMUs are in the process of being set up under the two ministries and previous units that have already experience in implementing World Bank-funded projects exist under both ministries. The PMUs will include a person in charge of FM responsibilities. The PMUs will be in charge of entire scope of FM responsibilities for all project components, which will also be described in their terms of reference. These should include (a) collection of quarterly and annual financial reports on budget execution from project beneficiaries under Subcomponents 1a and 1b, (b) preparation of IFRs for Component 2 based on collected financial reports, and (c) preparation of withdrawal applications for reimbursement under Subcomponents 1a and b and Component 2.

15. **Planning and budgeting.** Both the MoLSP and MoLVA as well as the PES of both the entities will prepare a budget for the part of the project pertaining to the specific institution, which will be included in the regular annual budget as well as the medium-term budget of the said institution both for the loan funds and for the government co-financing portion.

16. **Accounting system.** Project accounting records will be maintained in accordance with the National Accounting Standards. The project trail balance will provide all necessary information to be used for the preparation of the IFRs agreed between the World Bank and the PMU and set out in the POM.

17. **Financial reporting.** The PMUs in the MoLSP and MoLVA will furnish to the World Bank the quarterly IFRs not later than 45 days after the end of the reporting quarter. IFRs will be based on existing institutional management reports, including a summarized project-level

reconciliation prepared by the PMU. Annual financial statements will be prepared separately by the respective implementing entities with reports separately disclosing activities financed by the project. The IFRs will be prepared on the cash basis of accounting.

18. IFRs for Subcomponents 1a and 1b (RBF) will include the following:
 - (a) Cash receipts and payments (including comparison of budget versus actual)
 - (b) Reimbursement request
 - (c) Explanatory notes and accounting policies
19. IFRs for Component 2 will include the following:
 - (d) Cash receipts and payments (including comparison of budget versus actual)
 - (e) Expenditures by activity
 - (f) Account statement
 - (g) Explanatory notes and accounting policies

20. **Internal controls.** These controls will comprise, but not be limited to, the following: division of responsibilities between PMUs, responsible line ministries, and PES; segregation of duties of staff within PES; periodic reconciliation of accounting and reporting data; and verification and authorization of reports and documents. The key features of internal controls are mentioned in respective sections, and the details on internal controls will be provided in the POM. Procedures for acceptance of goods and services in Component 2 will be specified in detail for each activity.

21. **Audit of project financial statements.** The audited project financial statements will clearly present project expenditures by each component and activity and will follow the format of the two sets of agreed IFRs with accompanying notes and explanations. The financial audit of project financial statements will be carried out by contracted auditors acceptable to the World Bank in compliance with the audit terms of reference agreed with the World Bank. Audited project financial statements will be transmitted to the World Bank by the Ministry of Finance and Treasury and made publicly available on its website within two months after the World Bank has sent an official audit acknowledgement letter.

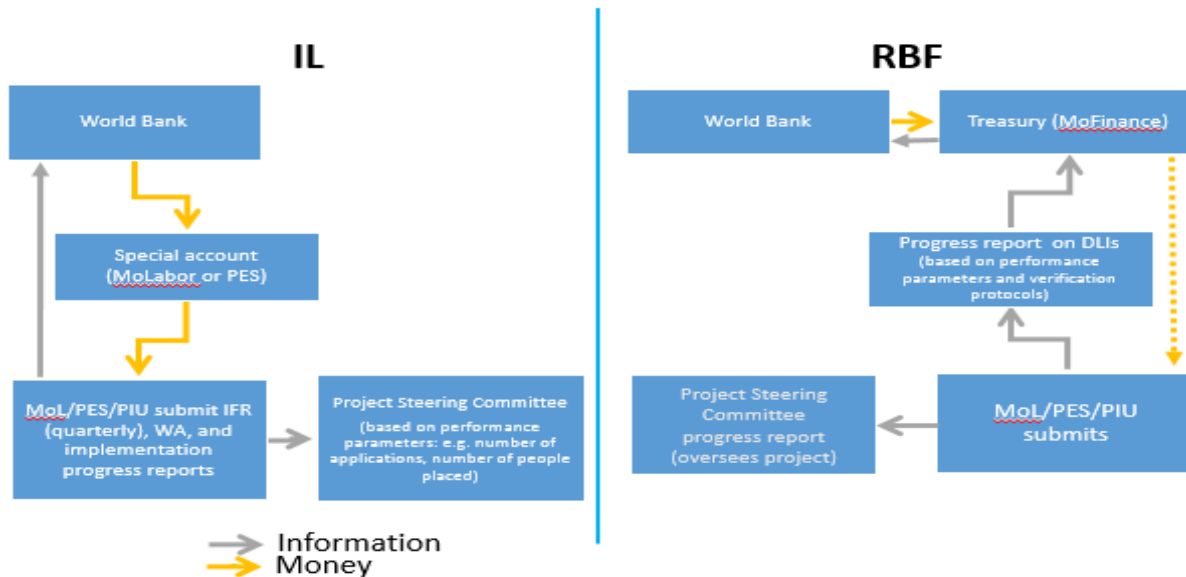
22. **Governments co-financing of the project.** It has been agreed that there will be 50 percent of government co-financing of the part of the projects that is disbursing using the DLIs (Component 1). The EEPs will also include any taxes payable on such expenditure. Component 2 will be funded 100 percent from the loan and inclusive of any taxes.

23. **Disbursements and funds flow.** To support implementation of results-based activities under Subcomponents 1a and 1b, funds will be disbursed using the reimbursement method while Component 2 will be disbursed using the following disbursement methods: advances, reimbursements, and direct payments.

- (a) **For the result-based activities** (Subcomponents 1a and 1b), disbursements will be triggered by achievement of the results, which are supported by claims for reimbursement of eligible expenditures. A total of four DLIs for the RS and FBH that will evidence achievement of results have been agreed with the two entity governments. Achievement of the DLIs will be confirmed to the World Bank according to the verification protocols established for each DLI in the POM. Upon verified achievement of the specific DLIs, the euro amount linked to the completed DLI will be reimbursed to the level of government that achieved and fulfilled the DLIs. Amounts claimed for reimbursed on account of DLIs achieved will be disbursed from the loan account to the FBH or RS entity treasury single account. To initiate the disbursement, the PMUs will submit requisite documentation to the BiH Ministry of Finance and Treasury. The BiH Ministry of Finance and Treasury, the authorized signatory, shall confirm by his/her signature the withdrawal applications, including any necessary documentation as required in the Disbursement Letter to be sent to the World Bank using the e-disbursement facility. Under Subcomponents 1a and 1b, disbursements will be documented using the IFRs and reports on results achievements for RBF. Furthermore with respect to each DLI, there has to be evidence satisfactory to the World Bank that the specific indicator has been attained, according to Schedule 2, Section IV.B.2.(a), of the Loan Agreement.
- (b) **For the TA-related activities**, there will be two designated accounts, one for the FBH with a ceiling of EUR 200,000 and another for the RS with a ceiling of EUR 100,000, opened for the project by the Ministry of Finance and Treasury in a commercial bank acceptable to the World Bank. The accounts will be denominated in euros. Following project effectiveness, both the FBH and RS will be able to request an advance (up to four months of expenditures to be specified in the Loan Agreement) to start the TA activities. The eligible expenditure under Component 2 paid from the designated accounts will be documented using the statements of expenditures. All direct payments will be fully documented (copies of invoices).
- (c) **Retroactive financing.** An aggregate amount up to EUR 5.1 million for the FBH and EUR 4.0 million for the RS may be made for payments made 12 months prior to the legal agreement signature date (expected January 15, 2017) for eligible expenditures included in Category (1) and Category (4), respectively.

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed (inclusive of Taxes)
1. Eligible Expenditure Programs under Parts A.1 (1) and A.1(2) of the Project	26,400,000	100% of expenditures that are covered under Section IV.B.1 (a) of this Schedule and 50% for others
2. Goods, non-consulting services, consultants' services, Training, and Incremental Operating Costs for Part A.2 of the Project	1,300,000	100%
3. Unallocated under Part A of the Project	1,227,500	100%
4. Eligible Expenditure Programs under Parts B.1(1) and B.1(2) of the Project	20,000,000	100% of expenditures that are covered under Section IV.B.7 (a) of this Schedule and 50% for others
5. Goods, non-consulting services, consultants' services, Training, and Incremental Operating Costs for Part B.2 of the Project	500,000	100%
6. Unallocated under Part B of the Project	447,500	100%
7. Front-end Fee	125,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
8 Interest Rate Cap or Interest Rate Collar premium	0	Amount due pursuant to Section 2.08(c) of this Agreement
TOTAL AMOUNT	<u>50,000,000</u>	

Figure 3.2. Flow of Funds



Note: MoL = Ministry of Labor; WA = Withdrawal Application.

24. **Role of the Steering Committee in overseeing fiduciary management.** A Steering Committee will be established comprising representatives of the relevant ministries and agencies responsible for implementing various activities, together with the entity MoFs. Considering the multiplicity of implementing entities, one of the core responsibilities of the Steering Committee should be to oversee the effectiveness and ongoing efficacy of overall fiduciary arrangements. Specific responsibilities, to be included in the POM, should include (a) monitoring implementation of risk management activities; (b) monitoring and ensuring timely implementation of audit recommendations; (c) overseeing the continuing efficacy of accounting and internal control standards, policies, and practices; (d) ensuring compliance with entity governments' FM regulations; (e) enhancing communication between management and internal and external auditors; and (f) overseeing the effectiveness of the internal audit, monitoring, and inspection functions.

25. **FM covenants.** The following covenants for the project should be complied with:

- (a) Appropriate FM system is maintained by each entity throughout implementation
- (b) Delivery of financial reports as indicated in financial reporting section
- (c) Delivery of annual audits as indicated in external audit section

26. **FM actions.** The following actions FM have been agreed:

Table 3.1. FM Action

Action	Responsible	Time Line
The POM, including separate sections on (a) Subcomponents 1a and 1b: DLI-based disbursements and (2) Component 2 prepared	All implementing ministries/institutions	Condition of effectiveness
The FBH MoLSP and RS MoLVA will hire or designate an FM staff for the project as part of the PMU.	All implementing ministries/institutions	Condition of effectiveness
The entity PES, FBH MoLSP, and RS MoLVA will develop action plans for resolving audit qualifications that were reported in their regular annual audit reports conducted by the entity audit offices	PES, MoLSP, and MoLVA	During project implementation
The Project Steering Committee proactively oversees the effectiveness and ongoing efficacy of overall fiduciary arrangements. Specific responsibilities, including fiduciary oversight and risk management, to be defined in the POM	Project Steering Committee	During project implementation—responsibilities defined in the POM
The borrower shall promptly inform the World Bank of any changes, or proposed changes, to fiduciary arrangements relating to the EEP and shall provide to the World Bank all such information and evidence as the World Bank may require to assess the fiduciary procedures and processes, as further set forth in the POM.	All entity ministries and agencies included in the project	As soon as any changes are proposed to fiduciary arrangements relating to the EEP
Preparation and submission of audited project financial statements. The scope of financial audits will include reviews of claims made for reimbursement of eligible expenditures during the period covered by the audit.	All entity ministries and agencies included in the project	Covenant: Within six months after the end of each financial year
FM supervision plan to include review of arrangements for ALMPs and other EEPs	World Bank task team	During project implementation support/supervision
FM to complement TTL review of claims for ALMPs and other DLI-related replenishments by reviewing quarterly unaudited IFRs	World Bank task team	During project implementation support/supervision

27. **Implementation support and supervision plan.** During project implementation, the World Bank will supervise the project’s FM arrangements in two main ways: (a) review the project’s unaudited IFRs, as well as the annual audited financial statements and auditors’ management recommendation letters, and (b) perform on-site supervision with the frequency based on the assessed project’s risk and performance (first supervision in nine months after the assessment) and review the project’s FM and disbursement arrangements to ensure compliance with the World Bank’s minimum requirements. The on-site supervision will include a review of the following areas of the project’s FM: accounting and reporting, internal control procedures and external audits, planning and budgeting, funds flow, and staffing arrangements. A sample transactions review will also be conducted. Implementation support and supervision will be performed by the World Bank-accredited FM specialist.

28. The World Bank will apply a risk-based approach in undertaking project supervision activities that will include reviews of periodic reports and withdrawal applications and site visits (at least once each year). Implementation support will be provided in the form of briefing/orientation of key FM staff; review of IFRs and audited annual audited financial statements together with auditors’ management recommendation letters; monitoring implementation of agreed remedial actions; and addressing of emerging issues in collaboration with ministries management. Other specific activities to be included in the FM supervision plan

will include complementing TTL review of claims for reimbursement of eligible expenditures of the EEP components by reviewing quarterly IFRs.

29. **Use of country systems.** The project will use elements of country systems such as staffing, budgeting, planning, reporting, and partially internal controls.

Procurement

30. Procurement under the proposed project will be carried out in accordance with the World Bank ‘Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers’, published in January 2011 and revised in July 2014, (Procurement Guidelines) and ‘Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers’, published in January 2011 and revised in July 2014, (Consultant Guidelines) and with the latest Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants.

31. An assessment of the capacity of each IA to implement procurement activities was carried out in May–June 2016. The team assessed the risks that may negatively affect the ability of IAs to carry out procurement processes. The assessment also revealed the organizational structure to implement this project. Each of the IAs (FBH MoLSP and RS MoLVA) will be responsible for the implementation of their respective parts of the project and will report to the World Bank. Each ministry will also establish PMUs that will provide fiduciary support.

Summary of the Risks and Mitigation Measures

32. **FBH.** The PIU under the FBH MoLSP has been established as part of the previous World Bank-funded SSNESP. The unit currently employs a procurement manager who has over 16 years of working experience in the same capacity and who worked under several World Bank-funded operations. The procurement manager has extensive experience with all procurement/selection methods and activities of different size, nature, and complexity, including IT procurement (hardware and software) that represents the major part of the investment under Component 2. As part of the previous project, the PMU established good working relationship with the ministry staff and a well-functioning communication, review, and approval process known to all staff involved in the implementation of the project. It is recommended that the same arrangement is adopted under the proposed project. However, the existing staff of the PIU do not yet have the same status as the employees in the ministry. The MoLSP has to therefore formally and legally confirm the PIU staff as their employees.

33. **RS.** The MoLVA is currently establishing a PMU and deciding on the composition and staffing of the unit. It is proposed that the unit will be formed of existing staff from the following institutions: the MoLVA, MoF, and RS Employment Bureau. While the MoLVA has extensive experience with employment projects including those funded by the World Bank, it has limited experience with World Bank procurement policies and procedures. However, the ministry intends to build their internal capacity to carry out procurement in accordance with World Bank Guidelines and thus employ a staff who will be trained and who will support the ministry throughout the project implementation period and beyond.

34. **FBH and RS.** This is the first project of this type in BiH, and neither of the two ministries has previous experience with RBF, which might result in delays in the implementation process. However, the counterpart and the World Bank team made sure that the DLI matrix takes into account the reform agenda of the Council of Ministers and the two entity governments and includes realistic indicators and targets in line with capacity constraints and control span of implementing institutions.

35. Given the findings of the assessment, the risks identified, and the pending final decisions on the implementation arrangements, the overall risk for procurement is considered Substantial.

Procurement Arrangements

36. **Procurement of goods and non-consulting services.** Under International Competitive Bidding procedures, procurement will be done using the World Bank Standard Bidding Documents. Goods and non-consulting services contracts below US\$100,000 may be procured through shopping procedure in accordance with the provisions of paragraph 3.5 of the Procurement Guidelines. Procurement of works is not envisaged under the project.

37. **Procurement of consulting services.** Consulting services under the project are of various size and complexity. Selection of consulting firms will be done using the World Bank standard Request for Proposal. The employment of technical experts will be conducted through the selection of individual consultants in accordance with the provisions of the Section V of the Consultant Guidelines. In case the service is required from a consultancy firm, the Quality- and Cost-Based Selection method will be applied in accordance with Section II of the World Bank's Consultant Guidelines. For the contracts below US\$300,000 equivalent, the Selection Based on Consultants' Qualification (CQS) method may be used in accordance with paragraph 3.7 of the Consultant Guidelines. The short list can entirely comprise national consultants if the contracts with the firms are below US\$300,000 equivalent.

38. **Procurement under the RBF component.** The major part of the project financing will be disbursed against eligible expenditures upon meeting DLIs. At this stage, it is not envisaged that there will be any procurement under the RBF component. However, if during project implementation there is a need to procure under this component, this procurement should follow the provisions of paragraph 1.5 of the Procurement Guidelines and paragraph 1.7 of the Consultant Guidelines (as follows):

- **Procurement Guidelines.** "For the procurement of those contracts for goods, works, and non-consulting services not financed in whole or in part from the Bank loan, but included in the project scope of the loan agreement, the Borrower may adopt other rules and procedures. In such cases, the Bank shall be satisfied that the procedures to be used will fulfill the Borrower's obligations to cause the project to be carried out diligently and efficiently, and that the goods, works, and non-consulting services to be procured: (a) are of satisfactory quality and are compatible with the balance of the project; (b) will be delivered or completed in timely fashion; and (c) are priced so as not to affect adversely the economic and financial viability of the project."

- **Consultant Guidelines.** “In procuring consulting services not financed in whole or in part from Bank loans but included in the project scope of the loan agreement, the Borrower may adopt other rules and procedures. In such cases, the Bank shall satisfy itself that: (a) the obligations to diligently and efficiently implement the project, and will result in the selection of consultants who have the required qualifications; (b) the selected consultant will carry out the assignment in accordance with the agreed schedule; and (c) the scope of services is consistent with the needs of the project.”

39. **General Procurement Notice.** It will be prepared and submitted to the World Bank after negotiations. The World Bank will arrange for its publication in United Nations Development Business online and on the World Bank’s external website. The General Procurement Notice will contain information concerning the borrower, amount, and purpose of the loan; scope of procurement reflecting the Procurement Plan (PP); the name, telephone (or fax) number, and address(es) of the borrower’s agencies responsible for procurement; and the address of a widely used electronic portal with free national and international access or website where the subsequent Specific Procurement Notices will be posted.

40. **PP.** Each IA will develop an initial PP for the entire project scope consistent with the implementation plan, which will provide information on procurement packages, methods, and the World Bank review method. Since this will cover the entire project completion period, it will be tentative. However, a firm PP for the first 18 months of the project should be prepared, and this plan will be agreed upon between the borrower and the World Bank project team at negotiations. The PPs will be updated in agreement with the World Bank project team annually or as required to reflect the actual project implementation needs and improvements in the IA institutional capacity.

41. **Procurement supervision.** Routine procurement reviews and supervision will be conducted by the procurement specialist. In addition, one supervision visit is expected to take place per year when ex post reviews will be conducted. The World Bank project team recommends a post review of at least 20 percent of contracts subject to post review. Procurement documents will be kept readily available for the World Bank’s ex post review during supervision missions or at any other point in time. A post review report will be prepared and shared with the IAs.

42. **Procurement/selection method and prior review thresholds.** Considering the risk assessment rating, it is proposed that the thresholds for procurement activities financed under the project are set in accordance with the latest Europe and Central Asia regional procurement thresholds. The thresholds will be specified in the PP.

Table 3.2. Major Procurement Packages

Description	Type	Cost Estimate (KM)	Procurement/Selection Method	Review	Planned Date (Tender Launch)	IA
Hardware for PES	G	680,000	ICB	Post	October 2018	RS
Software for registry of unemployed	CS	120,000	CQS	Post	December 2017	RS

Software for job matching platform	CS	130,000	CQS	Post	June 2017	RS
------------------------------------	----	---------	-----	------	-----------	----

Note: CS = ; G = ; ICB = International Competitive Bidding.

Annex 4: Implementation Support Plan

BOSNIA AND HERZEGOVINIA: Employment Support Project

Strategy and Approach for Implementation Support

1. The Bank team will support the implementation of the planned Project activities by implementing agencies, provide technical advice necessary to facilitate achieving the PDO as well as ensure that risk mitigation measures are implemented. The Bank will maintain constructive dialogue with the Project’s major stakeholders through implementation to ensure provisions of quality advice and effective support to implement the Project.

2. The Bank team will undertake implementation support visits to review implementation progress and ensure needed institutional strengthening on a semi-annual, and, if needed, on a more frequent basis. Regular dialogue with the Government would facilitate early identification and overcoming of problems and obstacles that could delay implementation. Fiduciary and safeguards oversight would ensure compliancy with the Bank fiduciary and safeguards standards through the regular supervision of the Project’s FM and Procurement arrangement as well as safeguards aspects.

Implementation Support Plan

3. The implementation support plan identifies the level of technical, fiduciary, and safeguard supports required for successful Project implementation, including compliance with the Bank’s corporate requirement (that is, citizen/beneficiary engagement, gender, redress mechanisms in place, and so on). It also includes organization of learning events to educate and promote better use of evidence for policy. The proposed implementation support is presented in the following table:

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	<ul style="list-style-type: none"> • Ensuring ALMP related DLIs are being achieved and background work has started to reinforce employment services • Ensuring monitoring 	Social Protection Specialist, Labor Economist, FM Specialist and Procurement Specialist	US\$120,000	Ensuring project implementation proceeds in a timely manner and withdrawals applications are submitted at least semi-annually

	systems are in place			
12-48 months	<ul style="list-style-type: none"> Ensuring ALMP related DLIs are being achieved and background work continues to reinforce employment services Ensuring baseline data for the impact evaluation is in place 	Social Protection Specialist, Labor Economist, FM Specialist and Procurement Specialist	US\$120,000 (annually)	Ensuring project implementation proceeds in a timely manner and withdrawals applications are submitted at least semi-annually

Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
SP Specialist, Labor Economist, Impact Evaluation Specialist	20	3	Annually for all staff

Annex 5: Economic Analysis

BOSNIA AND HERZEGOVINA: Employment Support Project

Jobs Are of High Value to Individuals, Economies, and Societies

1. The PDO is to increase formal private sector employment among targeted groups of registered job seekers. Jobs are at the top of any country policy agenda, as they are the engine of the economic and social growth. Economies maximize their growth potential by having more and more productive jobs. Entity governments achieve fiscal sustainability with strong formal employment rates. People move out of poverty through jobs and well-being increases with better-paid and more fulfilling jobs, and societies thrive with jobs that bring social cohesion. The World Development Report on Jobs¹⁸ summarizes these ideas by saying “jobs are transformational” and “jobs are what we earn, what we do, and who we are.”

2. Individuals value jobs for the earnings and happiness they bring. The most obvious benefit of a job is the wages going to its holder. This project will benefit 51,000 new formal private sector job placements, with wages at the minimum and above. In addition, many jobs—in particular formal private sector jobs—also provide a range of associated benefits such as pensions contributions, health insurance, vacations, and so on as well as other more subjective ones such as voice, fulfillment, and identity. Moreover, jobs bring benefits to other individuals besides the jobholders. Jobs do go for families. Jobs for women increase investments on education and health of children.

3. New high-skilled jobs—as those generated through foreign direct investment—usually trigger a virtuous cycle for other workers and investors. These jobs generate positive spillovers on other jobholders and firms. High-skilled jobs create more high-skilled jobs through forward and backward linkages as well as competition. There is a transfer of knowledge from foreign to local subsidiary firms, and local competing firms increase their productivity to survive.¹⁹ In turn, these firms with higher productivity also demand high-productivity services from their suppliers, which in turn increase the demand for high-skilled workers. In parallel, high-productivity workers will earn higher salaries that will allow them to buy better quality products, which in turn need to be produced by high-skilled workers. In this way, a new high-skilled job generates more high-skilled jobs through a job multiplier effect, which in turn increases the well-being of the society.²⁰ Instead, a job in a protected industry—as many SOEs are—needs to be supported by transfers that generate negative spillovers that go beyond the associated fiscal drain of transfers. It is also usually associated with outdated technology, high environmental costs, and low incentives for skills upgrades.

4. Jobs also transform the society by changing social norms. According to an earlier study, Bosnian people were more willing to interact with other ethnic groups to work together or have

¹⁸ World Bank. 2012. *World Development Report 2013: Jobs*. Washington, DC: World Bank.

¹⁹ Ibid.

²⁰ Moretti. 2010. *American Economic Review*.

businesses than they were to learn or cooperate in schools or neighborhoods.²¹ In the case of BiH, new formal private sector jobs have the opportunity of being transformational as they will bring good news that will enable support from society for a series of reforms, ranging from the reform of civil service to the restructuring of SOEs. Jobs for youth are likely to be transformational as they help define a social identity and a sense of fairness. Jobs for long-term unemployed are critical not only to define a sense of fairness but also to lift people out of poverty.

5. It is very difficult to quantify the return from creation of jobs to society with regard to social cohesion or individual satisfaction beyond the value of the wages received and contributions to the social protection system. Even with regard to earnings/wages, it is not possible to accurately estimate the likelihood of beneficiaries to generate similar earnings in the absence of employment support programs. However, it is possible to quantify the return in tax revenues and costs of ALMPs for governments. An analysis based on this concept is presented in the following paragraphs. This project aims to achieve the PDO by implementing active labor market policies—mainly wage subsidies and on-the-job training—and through enhancing job intermediation services. The first activity requires substantive financing; nevertheless, as shown in the following paragraphs, it is a financially profitable investment for the Government. The second activity leverages government resources—which reimburses salaries related to job intermediation activities—and has a high potential for reducing unemployment and, to a lesser extent, decreasing inactivity.

ALMPs as a Profitable Investment for the Government

6. A cost-benefit analysis indicates that the project return is positive and significant. The return for each dollar spent ranges between 64 percent and 184 percent depending on the program and model assumptions. If the estimates also take into account potential leakages of the program to new hires that would have found a job without the financial incentive, the returns of the employment program vary between –40 percent and 103 percent depending on the program and model assumptions. Programs vary in net impact and cost-effectiveness, which in turn depend on (a) the target population, (b) the parameters of the program—mainly percentage of the monthly wage covered by the subsidy, duration of the subsidy, conditions on employment continuation—and (c) the implementation mechanisms (for example, transfer delivered to employers versus job seekers). In addition, the estimated program returns vary with model assumptions such as the number of years on the job, the expected wages of beneficiaries, and ability to find employment without benefitting from a program.

7. A key objective of the project is to contribute to improving the net impact and cost-effectiveness of existing ALMPs to increase the value of the investment. See box 4.1 for definitions of these concepts. On the one hand, this modeled cost-benefit analysis reveals that some of the existing programs are unnecessarily costly, suggesting that the size of the subsidy and its duration should be reduced. On the other hand, none of the programs in BiH have been subject to an impact evaluation, and thus there is no information about net impact (the results shown here are estimates based on assumptions based on results from other countries, the experience of previous programs, and the country context).

²¹ World Bank. 2012. *World Development Report 2013: Jobs*. Washington, DC: World Bank.

Box 4.1. Definition of Net Impact and Cost-Effectiveness

The term ‘net impact’ refers to the impact the intervention has on labor outcomes (for example, employment and wages) of the treated group relative to the labor market outcomes of a control group created with administrative data. In this cost-benefit analysis the outcomes of the control group are simulated. During the project life, the control group will comprise those registered with the PES who share the same characteristics of the beneficiaries but do not participate in the program.²²

The term ‘cost-effectiveness’ refers to the resources spent for achieving a certain labor market outcome (for example, employment, increase in wages). While the concepts are related, the main difference is that the raw effect does not take into account the job retention rates while cost-effectiveness does, but the latter does not rely on the construction of a control group.

Cost-Benefit Methodology

8. This section describes a cost-benefit analysis performed from the point of view of the Government, taking into account direct monetary costs and direct monetary revenues and savings in health insurance. The estimation of the financial return of the investment on employment programs was requested by the two entity governments of BiH, as there was some perception that these programs were not fiscally sustainable. The analysis does not include other costs and benefits such as the cost of running employment services, the alleviation in the burden of financing social contributions, or the increase in well-being from new job placement described at the beginning of this annex.

9. **Direct costs** are the amount spent per job surviving 24 months from the start of the employment program. It is calculated as the total amount spent per beneficiary adjusted by the probability that the beneficiary continues on the job 24 months after the subsidy/training program started (this is about 12 to 18 months after completion of subsidy/training). For example, the program Real Sector Employment Support in the RS provides KM 2,500 per beneficiary (KM 208 per month over 12 months). Since only 78 percent of the beneficiaries continued at the job at the end of the 12 months of the program, the total direct cost per job was of KM 3,205. Based on results from the SSNESP,²³ it is assumed that 65 percent of the beneficiaries will continue to be employed 12 months after completion of the subsidy (24 months after the start of the program). Thus, the total direct cost per job 24 months after the start of the employment program will be KM 3,846. The lower the cost per job, the more cost-effective is the program.

10. **Direct benefits** are the present value of the income tax revenue accumulated over the working life of the beneficiary, in addition to the present value of savings of KM 57 per month per beneficiary due to no longer qualifying to health insurance for being unemployed. The income tax is assumed to be 10 percent of the net wage. The present value of the revenue from income taxes depend on (a) the initial wage of the worker, (b) the return to experience (that is the yearly increment in wages over the working life), (c) the total number of years the worker will be employed, and (d) the discount rate used to express them in today’s values. The discount rate used is 2.5 percent (equivalent to the return of a bond) and it is assumed that inflation is zero. The wage and the returns to experience will vary depending on the skills of the workers. The years of employment after the program will vary with the targeting population of each program. It is

²² The net impact will be estimated relying on other techniques from randomized control trials.

assumed that youth will be employed for 20 years and other beneficiaries from programs targeting persons 45 years or older will work for 15 years, given that they will reach retirement age sooner.

11. However, as in any government program, there are inclusion errors or leakages—in this case, beneficiaries who would have found a job without the assistance of the program. The net impact of a program measures the direct benefits of a program relative to the direct benefits of a control group. The control group includes persons who belong to the same target group and who (a) find a job on their own (without the assistance of the subsidy), (b) find a job on their own but with lower wages, and (c) would not have found a job at all. The percentages assumed for each of these three subgroups vary by program.

Cost-Benefit Results for Existing Programs

12. The cost-benefit analysis is first done for the programs this project intends to support.

Table 4.1. Cost-Benefit Analysis - RS

Program	Direct Benefits Minus Cost (%)	Net Benefit (%)
Support for the Real Sector	155	55
Long-Term Unemployed 40+	139	103
First Work Experience Redesigned	184	59

Note: The cost per job is calculated as the total cost per beneficiary adjusted by the probability of the beneficiary staying at the job 24 months after the program was initiated. Direct benefits are the present value of future income tax revenues. The direct benefits minus costs' return rate (percentage) is the direct benefits minus costs as a percentage of the direct cost (that is, the investment). The net benefit return rates are the direct benefits calculated relative to a control group minus the direct costs as a percentage of direct costs (that is, the investment).

Table 4.2. Cost-Benefit Analysis - FBH

Program	Direct Benefits Minus Costs (%)	Net Impact Return Rate (%)
Opportunity for All	91	56
Voucher	64	40
First Work Experience Redesigned	168	92

Note: The cost per job is calculated as the total cost per beneficiary adjusted by the probability of the beneficiary staying at the job 24 months after the program was initiated. Direct benefits are the present value of future income tax revenues. The direct benefits minus costs' return rate (percentage) is the direct benefits minus costs as a percentage of the direct cost (that is, the investment). The net benefit return rates are the direct benefits calculated relative to a control group minus the direct costs as a percentage of direct costs (that is, the investment).

13. The overall impact of the project thus depends also on the allocation of resources across programs/target populations. The objective is to balance the number of persons served in each target group to maximize the average return of all the investment while serving disadvantaged groups who are further away from the labor market.

Improving Data Management and ALMPs Monitoring Systems

14. The development of monitoring and evaluation methodologies and systems that will improve the design and implementation of employment programs are critical for the success of the

employment programs as well as for the change of the perception that society has of these instruments as well as of the PES. The expected results of the project will be to enable the PES management to make better decisions on which ALMPs to finance. This is likely to yield efficiency gains, since meta-analyses on active labor market measures suggest that on several occasions costs of these measures, especially if not well designed, may outweigh benefits as also shown in the previous section through various models.

15. The cost of upgrading the existent IT systems with simple functionalities to produce more and better monitoring information is relatively low compared to the budget dedicated to ALMPs. The cost of producing in-house analysis is also low compared to the budget of the ALMPs, but it can yield high impact with regard to employment outcomes.

Intermediation

16. The project is reimbursing for the financing of activities related to the enhancement of job intermediation services for employers and job seekers. Improving job intermediation is important for the efficiency of labor markets as they help increase the speed and quality job matches. Efficient PES also help job seekers find and retain a job, especially for the more disadvantaged segments of the unemployed population.

17. Hence, decreasing the caseload of PES counselors/case workers to a more manageable number is a key priority. Experience from other countries shows that this does not have to be achieved only through hiring more case workers. For example, narrowing the concept of who is unemployed to ‘active job seeker’ can help focus the case work on those who truly are looking for work, therefore lowering the caseload to fewer—and better motivated—beneficiaries. This project aims at focusing case workers on ‘active job seekers’, to improve job intermediation, efficiency by not ‘wasting’ time on job seekers who do not look for a formal private sector job. Profiling job seekers as well as developing individual action plans for them will help better allocate resources among the client population as well as monitor their progress.

18. At the same time, refocusing the activities of counselors and introducing further division of labor among PES staff and incentivizing vacancy canvassing will increase the number of available vacancies as well as the perception of employers of the institution. This, in turn, can result in more intensive use of the PES by employers and even more vacancies. Vacancy services offered by the PES are key, especially for small and medium enterprises that cannot afford private recruitment services. This is particularly important for job seekers of the B40, as they are most likely to work in small and medium enterprises.

19. The project aims at achieving the aforementioned improvements through functional reforms such as better use of data for decision making and changes to workplace incentives, which are largely budget neutral. The required investment to trigger these reforms is marginal compared to the size of the loan and the budget of the PES and the expected potential returns of more people placed in jobs.

Annex 6: Lessons Learned

BOSNIA AND HERZEGOVINA: Employment Support Project

1. Wage subsidies—payments to employers or workers to reduce the cost of the total wage bill or increase the take-home salary—are increasingly used both in developed and developing countries to increase employment and employability. While in the past wage subsidies were considered a useful instrument to help employers and employees weather times of crises, today, they are also acknowledged as a means to build the skills of specific groups of workers, in particular youth and low-skilled and de-skilled workers. On the one hand, new hires benefiting of wage subsidies will gain experience and on-the-job training; on the other hand, employers can use the subsidy to finance on-the-job training to overcome failures of the education system.
2. Lessons from impact evaluations in developed countries indicate that wage subsidies are worthwhile only when they provide job opportunities to workers who would otherwise remain unemployed or take jobs that do not maximize their potential productivity. Thus, it is essential to design them in a way that target the right groups and minimize substitution and windfall effects—the former being nonsubsidized workers being replaced by subsidized workers with zero impact on total employment and the latter being a waste of resources on already employed persons or persons who would have been hired anyway.²⁴
3. There are many types of wage subsidies that vary with (a) the recipient of the transfer (employers versus employees); (b) the size and duration of the transfer; (c) the target group (youth, long-term unemployed, and so on); and (d) how the transfer is implemented (direct contribution to social security and/or taxes versus direct payments, voucher programs) including the use of conditions on employers (for example, provision of a certain type of technical training, retention of workers for a certain period) or employees (for example, acceptance of job offer through intermediation of the PES, participation in life skills training). While the simple static partial equilibrium model implies that the value of the transfer will be split between employers and workers depending on the elasticity of the supply and demand of labor, all these other characteristics may have an effect on the result of the program as they might affect the substitution and the windfall effect as well as the way they affect the building of skills of the employees while on the job. These are thus crucial to make the overall investment profitable.
4. As with skills training programs, the results of wage subsidies programs on employment and wages are mixed but overall positive. A recent meta-analysis of 117 sound impact evaluation studies²⁵ on a variety of ALMPs shows that wage subsidies compare well relative to skills training programs for youth.²⁶ The study finds that the average impact on employment of skills training

²⁴ Almeida, Orr, and Robalino. 2014. “Wage Subsidies in Developing Countries as a Tool to Build Human Capital.” *IZA Journal of Labor Policy* 3 (12).

Neumark. 2013. “Spurring Job Creation in Response to Severe Recessions: Reconsidering Hiring Credits.” *Journal of Policy Analysis Management* 32 (1).

²⁵ These are studies that rely on a valid control group, mainly using randomized controlled trial evaluations. That is by measuring the difference in an outcome—for example, employment or wages—of the treatment group and the control group that captures what would have happened to the treatment group in the absence of the intervention.

²⁶ Kluve, Puerto, Robalino, Romero, Rother, Stöterau, Weidenkaff, and Witte. 2016. “Interventions to Improve Labor Market Outcomes of Youth: A Systematic Review of Training, Entrepreneurship Promotion, Employment Services, and Subsidized Employment Interventions.” Washington, DC: World Bank.

programs is 0.08 of the standardized mean difference (SMD) between treatment and control groups, while the average impact of wage subsidy programs is 0.12 SMD. As mentioned earlier, and corroborated in the studies, the results are mixed as they critically depend on the design features of the program. The same study finds that the impact on employment varied between 0.03 and 0.14 SMD for skills programs and 0.02 and 0.22 SMD for wage subsidy programs. Regarding the impact of wage subsidies on wages, the evidence is not robust as there are less than a handful of studies that measure this.²⁷

5. The evidence of the impact of wage subsidy programs is more abundant in developed than in developing countries. In the United States, the results of the Job Training Partnership Act indicate that the 6-month wage subsidy of half of the workers' wage did not have any increase in earnings of adult men, but it increased those of women by 15 percent after a 30-month period. Moreover, the study found that the effect was much larger (nearly 50 percent higher) for more vulnerable women (women benefiting from a welfare program).²⁸ In the United Kingdom, the program New Deal for Young People found that a wage subsidy of £60 for six months decreased youth unemployment by as much as 20 percentage points, relative to other program options. In Sweden, a subsidy of up to 50 percent of the net wage for long-term unemployed decreases unemployment rates for this group.

6. The evidence coming from developing countries is more mixed, maybe because in developing countries, less (or none at all) invested in improving programs over time based on impact evaluation results. For example, the wage subsidy programs in Slovakia²⁹ and in Poland³⁰ did not increase employment while the wage subsidy in Argentina, Morocco, and Turkey did.³¹

7. Many lessons can also be drawn from the experience of both entities running wage subsidy programs and in particular from those financed under the previous World Bank project, SSNESP. The following four features of the programs should be carefully considered: (a) program type; (b) level of financial compensation granted to participants; (c) method and extent of targeting; and (d) duration and sustainability of programs. In the RS, a total of 1,689 persons were employed with an employer and the total amount of funds allocated for this component is KM 2,328,375.00. A total of 998 persons launched their own activities in agriculture and small business and KM 2,457,216.67 was allocated for this component. A total of KM 142,877.30 was allocated for the training, additional qualification, and retraining of 172 persons.

²⁷ The meta-analysis estimates a zero impact of wage subsidies on wages and an impact of 0.06 SMD of skills training on wages. However, as shown in table 8 of the paper, the results are not statistically significant. The results actually should not be considered at this stage as the evidence is too thin to draw generalized conclusions. This point is also made by Almeida, Orr, and Robalino (2014), cited in footnote 25, and by Chetty, Guren, Manoli, and Weber. 2011. "Are Micro and Macro Labor Supply Elasticities Consistent? A Review of Evidence on the Intensive and Extensive Margins." *American Economic Review Papers and Proceedings* 101 (3).

²⁸ Orr, Bloom, Bell, Doolittle, Lin, and Cave. 1996. *Does Training for the Disadvantaged Work?* Urban Institute Press.

²⁹ Lubyova and Ours 1999.

³⁰ Kluve et al. 1999.

³¹ See Galasso, Ravallion, and Salvia (2004) for the Argentine program, World Bank (2012) for the Moroccan program, and Betcherman et al. (2010) for the Turkish evaluation.

8. The main lessons learned from the international evidence on the designed parameters are summarized in table 5.1.

Table 5.1. Lessons on Design of Wage Subsidies Based on International Evidence

Parameter	Lesson
The payee	If markets are perfectly competitive and wages (downward) flexible, it should not make a difference whether the subsidy is paid to the employer or the employee. In many countries, subsidies are paid to employers because it is easier to administer. However, payments to job seekers could help avoid windfall effects.
Targeting	Limit to newly hire (to avoid windfall effects). Balance narrowly defined groups with substitution effects (on the one hand, it is important to have narrowly defined groups to minimize the cost of the program; on the other hand, if the group it is too narrowly defined, it could create substitution effects leaving out nonsubsidized workers of similar characteristics. Of course, the substitution is not always undesirable and it is partly the objective of the program). Usually focus on groups that need to build skills to allow learning on the job (that is, youth, unskilled, long-term unemployed).
Duration	Time limited, varying between 3 months and 24 months. Short subsidies (that is, 3 months) help employers identify a match and decide whether to invest further on the new hire; suitable for high-skilled workers. Long subsidies (that is, 12 months) allow time for learning on the job and are suitable for low-skilled workers.
Vouchers (eligibility determination)	Eligibility determination can be done in two ways: (a) the employer can be made the person responsible for identifying the eligible worker or (b) a voucher is given to the eligible person who needs to find the employer (usually with the assistance of a government agency). The first option is desirable if there are a large proportion of eligible workers and it is administratively simple. The second option is preferred if it is accompanied by behavioral effects/interventions.
Conditionalities	For employers, usually it is desirable to add conditionalities on not having reduced employment to avoid substitution effects. Conditions to continue employment after the expiration of the subsidy—while desirable—need to be balanced against administrative costs. For job seekers, it is better to focus on those who are most in need and many times by combining it with training (for example, life skills training and intermediation services).
Monitoring and evaluation	It is indispensable that these programs are monitored and impact evaluated and regularly redesigned to ensure efficiency and effectiveness.

Note: Lessons learned drawn from Almeida and Robalino 2014.

9. Finally, one key lesson learned is that all these employment programs have higher impact when combined with effective intermediation. The meta-analysis study on youth employment programs finds that when employment programs are comprehensive—include more intermediation with other forms of support such as skills training, wage subsidy, or self-employment support—the total effect is higher than the sum of the individual program effects. This message is very important as improving the effectiveness of intermediation services not only helps save government resources in the administration of public services but more importantly contributes to increasing the success of ALMPs as well.

Annex 7: PES Management Performance Index

BOSNIA AND HERZEGOVINA: Employment Support Project

Each employment office will have a score based on the following indicators.

Index. Employment office	Mark 0/1
1. has staff dedicated solely to register new job seekers and to counsel	
2. has separated registration area and has self-registration terminals	
3. uses online website for registering job seekers and vacancies	
4. separates job seekers between those in need of support from employment services and those who do not	
5. uses profiling methodology	
6. implements an individual action plan for job seeker	
7. offers youth clubs	
8. provides counseling for high-risk job seekers	
9. has increase the number of registered vacancies	
10. has staff performs employers outreach	
11. conducts assessments of local skills needs	
12. has access to tax administration information	
13. has access to other employment offices database	
14. has a database to track intermediate progress of the job seeker (through an individual action plan)	
15. has decreased the average time between first registration of job seekers and provision of counseling	
16. conducts prescreening of candidates for vacancies	
17. participates in PES-2-PES learning across cantons/regions	
18. has piloted performance-based contracts with private intermediaries for hard-to-serve populations	
19. conducts a client satisfaction survey	
20. has a communication campaign in place	
Total score employment office	(sum)

The total score for the country is calculated by averaging across employment offices.

BOSNIA AND HERZEGOVINA

- | | | | |
|---|------------------|-----|-----------------------------|
| ○ | SELECTED TOWNS | — | MAIN ROADS |
| ⊗ | NATIONAL CAPITAL | — | RAILROADS |
| — | MAIN RIVERS | ⋯ | INTER-ENTITY BOUNDARY LINES |
| | | --- | INTERNATIONAL BOUNDARIES |

This map was produced by the Map Design Unit of The World Bank. The boundaries, colors, denominations and any other information shown on this map do not imply on the part of The World Bank Group, any judgment on the legal status of any territory, or any endorsement or acceptance of such boundaries.

