

# PROJECT OPERATIONS MANUAL

COMPETITIVENESS & JOBS PROJECT

FINAL DRAFT

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## ABBREVIATIONS AND ACRONYMS

ALMPs	Active labor market programs
CPS	Country Partnership Strategy
DLIs	Disbursement-linked indicators
EC	Evaluation Committee
EEPs	Eligible expenditure programs
EMP	Environmental Management Plan
ESMF	Environmental and Social Management Framework
EU	European Union
FDI	Foreign direct investment
FE	Financial Expert
FMC	Financial Management and Control
IF	Innovation Fund
IFC	International Finance Corporation
IFI	International financial institution
IFR	Interim Financial Report
IMWB	Competitiveness and Jobs PPMC Inter-Ministerial Working Body
IPA	EU Instrument for Pre-Accession
IPSAS	International Public Sector Accounting Standard
MGs	Matching Grant Programs
MoE	Ministry of Economy
MoESTD	Ministry of Education, Science and Technological Development
MoF	Ministry of Finance
MoLEVSA	Ministry of Labor, Employment and Veteran Affairs
MoPALSG	Ministry of Public Administration and Local Self-Government
NES	National Employment Service
PDO	Project development objective
PIFC	Public Internal Financial Control
PIU	Project Implementation Unit
POM	Project Operations Manual
PPMC	Policy Planning, Monitoring and Coordination
PPS	Public Policy Secretariat
PS	Procurement Specialist
R&D	Research and development
RDI	Research and development institutes
RS	Republic of Serbia
SIP	Serbia Innovation Project
SoE	Statement of expenditures
STA	Single Treasury Account
TA	Technical assistance
TOR	Terms of Reference
TT	Technology transfer
TTF	Technology transfer facility
TTO	Technology transfer office
USD	US Dollar
WB	World Bank
WBG	World Bank Group



# 1. INTRODUCTION

The International Bank for Reconstruction and Development (the Bank) and the Republic of Serbia (RS) have agreed a EUR 89.5 million loan (100 million USD) to finance the Competitiveness and Jobs Project (Project). The Bank will make the loan available to the RS as per conditions set forth in the Loan Agreement (LA).

The LA was bilaterally signed on October 7, 2015, which is considered the Date of the agreement. The Law on Ratification of this LA (Competitiveness and Jobs Project) has been adopted by the Parliament of the RS on December 29, 2015 and published in “Official Gazette” of Republic of Serbia – International Agreements, No. 024/2015. The Law on Ratification of the LA entered into force on January 7, 2016.

In order to make the LA effective three pre-conditions have been set, due in 180 days from the Date of the agreement – until April 7, 2016, as follows:

1. PIU has been established within the PPS in a manner satisfactory to the Bank and has selected at least the PIU director, procurement specialist and financial management specialist;
2. MoLEVSA has selected a procurement specialist, whose contract is to be signed immediately upon effectiveness, in order to support implementation of the Project;
3. The Project Operations Manual (POM) has been adopted by the Borrower, through PPS, in a manner satisfactory to the Bank.

This POM, as defined by the LA, contains the required program rules, methods, guidelines, specific development plans, standard documentation and procedures for the implementation of the Project, including:

- (a) Detailed description of all Project activities supported under the LA, their sequencing and the prospective timetable and benchmarks in relation thereto;
- (b) Project administrative, financial, accounting, auditing, procurement and disbursement procedures, including all relevant standard documents;
- (c) Protocols for the verification of indicator achievement relative for the disbursement of Project funds, including rules for partial disbursement of Project funds in case Disbursement Linked Indicators (DLIs) are partially achieved, and
- (d) Protocols and operative procedures of the inter-ministerial policy planning, monitoring and coordination framework pertaining to the Project.

Rules and procedures described herein are aligned with the provisions of the LA. In case of any discrepancy between the terms of the POM and the terms of the LA, the terms set forth in LA shall prevail, and POM shall be adjusted accordingly.

The POM can be modified from time to time in agreement with the Bank. The Public Policy Secretariat (PPS) and the Ministry of Finance (MoF), in collaboration with other institutions involved in the Project implementation, will therefore review the POM from time to time and suggest changes, if necessary, including the adjustment or change of activities, results and indicators.

The Loan Agreement (the Project for enhancing competitiveness and jobs) between the Republic of Serbia and the International Bank for Reconstruction and Development is in the Annex 1 – The Loan Agreement of this POM.



All project participants, including other participants in the work of the Inter-Ministerial Policy Planning, Monitoring and Coordination Working Body Competitiveness and Jobs (PPMC IMWB), by the adoption of this POM are committed to its implementation and proactive involvement in improving the procedures provided in this POM.

***For your convenience***

Notice the links within the text. Each cross-reference to headings is formatted as hyperlink, so you are only a click away from the page, heading, definition of your interest.

The Manual is arranged by component, therefore, if printed version is necessary, it is possible to print only segments that are relevant for each participant. In such a case, please notice also the parts of the POM which are common for all participating institutions.





## 2. DEFINITIONS AND TERMS

**Eligible Expenditure Programs (EEPs)** – Eligible Expenditure Programs, as defined in the LA, represent the salary costs that RS has for MoE employees, research and development institutes (within the budget of MoESTD) and NES staff, or as defined in this POM. Eligible Expenditure Programs are described in detail under the heading 8.3 of this POM. Institutions participating in the project, and for which EEPs are not defined, are not required to report on the salaries of their employees.

**Results-based financing** is a financing model in which disbursement of funds depends on achievement of predefined results. In the case of this Project, the loan proceeds can be paid into the budget of RS only by proving the achievement of expected results, which are measured by Disbursement Linked Indicators (DLIs). DLIs are explained in more detail in the chapters of this POM in which the components and sub-components of the Project are presented.

**Disbursement Linked Indicators** – DLIs are qualitative or quantitative indicators, and loan withdrawals into the RS budget depend on their achievement. There are 9 DLIs in the project: 1 for the PPS (Component A1), 1 for the MoE (Component A2), 3 for the MoESTD (Component A3) and 4 for the MoLEVSA (Component A4). DLIs are usually composite, so they have been decomposed with this POM so they can be better understood and so to enable better Result Chain management. Achievement of DLIs within the deadline is mandatory for all participants in the project. The lack of their achievement can lead to suspension of loan withdrawal to the RS budget, and other deriving negative consequences. DLIs are defined for each year of the Project, on annual basis. Some DLIs have semiannual targets – **Partial DLIs**, whose achievement within a deadline represents a basis for partial loan withdrawals at mid-year. DLIs are in detail described in under the heading 8.5 of this POM.

**Verification Protocols** are tools for securing Project performance, including performance on component or subcomponent level. Verification protocols are represented as the groups of preconditions, activities and assumptions, which should be achieved in order to ensure recognition of DLI achievement by the Bank. Verification protocols are defined for each DLI, as well as for Partial DLIs, and are described in the chapters of this POM related to individual components and subcomponents. Monitoring of DLI execution, thus the Verification protocol, is conducted semiannually through the Progress Report. Verification protocols, defined in this POM, are aligned with Government Conclusion No. 48-9021 / 2015-1 dated August 24th 2015, by which Government adopted the Report from the negotiations with the Bank in connection with approving the loan to RS in order to implement the Project, Minutes from the technical negotiations between the RS and the IBRD from July 2015, as well as with the provisions of LA.

**Key Performance Indicators** - KPIs are basic performance indicators of the activities on the Project related to the expected results or reforms supported by the project, and they are usually defined on the outcome level of the individual components or at the overall Project level. KPIs are defined in cooperation with institutions participating in the Project. As opposed to DLIs, achieving KPI targets is not condition for loan disbursement. These indicators are developed on the level of individual components. The Progress Report describes the progress toward the achievement of KPIs. The Performance Review contains additional analyses and discussions on these KPIs.

**Participating institutions** are, as defined in LA (relevant to DLI1) the PPS, MoE, MoESTD, NES (in collaboration with MoLEVSA).

**Research-Development Institutions (RDI)**, as defined in LA, represent the system of research and development institutes of the RS under the MoESTD.

**Technology Transfer Facility (TTF)**, as defined in LA, is the centralized Technology Transfer Facility hosted at the Innovation Fund with the objective to conduct technology transfer and commercialization transactions in partnership with technology transfer offices or directly with RDIs and universities.



**Consultants** are individual experts, or firms, whose services on the Project are procured in accordance with the Procurement Plan and the Banks procurement procedures.

**Project documentation** includes the LA, the Governments Conclusion No. 48-9021 / 2015-1 dated August 24th 2015, by which the Government accepted Report from the negotiations with the Bank in connection with approving the loan RS in order to implement the Project, Minutes from the technical negotiations between the RS and the IBRD from July 2015.



## 3. COMPETITIVENESS AND JOBS PROJECT

### 3.1. Project Objective

**The Project Development Objective (PDO)**, as the overall objective of the Project, is to improve the effectiveness and coordination of selected public programs to alleviate constraints to competitiveness<sup>1</sup> and jobs creation including investment and export promotion, innovation, active labor market programs, labor intermediation, and activation of social assistance beneficiaries and their transition into formal jobs. The project focuses on a targeted set of achievable reforms of existing policies - as well as the effectiveness of their implementation - which have been identified as key drivers of the competitiveness and jobs agenda by the Bank, as well as other relevant analytical<sup>2</sup> work.

Description of the specific objectives and reforms of the Project including activities, EEPs, DLIs and other information and procedures, are defined under Chapters 6 and 8 of this Manual.

As it is determined by the Bank during the Project assessment, RS allocates significant funds to the programs related to the competitiveness and jobs creation, which, however, lack coordination and strategic planning limiting their effectiveness. In the context of fiscal consolidation and limited budgetary resources, the Project activities mostly target areas where the Government of RS is spending significant resources and would like to put these funds to more efficient use, as well as to improve their coordination, i.e. to improve efficiency of current spending, rather than increasing public spending beyond present levels. Thus, the **primary purpose of the Project** is to achieve better policy coordination, and to systematically address their impacts. This Project purpose is reflected in the A.1 component of the Project, which focuses on policy planning, monitoring and coordination within the scope of this Project. This Project component should also prevent dilution of this comprehensive reform process into three independent projects. It should also secure that policy planning, monitoring and coordination based on results becomes a practice in the Republic of Serbia.

**The Project also tackles the Bank's twin goals**, specifically, promoting shared prosperity on several fronts. First, the interventions related to investment and export promotion and innovation are expected to stimulate jobs creation and growth in the medium to long-term. International evidence shows that most of the cross-country and over-time variation in changes in social welfare is due to changes in average incomes<sup>3</sup>. Hence, the expected growth from these reforms will aid in reducing poverty and increasing the welfare of the bottom 40 percent of the population. Second, the interventions in the labor market intermediation directly address this income group (bottom 40 percent). The interventions are targeted at improving the services to and work incentives for unemployed jobseekers, low-skill workers, and social assistance beneficiaries, the vast majority of whom are in the bottom 40 percent.

To restart growth, reduce poverty, and increase shared prosperity, it will be necessary to boost private sector investment, exports, productivity, and employment. As this is a complex agenda, it needs to be

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<sup>1</sup> As a competitiveness is understood ability of the firms to generate new investments, and to increase share on the international markets through the improvement of productivity, CIIP, Strategy and Interim Business Plan, 2014.

<sup>2</sup> See World Bank (2014), Rebalancing Serbia's Economy: Improving Competitiveness, Strengthening the Private Sector, and Creating Jobs; World Bank (forthcoming), Serbia Systematic Country Diagnostic; and Foreign Investors Council (2014), White Book: Proposals for Improvement of the Business Environment in Serbia.

<sup>3</sup> See Dollar, Kleineberg, and Kraay (2014), "Growth, Inequality, and Social Welfare Cross-Country Evidence", WB Policy Research Working Paper 6842; and [www.voxeu.org/article/growth-inequality-and-social-welfare](http://www.voxeu.org/article/growth-inequality-and-social-welfare).



broken down to better understand the constraints and possible government interventions. This is done through the lens of jobs creation by considering both labor supply and labor demand issues.

*Labor demand* issues are related to firm investment (or lack thereof), exports, and productivity. It is hard to create jobs when firms are not investing and/or innovating. In RS, investment, exports, and productivity growth are relatively low, suggesting that firms are not investing enough to generate additional employment. As identified during the Project assessment period possible reasons for low investment include: **(1)** investment risk, or uncertainty about returns to investment, **(2)** lack of appropriability of innovation and of return of investment (innovative and first-mover firms incur higher initial costs and can be copied), **(3)** business entities, entrepreneurs, and investors do not know where to invest, **(4)** access to finance (credit-constraints because financial markets do not function well and/or investment payback periods do not coincide with loan maturities offered by private lenders), **(5)** lack of competition does not induce business entities to invest and innovate, **(6)** investment climate constraints raise costs and lower returns on investment, and **(7)** infrastructure and trade logistics bottlenecks decrease returns on investment.

On the *labor supply* side, problems include: **(1)** job search constraints (this implies addressing informational gaps, e.g. educating workers or helping firms advertise), **(2)** limited participation in the labor force and high informality, especially among older workers, low-educated women, members of ethnic minorities, and social assistance beneficiaries, and **(3)** lack of job-relevant skills (this appears to be a problem in Serbia, but less so than in many other countries).

Project support is therefore channeled through 3 mutually complementary themes:

1. Private sector investment and export promotion;
2. Firm-led innovation and research sector reforms, and
3. Labor market intermediation.

Activities on the reforms in the previously mentioned thematic areas are grouped in components A.2, A.3 and A.4 of the Project. The activities, which are supported by the Project, have the objective to contribute the improvement of effectiveness of measures and programs that the RS has already been implementing in these thematic areas. Their better coordination, synergy and creation of value added comparing to each individual component is supported through component A.1.

Given that the Project is financed from a loan that uses a financing model based on the results, this project also **aims to strengthen the capacity of** participating institutions to carry out planned activities on schedule, or to strengthen their ability to monitor and respect deadlines in achieving the objectives, as well as the ability of institutions to achieve the preferred change.

In order to support the Project Development Objective achievement and the fulfillment of Project's purpose, the preparation of this Project was accompanied by the analysis of a comprehensive reform process in the RS in the field of public policies governance, as well as analysis of the existing planning and reporting processes in public administration. Procedures for monitoring, reporting and coordination of all activities, including the assessment of the performance of the Project, are the result of both conditions set forth with the Project documentation and analytical activities during the preparation of this POM.

All activities, outputs and outcomes are focused on achieving the overall Project goal. In this way, it is ensured that each of the policies shaped through the components of the project, are individually contributing to the common result at a higher level. In this way, thematically and institutionally complex structure of the project is narrowed-down and simplified, to the extent possible, with the focus on the higher-level results to be achieved.

Development of the result chain (RC) allowed all inputs, activities, outputs and outcomes which are leading to the Project's overall objective to be shaped in a form of logical framework matrix (LFM), as well as



performance indicators linked to RC separate links. LFM is then put in the function of Project management, reviewing and reporting on the overall results of the Project.

## 3.2. Project Structure and Beneficiaries

This Project, financed through the EUR 89.5<sup>4</sup> million LA, is structured as follows:

**Part A** - EUR 85.025.000 million which uses a results-based financing modality, where disbursement of funds is conditioned by proving that Eligible Expenditure Programs (EEPs) are executed and simultaneous achievement of Disbursement-Linked Indicators (DLIs) or a part thereof<sup>5</sup> (partial DLI), and

**Part B** – EUR 4.251.250 million that covers project management and supporting technical assistance and where disbursement of funds is conditioned and made upon submission of Statements of Expenditures (SoE).

Each structural part of the Project is composed of two or more Components, as follows:

**Part A** consists of 4 components:

- A.1.** Policy planning, monitoring and coordination (horizontal component);
- A.2.** Investment and Export Promotion;
- A.3.** Innovation;
- A.4.** Labor;

**Part B** consists of two components:

- B.1.** Technical assistance for project management and implementation (support to PPS, MoE, MoESTD) through Project Implementation Unit (PIU) established within PPS – Category 2 of the Eligible Expenditures related to goods, non-consulting services, consultants' services, Training and Operating Costs for Part B.1 of the Project;
- B.2.** Technical assistance in project management and implementation (support to MoLEVSA and NES) through engagement of Procurement Officer and Implementation and Finance Management Officer by the MoLEVSA – Category 3 of Eligible Expenditures related to Consultants' services for Part B.2 of the Project.

Beneficiaries of the Project, both in terms of participating ministries and organizations and who are beneficiaries of the Project Support (direct beneficiaries) and end users of services of ministries and organizations (final beneficiaries), are summarized in Table 1 below.

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<sup>4</sup> Loan proceeds are lower than total loan value (EUR 89.5) as front end fee is paid directly from loan.

<sup>5</sup> It is planned that partial loan withdrawal can be made for partial achievement of DLI, as described under the headings related to the each individual component and subcomponent of the Project.



**Table 1. Project beneficiaries**

<b>Ministry/organization (Direct Beneficiaries)</b>	<b>Final beneficiaries</b>
Public Policy Secretariat (PPS);	The Government, line ministries, and public which benefit from better overall policy planning and coordination, and consequently from more efficient and effective spending of public resources.
Ministry of Economy (MoE); Development Agency of Serbia <sup>6</sup> ; other MoE development agencies under MoE;	Local and foreign firms that participate in MoE and development agency programs.  Male and female workers in those firms.
Ministry of Education, Science, and Technological Development (MoESTD); Innovation Fund (IF);	Serbian firms and entrepreneurs that benefit from matching grants and technology transfer programs, as well as workers in those firms.  Spillovers from innovations to other firms and workers.  Researchers working in research and development institutes (RDIs) and local technology transfer offices (TTOs).
Ministry of Labor, Employment, Veteran and Social Affairs (MoLEVSA); National Employment Service (NES)	Job seekers, especially those from hardly employable categories defined in the National Action Plans, those with low earnings potential, including women, Roma, and people with disabilities.  Social assistance beneficiaries and their families.  Firms looking to fill employees from NES registry.

<sup>6</sup> During the Project preparation, National Parliament adopted the Law on Investments, by which SIEPA – Serbia Investment and Export Promotion Agency and NARD – National Agency for Regional Development ceased to exist, and introduced new Development Agency of Serbia - NDA. Besides NDA, there are other agencies/organizations under the Ministry of Economy portfolio that can participate in reforms supported by this Project.



# 4. PPMC SYSTEM – POLICY PLANNING, MONITORING AND COORDINATION

Policy Planning, Monitoring and Coordination System consists of:

- (a) Institutions that participate in the Project implementation (Institutional framework);
- (b) Expected results and performance indicators (DLIs and KPIs);
- (c) Procedures for defining, monitoring and reporting on the results (methodology and reporting templates), and
- (d) Project communication lines.

The institutional framework is described under the Heading 4.1 of this POM. Expected results and performance indicators are described under components and subcomponents of the Project under the Heading 6, procedures for monitoring and reporting of the results under the Heading 5 and individually by components of the Project under the Headings 6, and lines of communication and cash flows under the headings of 4.1.1 and 8.10 of this POM.

## 4.1. Institutional Framework for Project Implementation

Following institutions/organizations are participating in the Project:

1. Public Policy Secretariat (PPS),
2. Ministry of Economy (MoE),
3. Ministry of Education, Science and Technological Development, in coordination with Innovation Fund
4. Ministry of Labor, Employment, Veteran and Social Affairs (MoLEVSA) with National Employment Service (NES).

In addition to the institutions participating in the project, new bodies, i.e. units, are formed as a part of the PPMC institutional framework, and they will be responsible for the coordination, reforms implementation, reporting and monitoring (component A.1) of the reforms supported by the Project.

Those bodies are:

1. Inter-ministerial Working Body for Policy Planning, Monitoring and Coordination<sup>7</sup> under Competitiveness and Jobs Policy Area;
2. Project Implementation Unit (PIU);
3. Internal units at the level of institutions<sup>8</sup> (hereinafter: Internal units).

Central coordinating entity on the project is PPS, whose representative chairs the Working Body. The PPS leads the Working Body, and with the support of the PIU, and in close cooperation with the Internal Units, and procurement, financial and operational consultants at MoLEVSA, will coordinate the monitoring of all results, report, perform safeguard and fiduciary functions.

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<sup>7</sup> Throughout the negotiations on the Project and in the LA this body had been named „Inter-ministerial PPMC Working Body – PPMC WG“. In the process of its establishment, it is suggested that it should be Working Body, as a temporarily Government body, in accordance with the Law on Government („Official Gazette of RS“, no. 55/05, 71/05 - corr, 101/07, 65/08, 16/11, 68/12 – CC, 72/12, 74/12, 7/14 – CC and 44/14).

<sup>8</sup> Ministry-level PPMC units as named throughout the loan negotiations, as well as with the Governments Conclusion 05 Number: 48-9021/2015-1 dated August 24, 2015. As one of the institution that is obliged to establish Internal Unit is not ministry, the title was adjusted to Internal Units at the institution level or Internal Units.



### 4.1.1. Distribution of responsibilities among participating institutions

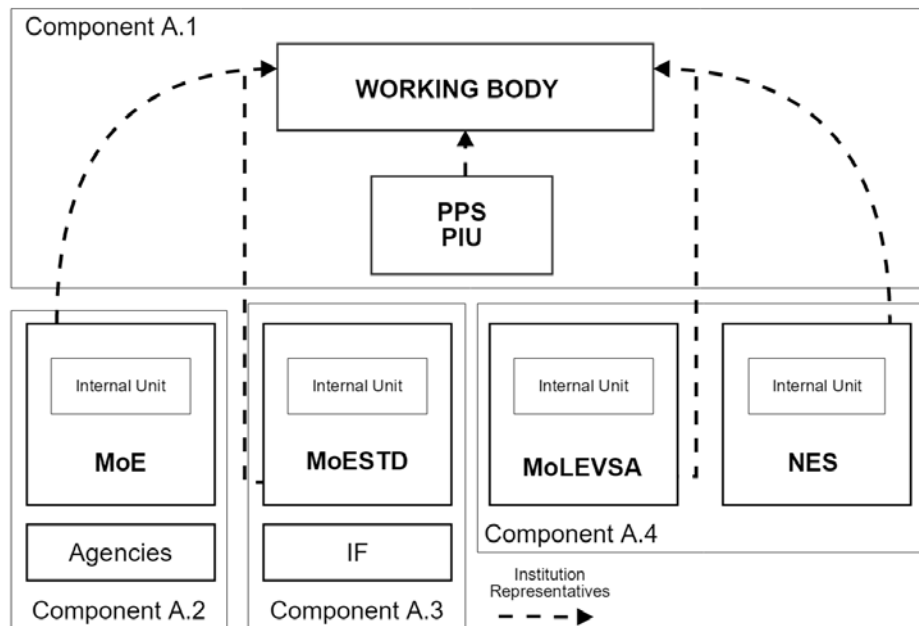
The participating institutions will be responsible for implementation of the reforms supported by the Project and reporting on progress and performance. Support to the improvement of the effectiveness of the reforms is provided also by other participants in the PPMC IMWB, as it is described in its Rules of Procedure and this POM.

Besides implementing reforms within its scope of work, i.e. the overall public policy planning, monitoring and coordination, the PPS also plays the role of the central coordinating entity on the Project, which includes chairing the PPMC IMWB as well as facilitating Project management, implementation and reporting, with support of the PIU and in direct coordination with Internal units. Those units are, among other, established in order to facilitate coordination of Project and its component implementation, and participation in the PPMC system.

Institutional framework for component A1 of the project is common for all participating institutions, including IMWB, PIU and the Internal Units.

Bank will provide additional implementation support throughout the project's lifespan. This will include periodic supervision missions and a detailed midterm review roughly 1.5 years after project effectiveness. The midterm review will, among other things, analyze progress toward achieving all of the results indicators and DLIs and determine where adjustments are needed. In cases where not enough information was available at the time of project approval to establish indicator baselines and realistic targets, these will be determined or adjusted during the midterm review.

**Figure 1. Institutional Framework**





#### 4.1.2. Shared responsibilities – Institutional Framework for components A.1 and B.1<sup>9</sup>

Component A.1 is the horizontal component of the Project. It requires commitment by all participating institutions, and it depends on the analysis of data collected from the institutions that implement components of the project Part A.

Component A.1 relates to the DLI 1- Piloting the systems for planning, monitoring and coordination of policies in the field of competitiveness and jobs, including:

- (a) Establishing and functioning of PPMC IMWB, chaired by PPS, with participants from PPS, MoE, MoESTD, MoLEVSA, NES, MoF, MoPALSG and Prime Minister Cabinet.
- (b) Establishing Internal Units for planning and monitoring – units at the level of participating institutions (Internal Units) by MoE, MoESTD and NES<sup>10</sup>, which contribute to the IMWB work and overall coordination, implementation and monitoring of implementation of the reforms supported by Project, and
- (c) Piloting PPMC Competitiveness and Jobs System through semiannual Progress Reports and annual Performance Reviews using data collected from participating institutions.

Component B.1 directly supports the management and implementation of components A.1, A.2 and A.3 through technical assistance provided by the PIU, established under the PPS, and indirectly component A.4 (through experts engaged on the component B.2).

#### 4.1.3. Responsibilities of all institutions related to the Component A.1

When Component A is in the question, participating institutions are obliged to:

- (a) Appoint members and deputy members to the IMWB and actively participate in its work;
- (b) Identify and give mandate to the Internal Unit that will, inter alia, be responsible for monitoring, reporting and coordination of the Project activities;
- (c) Develop Key Performance Indicators (KPIs), their hierarchy, set their initial values and annual targets;
- (d) Create a platform to track/monitoring indicators and relevant budget performance (Eligible Expenditure Programs (EEPs<sup>11</sup>);
- (e) Follow the Verification protocols and submit the appropriate documentation confirming achievement of the DLIs as described in LA and in line with rules set in this POM, for each component and subcomponent individually; periodically, as appropriate, evaluate and revise Verification protocols and indicator target values;
- (f) Produce semi-annual Progress Report for their respective ministers/managers and IMWB, and submit them to the PPS in accordance with the reporting timeline;
- (g) Produce an annual Performance Review with measures for performance improvements for their respective ministers /managers and IMWB and submit them to PPS in accordance with the reporting timeline;
- (h) Use Progress Reports and Performance Review in order to decide on the improvement of performance and compliance with the Program Budget;
- (i) Propose convening IMWB thematic sessions each time when, within the activities supported by the Project, prepare or adopt any kind of programs, projects, strategic documents and action plans, as well

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<sup>9</sup> Component B2, although it is carried out by MoLEVSA, it is complementary to the component B1, and belongs to the unique support system which is provided by B1 through PIU.

<sup>10</sup> Although Project documentation does not oblige some institutions to form Internal Units (MoLEVSA, PPS), all institutions participating in the project decided to form them in order to fully support implementation of project activities and complex reform agenda within their scope of work.

<sup>11</sup> As the EEPs are defined only for MoE, MoESTD and NES, these institution report on the EEPs execution.



as in cases where the output of some of the activities related to Project are studies or analysis, before their adoption or final decisions on further action, as defined by the Rules of procedure of the IMWB;

- (j) Identify and solve problems in the Project;
- (k) Other activities related to the planning, monitoring and coordination of policies within their scope of work.

In terms of reporting and Verification protocols, data submitted by the Internal Units are shared with all participants in the IMWB in accordance with the reporting protocols defined in this POM and Minutes of Meetings of the Working Body. Unified project reports must be publicly available and published on the PPS website (and of the participating institutions if necessary).

#### **4.1.4. Responsibilities of the participating institutions related to the Component B.1 of the Project**

When it comes to component B.1, institutions participating in the Project are required, to:

- (a) Submit to PIU Terms of Reference and Technical specifications for the procurement of goods and services required for the implementation of reforms that are supported by this Project in accordance with the Procurement Plan (excluding MoLEVSA which independently performs procurement);
- (b) Inform PIU about possible changes and amendments to the Procurement Plan by a reasoned request;
- (c) Inform PIU about the fulfillment of conditions for disbursement of funds from the loan and provide evidence to prove the fulfillment of conditions, in order to ensure timely preparation of Disbursement requests.
- (d) Follow the reporting timeline and reporting procedures, and adhere to the procedures and rules defined in this POM;
- (e) Report on the execution of the EEPs (only MoE, MOLEVSA and NES).

In addition, MoLEVSA, shall prepare semiannual financial reports and reports on the implementation of the Procurement Plan related to the components A.4 and B.2 of the Project, and submit them to the PIU in order to unify them with other reports on the project and to timely submit them to the Bank, in accordance with reporting timeline described under the heading 5.5 of this POM.

MF as a member of the IMWB shall submit, in accordance with the reporting timeline, copies of the Single Treasury Account statements evidencing receipt of loan funds for part A of a project, i.e. the payment of financing that is based on the results achieved in the Project.

#### **4.1.5. Verification Protocols**

Loan Agreement stipulates that POM contains Verification Protocols of achievement of the agreed values of DLIs. The Project documentation contains the Verification Protocols for each DLI, as well as the partial values of DLI (in case of partial execution of DLIs) when such possibility is foreseen. Verification protocols have been additionally elaborated in this POM. Description Protocol verification for each DLI, and their elements, is given for each component and sub-component of the project.

Function of the verification protocols is to ensure the quality of the reforms that are implemented and thus ensure the performance of the Project and the Loan. Accordingly, Verification protocols represent a set of conditions, assumptions and activities to be undertaken in order to achieve the expected results, and thus the recognition of achieving the agreed values of DLIs by the Bank (lender), given the nature of the loan, which is based on the achievement of results. If the result, i.e. DLI, is not achieved in accordance with the conditions set forth with the Verification protocols, there is at risk of suspension of disbursement of a part of the loan to the budget of RS by the Bank, in the amount that is foreseen for that unachieved DLI.

Each of the DLIs on this Project is described with at least one Verification protocol, which is composite, i.e. contains more than one condition for the recognition of achievement of DLI. As the DLIs are defined



in different ways for each year during the life of the Project, the Verification protocols, in most cases, are different in content during the Projects life cycle. In parts of this POM, which deals individually with each of the components and subcomponents, each DLI and appertaining Verification protocols are accordingly decomposed, the deadlines for their execution are defined as well as the method of verification.

Evidence of DLI achievement, as a rule, are submitted every six months to PPS together with other documents foreseen with the rules for reporting (see Heading 5 of this POM), except in explicitly indicated cases. In cases where the adoption of certain acts is a part of the Verification protocol, or a part of the evidence of DLI achievement, such an act can be submitted as evidence in the Serbian language, with an accompanying letter in English indicating the parts of the act that represents the key evidence on the content of reforms supported the Project.

Verification protocols are defined also for the cases in which recognition of partially achieved DLI is possible, or when the possibility of submitting the Disbursement request at mid-year exists. These Partial DLI are foreseen as a fraction of DLI annual values, or in the case of process indicators, as part of the rules described with Verification protocols for the recognition of the annual DLI. Terms and conditions for the disbursement of the Loan at mid-year, or on the basis of achieving Partial DLI are given under the heading 8.5 of this POM and Verification protocols for recognition execution Partial DLI are described in the sections of the POM that deals with each individual Project component or subcomponent.



## 4.2. Competitiveness and Jobs PPMC Inter-Ministerial Working Body

The establishment and functioning of the Inter-ministerial C&J Policy Planning, Monitoring and Coordination Working Body (IMWB) is one of the results, which has to be achieved on the project under component A.1.

IMWB is established by the Government Decision from the January 14, 2016 in accordance with Law on Government („Official Gazette of RS”, no. 55/05, 71/05 - corr, 101/07, 65/08, 16/11, 68/12 – CC, 72/12, 74/12, 7/14 – CC and 44/14), according to which Government can create temporary working bodies in order to discuss specific questions from its scope of work and give suggestions, opinions and expert explanations.

In line with previously mentioned Governments Decision, scope of work of the IMWB is defined in the Project and this Projects Operation Manual, and, inter alia, includes cooperation with units/civil servants in participating institutions which are, in line with the Project, responsible for planning and monitoring, including proposing modifications of goals and targets, activities and indicators related to the Project (Internal Units). They are also responsible for compliance of all goals, activities and indicators with Government priorities, as well as for data analysis for policy development, as well as for monitoring and evaluation of achieved results. IMWB also supervises the application of all processes and protocols on the Projects described in this POM.

The Rules of Procedure of the IMWB describe in detail organization, working methods and decision making of the Working Body. The Rules of Procedure are adopted during the first, constitutive session of the IMWB, and can be modified during the Project.

Primary purpose of the Working Body is directing activities of the participating institutions in order to successfully implement the Project and achieve expected results, by considering specific questions related to the reforms supported by the Project and giving suggestions, opinions and expert explanations, as well as successful implementation and functioning of the PPMC related to the competitiveness and jobs creation, which are supported by the Project.

Generally, IMWB directs and unifies results of the participating institutions which are Project beneficiaries, monitors Project implementation, suggests solution to the problems identified by the participating institutions, supports monitoring and evaluation, cost benefit analysis, gap analysis, and serves as the forum for the knowledge exchange, evaluations and adjustments of the planning system, policy monitoring and coordination.

Additionally, in accordance with the Governments Decision on its establishment, the IMWB regularly reports to the Government on its work, on progress in the implementation of the Project and the results achieved, i.e. the process of reform in competitiveness and jobs policy area, through Progress and Performance Reports. In this way timely informing the Government on possible problems and the lack of effect of which could not be solved within the IMWB is enabled.

The activities of the technical secretariat for the needs of IMWB are performed by the PPS.

Tasks, composition, working methods and decision making of the Working Body are described in detail in Annex 2 – PPMC IMWB Rules of Procedure.



### 4.3. Project Implementation Unit (PIU)

The Project Implementation Unit (PIU) is a technical-coordination unit within the PPS, supporting Project management and implementation directly for Components A.1, A.2, and A.3 and indirectly for Component A.4 – through Component B.2, by carrying out technical assistance activities. It will do so through the procurement and provision of goods, consultants' services, non-consulting services, Training and Operating Costs for the account of PPS, MoE and MoESTD, financial reporting and management and other activities, which contribute to overall Project management and implementation.

According to the provisions of the LA, PIU should include at least:

- PIU Head – responsible for general coordination of project support activities and monitoring of the PIU work;
- Financial Specialist – responsible for cash-flow management on the Project, including preparation of the payment requests and cash transfer requests for designated accounts established for Project purposes, preparation of the financial reports in line with Bank rules and this POM, and
- Procurement Specialist - responsible for preparation and implementation of the procurements needed for components A1, A2 and A3, in line with Bank rules, and monitoring and reporting on the execution of Procurement Plan

In addition to the above listed experts supporting the implementation of the Project under the PIU, Procurement Plan foresees the engagement of the consultant for environmental and social issues and operational officers, and procurement of Stakeholders outreach activities, as well as contracting independent audit of the annual financial reports on the Project.

In terms of financial reporting PIU prepares semi-annual and annual financial reports for the entire Project, i.e. part A and part B of the Project, which shall be submitted to the Bank within 60 days from the end of the reporting period (mid-year and year-end). PIU prepares a separate annual financial report, which is subject to independent audit. Rules for the preparation of financial reports and financial management on the Project are described under the heading 8 of this POM.

PIU also coordinates the collection, and combines the reports of the Internal units of participating institutions and helps PPS in the development of common reports for IMWB and the Bank. PIU provides an independent external audit of annual financial reports by contracting an independent audit institutions and coordination during the execution of the audit, as well as during periodic Bank supervision missions.

To be more specific, PIU:

- (a) Executes procurement of goods and services according to the Bank's procedures for components A.1, A.2 and A.3 and in accordance with the Procurement Plan;
- (b) Assesses whether the TOR of the consultants, which will be engaged on each of the components, contain specific conditions and tasks defined by the Verification protocols for recognition of the DLI achievement, when consultants are supporting their achievement;
- (c) Make changes in the Procurement Plan in consultation with the Bank, and in accordance with the procedure provided in this POM (see heading 7.3.1);
- (d) Performs fiduciary and safeguard functions;
- (e) Coordinates and assists participating institutions in the preparation of semi-annual Progress Reports and annual Performance Review, and helps in the preparation of common reports for the IMWB and the Bank;
- (f) Collects and processes semi-annual reports on the execution of EEPs of MoE, MoESTD and NES;
- (g) Prepares semi-annual financial reports - IFRs (Interim Financial Reports) including explanations and accounting policies for part A and part B of the Project;



- (h) Prepares Disbursement requests for part A of the Project, in accordance with the rules for the disbursement of the loan described under the heading 8.9 of this POM;
- (i) Cooperates with independent audit institution during the audit of the annual financial reports, and with the staff of the Bank during the periodic supervision missions;
- (j) Collaborates and coordinates the preparation of financial statements for part B of the project with MoLEVSA (which is responsible for managing and implementing the components A.4 and B.2);
- (k) Prepares of requests for transfer of loan funds to the designates sub-account opened for the MoLEVSA in order to implement components A.4 and B.2 of the Project;
- (l) Prepares requests for purchase and sale of foreign exchanges and requests for payment, with supporting documentation, from PPS accounts, i.e. in order to enable payments in relation to the components A.1, A.2, A.3 and B.1 of the Project;
- (m) Participates in the preparation and collaborates with MoF and IMWB, in case of eventual changes of the LA;
- (n) Participates and coordinates improvement and changes of this POM and accompanying documents (reporting templates and the Rules of Procedure of IMWB), if necessary;
- (o) Develops and revises Project budget, at least semi-annually, by components and types of costs, and supports the participating institutions in preparation of the program budget;
- (p) Performs other tasks in function of successful Project implementation and management.

Additionally, the PIU enables strengthening of capacities in participating institutions for implementation of standards and procurement requirements of the Bank.

#### **4.3.1. Technical Assistance for the implementation of component B.2**

One of the conditions of LA effectiveness is that the MoLEVSA has selected a part-time Procurement expert.. In addition to the Procurement expert, MoLEVSA will choose and hire Implementation and Finance Officer. This group of consultants, and their support to the MoLEVSA, represent B.2 component of the Project.

Task of the Procurement Officer and Implementation and Finance Officer engaged on the component B.2 of the project is to conduct procurement of consultancy services for the component A.4 in the name on behalf of MoLEVSA, assist in the operational management of the Project and carry out fiduciary functions, budget planning for the components A.4 and B. 2 of the Project and the preparation of financial and other reports that MoLEVSA submits to the PIU, in accordance with the reporting timeline and in accordance with the rules for procurement and financial management of the project which are described under the headings 7 and 8 of this POM.

All reports prepared by consultants hired on a component B.2 shall be submitted to the PIU (component B.1), which creates joint reports on all elements of the project, and which are submitted to the Bank.

The method of financing the experts for components A.4 and B.2 is described in the heading 8.10 of this POM (Cash flows).

The task of the Procurement Officer and Implementation and Finance Officer is to assess whether the TOR for consultants who will support the implementation of reforms under component A.4 contain specific conditions, activities and tasks defined by the Verification protocols for the recognition of DLIs to which those consultants contribute

More specifically, duties and responsibilities of the consultants engaged under the component B.2 of the project include:



## 1. Procurement Officer:

Procurement Officer within MoLEVSA:

- 1) Supports MoLEVSA in achieving overall Project objectives;
- 2) Assist MoLEVSA and Evaluation Committees in preparing Terms of Reference and tender documents for the procurement of services, as well as Technical Specifications for the procurement of goods, for the purposes of implementing Components A.4 and B.2 of the Project; assist in designing the criteria and documents to evaluate bids; and draft and submit procurement-related documents to the World Bank for review and approval, in compliance with the Project Operational Manual and Loan Agreement;
- 3) Prepares and submits to the Bank (and PIU for information purposes) draft bidding documents, draft Request for Proposals (RFPs), or draft ITQs for packages subject to prior review for review and no objection;
- 4) Publishes procurement notices and contract awards;
- 5) For prior review packages, submits to the Bank copies of final bidding documents, RFPs (and PIU for information purposes), and signed contracts;
- 6) Maintains correspondence with bidders, provides necessary clarifications cooperating with Head of PIU and Procurement Officer in PIU PPS Prepares amendments to the RFP or the bidding documents as deemed appropriate and submits to the Bank for review and no objection (and PIU for information purposes);
- 7) Participates in bid opening procedure and drafts minutes of bids opening;
- 8) Keeps a record of firms who purchase the bidding documents;
- 9) Receives bids and proposals and ensure that they are kept confidential until bid opening or opening of proposals;
- 10) Participates in evaluation of bids and clarifies evaluation procedure for the tendering commission;
- 11) Prepares reports on evaluation of bids or proposals based on the evaluation completed by the Evaluation Committee;
- 12) For contracts subject to prior review, submits bid evaluation report and technical evaluation report for Bank's review and no objection.
- 13) Sends notification of contract award to winning firms;
- 14) For consulting contracts subject to prior review, submits draft negotiated contracts to the Bank for review and no objection;
- 15) Ensures that the signed contracts are sent to the Bank promptly, to provide for funds withdrawal;
- 16) Prepares draft contract amendments if deemed appropriate for the Bank's review and no objection; (and PIU for information purposes)
- 17) Cooperates with Implementation Finance Officer regarding Project disbursements;
- 18) Develops and implements procurement monitoring system;
- 19) Keeps all procurement documents on file per package as listed in the procurement plan, including copies of bids, proposals and quotations;
- 20) Provides procurement documents to the Bank and auditors during post review and audit;
- 21) Update the Procurement Plan within the A.4 part of the Project on a regular basis to reflect any changes to deadlines for contracting procurement of goods and services; and prepare the annual procurement plan;
- 22) Reports on execution of the Procurement Plan to PIU, and on any changes to the Procurement Plan. When changes of the Procurement Plan can have any financial effects, the PO reports to the PIU before making any further steps in changing the Procurement Plan;
- 23) Inform the PIU in PPS and Working Group of expressions of interest received from prospective consultants with the aim of inviting them for future engagement;
- 24) Communicate with selected consultants, participate in contract negotiations as an observer and prepare Minutes of Negotiations.
- 25) Submit draft negotiated contracts for approval and signature by authorized representative of the Working Group (Head of WG) and then submit them to the World Bank for prior approval;(and PIU for information purposes)



- 26) Train MoLEVSA staff in World Bank procurement procedures to build procurement capacity at these institutions;
- 27) Take part in the World Bank's verification missions and collaborate with auditors during mandatory audit of reports;
- 28) Perform other duties in support of Project implementation as required by the Head of Working Group;
- 29) Take part in the development, improvement and implementation of the Project Operational Manual.
- 30) Any other procurement-related tasks that may be assigned by the Head of Working Group and his deputy.

## **2. Implementation and Finance Officer:**

MoLEVSA Implementation and Financial Officer, who is directly responsible to the Head of the MoLEVSA Internal Unit:

- 1) Perform financial management of the A.4 and B.2 components of the Project, including collection and verification of financial documents and reports;
- 2) Preparation of consolidated financial reports; monitoring of financial transactions of the A.4. and B.2 components of the Project;
- 3) archiving and safekeeping of financial documentation (statements of the designated account for components A.4 and B.2;
- 4) reports on the execution of Eligible expenditure programs ; contracts entered into; payments made; Cost Statements; and financial plans of the A.4 and B.2 components);
- 5) Develop and implement a financial administration system for the components A.4 and B.2, all in accordance with the rules established by the PIU and POM,
- 6) Act as primary point of contact for, and co-operate with, independent auditors and World Bank staff on verification missions in front of the MoLEVSA, as needed;
- 7) Supervise component A.4 and B.2 expenditures and analyse compliance of expenditures with the planned budget, including by preparing financial plans for purposes of preparing the programme budget of the MoLEVSA;
- 8) Perform other finance-related duties in support of Project implementation as required by the MoLEVSA and the PIU.
- 9) Identification of key performance indicators and their hierarchy;
- 10) Identification of baseline indicator values and definition of annual target goals;
- 11) Development of a platform for monitoring budget performance indicators;
- 12) Periodical evaluation and revision of protocols and target values, as required;
- 13) Drawing up of annual performance reviews for Working Group and Coordination Body, including actions to improve performance;
- 14) Preparing the progress reports based on the rules and calendar in POM;
- 15) Use of the progress reports and performance reviews to inform decisions of programme budgeting;
- 16) Cooperation with the Working Group and Project Implementation Unit (PIU) to be established in the Republic Secretariat for Public Policies;
- 17) Daily cooperation with experts to be contracted for purposes of the Ministry and the loan –supported reforms;
- 18) Ensuring that reports are available at the Ministry web page;
- 19) Maintaining records on the enforcement Eligible Expenditure Programme of the Ministry;
- 20) Preparation of underlying documents for payment orders on the basis of which loan funds are disbursed, via the PIU.





## 4.4. Institution-level Internal Units

Establishment and functioning of the Internal Units within MoE, MoESTD and NES is one of the results, which should be achieved under the Project. Tasks of these units are roughly defined during the loan negotiations with the Bank, and they are described in the heading related to the DLI 1. Additionally, their tasks are further elaborated in this POM.

Internal units are part of the PPMC system, and their primary role is to support Project implementation through coordination and reporting on the implementation of components within the institutions, in which they are established, and to support and participate in the work of the IMWB. Internal units provide feedbacks on the implementation of the reforms supported through the part A of the Project. Internal units are mediators among all internal units within institutions that are participating in the reform process on one side, and the PIU on the other.

MoE, MoESTD and NES are responsible for identification (by internal act or other document which proves that the requested internal organization of work) and keeping the Internal units functioning. Internal units can change their composition and organizational structure during the Project, but in that case institutions are obliged to, without any delay, inform PPS on the changes.

Depending on the capacity and scope of reforms, Internal Units can be:

1. Individual position or group of individual positions (such as the Project or Working Group), or
2. Internal organizational unit or a couple of them, which will be responsible for participation in the system for planning, monitoring and policy coordination (defined as such by Rule Book on Internal Organization and Systematization of working places).

In line with Project requirements, i.e. LA, these Internal Units are identified in all mentioned institutions. They are also authorized by internal acts to participate in PPMC system. The same acts authorize individuals responsible for managing Internal Units, as well as individual responsibility of each member of the internal units.

Responsibility of each participating institution related to the PPMC system, or implementation of the Project component A.1 reflects in the work of all Internal Units, and they are described in the heading 4.4 of this POM.

Heads of Internal Units, or other persons appointed as the contact officers, are responsible for cooperation and direct communication with PIU.

More specifically, Internal Units are responsible for:

- (a) Development of KPIs, their hierarchy, baseline and annual target values, and identification of relevant budget lines and activities related to each indicator;
- (b) Development of platform for monitoring KPIs and execution of EEPs<sup>12</sup>;
- (c) Following the Verification protocols and submission of appropriate documentations confirming DLIs achievement, as it is described in this POM for each component and subcomponent, and periodically, if needed, evaluate and revise Verification protocols and target values of performance indicators;
- (d) Preparation of semi-annual Progress Reports for their own ministers/managers and for IMWB, and their submission to the PPS in line with reporting timeline;
- (e) Preparation of annual Performance Review with measures for performance improvement for their own ministers/managers and IMWB and submitting them to the PPS in line with reporting timeline;

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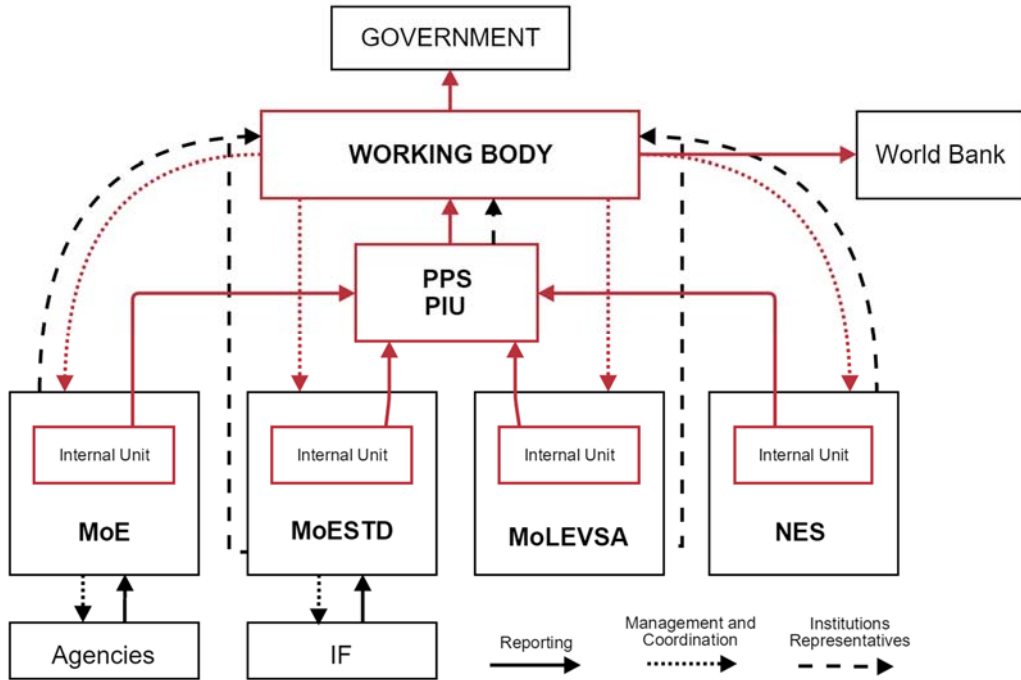
<sup>12</sup> Since EEPs are defined only for MoE, MoESTD and NES, only these institutions are obliged to report on EEPs execution.



- (f)** Use of Progress Reports and Performance Reviews as a basis for performance improvements and harmonization with Program Budget;
- (g)** Propose convocation of thematic sessions of the IMWB, each time when, within activities supported by the Project, develop, prepare or adopt any kind of program, project, strategic document or action plan, as well as in the situation when outcomes of some activity related to the Project are prepared studies or analyses, but prior to their adoption, or in other words before making final decisions on further actions, as defined in the Rules of procedure of the IMWB;
- (h)** Submitting TOR for procurement of services and specifications for procurement of goods to the PIU, needed for implementation of the reforms supported by the Project and in accordance with Procurement Plan (except MoLEVSA, which procures individually);
- (i)** Informing PIU on possible changes and amendments of the Procurement Plan through request with adequate justification;
- (j)** Informing PIU on fulfillment of conditions for loan disbursement, preparation and submission of documentation which proves the fulfillment of conditions in order to timely prepare requests for loan disbursement;
- (k)** Identification and solving problems on the Project;
- (l)** Cooperation with the PIU established under PPS;
- (m)** Daily cooperation with consultants engaged for the needs of the institution in which they are established;
- (n)** Taking care of publishing of the reports on the website of the institution, if needed;
- (o)** Keeping records on execution of EEPs of the institutions in which they are formed and which are responsible for planning and execution of EEPs;
- (p)** Other activities needed in order achieve expected results, in line with all decisions, conclusions and suggestions of the IMWB;



Figure 2. Institutional framework - Component A.1



## 5. RESULTS MONITORING, REPORTING AND VERIFICATION

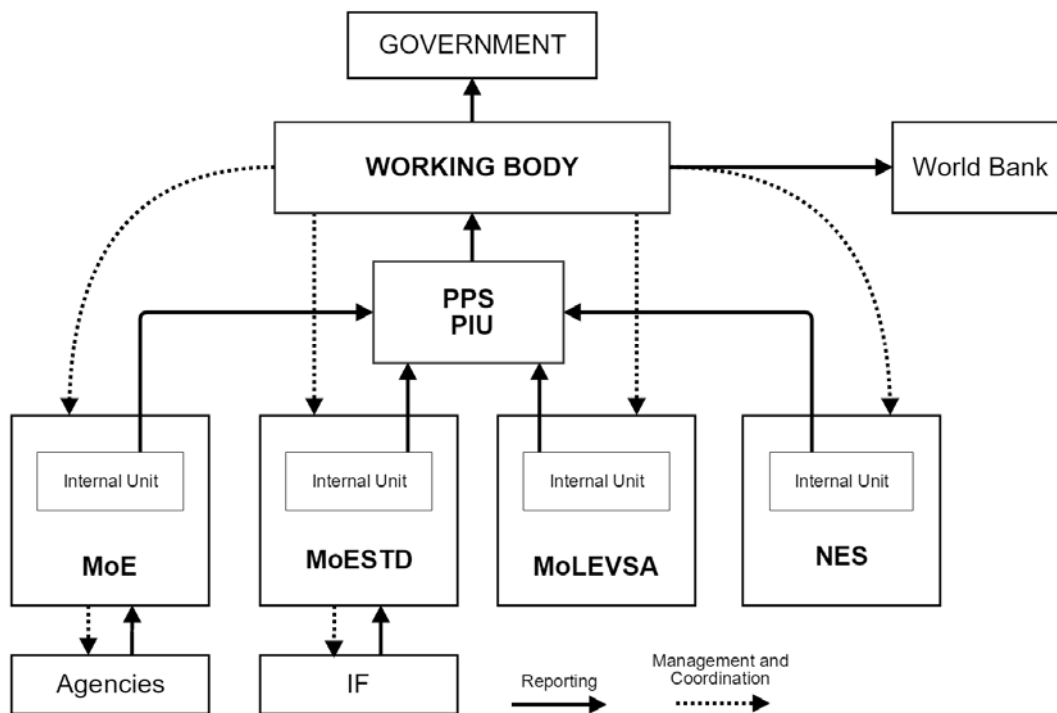
This chapter on monitoring, reporting and verification is based on the RBM process within the PPMC system. Through the PPMC system, institutions participating in the project will revise the objectives in the field of competitiveness and jobs creation, monitor and evaluate progress, perform analysis, and contribute to policy development. Therefore, it is expected that the PPMC system will lead to better designed and better coordinated policies, since it will become part of a clear, strategic framework with a system of monitoring and evaluation. The monitoring results, reporting and verification process, listed below, will be used for tracking the Project progress, provision of information about the fulfillment of DLIs, and enabling the feedback loop for project management and enhancement of the Project impact.

Additionally, this chapter of the POM describes administrative processes, reporting processes and management systems for monitoring, reporting and verification, which is established through the PPMC system on this Project.

Reporting on the procurement process and financial reporting, which form an integral part of the semi-annual reporting, are described in detail in chapters 7 and 8 of this POM. The focus of this chapter is on the procedures and rules for monitoring, reporting and verification of execution of DLIs and KPIs, as well as monitoring the impact of the Project and its individual components.

The reporting process, which is accompanied by verification, management and coordination on the Project, are illustrated in the following figure.

**Figure 3. Institutional framework: Reporting and coordination**



Monitoring of project implementation is the responsibility of all participating institutions. Monitoring and reporting at the level of institutions is coordinated through the Internal units, which are responsible for continuous monitoring and reporting in order to achieve efficient implementation of all elements of the Project throughout the program period (2015-2018), while monitoring and coordination of the project as a whole reflects in the work of the IMWB. Internal units produce reports at least every 6 months, and submit completely filled reporting templates to the PPS. PPS, with the support of the PIU, consolidates the information provided in reports of institutions and creates the draft of the Progress Report (at mid-year)



and the Performance Review (end of the year). Drafts of these reports will be presented for consideration, improvement and adoption by the IMWB. Progress report and Performance review templates to be filled-in by the participating institutions are provided in Annex 5 – Progress Report Template and Annex 6 – Performance Review Template of this POM.

IMWB is responsible for decisions making on adoption of the reports, the eventual conclusions and recommendations regarding the reports, provision of feedback and amend the content of the draft report in a manner that will enable the institutions to direct the project and individual activities to achieve the expected results.

## **5.1. Reports on the Project**

### **5.1.1. Progress Report**

Progress report, which is being produced for every semester, presents the details regarding level of achievement of targeted values of DLIs and Partial DLIs, in accordance with the Verification protocols, and level of achievement of KPIs. The primary purpose of the Progress Report is to respond to the requirements of the Bank related to the conditions set for the disbursement of the loan proceeds, which are related to the achievement of defined results, and to facilitate discussion in IMWB on the progress of the Project, and to enable reporting to the public through publication of the report.

Other reports described in the LA - Interim financial reports and the reports on the execution of Procurement Plan, whose content is described in detail in this POM, shall be submitted to the Bank along with Progress Report every 6 months.

### **5.1.2. Performance Review**

Performance Review, prepared at the end of the calendar year, contains all the elements of the Progress Report and provides additional information on the performance of the Project presented through the assessment of the degree of relevance and effectiveness of the activities carried out, KPI which were used, constraints in the implementation of activities, the potential for coordination and measures for improving performance, as well as the budget adequacy. PIU is responsible for the technical integration of the results of discussions and minutes of meetings of the IMWB during Performance review, in cooperation with PPS. Purpose of the Performance Review is facilitation of the discussion on both the Project progress and impact, enabling the IMWB to manage the Project towards the Project goals and inform the public by publishing reports on the PPS website.

## **5.2. Project preparation and submission process**

- (a)** In the July-August each year, for the first half of the year: Progress Report template is filled-in and delivered by the Internal units, in accordance with the reporting timeline (described under the heading 5.5 of this POM), to PPS. The PPS, with the support of the PIU, combines these individual reports, and additionally prepares semi-annual financial report and the report on the execution of the Procurement Plan, unifying it with the semiannual financial report and report on the execution of the Procurement Plan developed by the technical unit for MoLEVSA for components A.4 and B. 2 of the Project;
- (b)** In the January-February period each year, Internal Units fill-in and submit Progress Report Template as well as Performance Review Template to PPS. PPS, with the support of PIU, unifies all these reports and additionally develops semi-annual financial report and report on the execution



of the Procurement Plan, unifying it with semi-annual financial report and the report on the execution of Procurement Plan developed by the technical unit within MoLEVSA for components A4 and B2 of the Project.

In addition, at the end of each calendar year PIU also prepares un-audited annual financial reports at the project level, which are subject of an independent, external audit.

Internal units of the MoE, MoESTD and NES semi-annually report to the PIU on the execution of EEPs. PIU merges that information with other financial reports on the Project and submits them to the Bank.

The table below provides the contents of the documents that have to be used for the preparation of the Progress Report and the Performance Review.

**Table 2. Content of the documents needed for the preparation of the semiannual and annual reports for the Bank**

Progress Report (Calendar mid-year)	Performance Review (End of the calendar year)
<p>Progress Report Template</p> <ol style="list-style-type: none"> <li>1. DLI achievement level compared to targeted values and verification protocols.</li> <li>2. KPI achievement level compared to targeted values.</li> </ol> <p><b>Procurement Plan Execution</b> (described under heading 7 of this POM). Procurement Plan Execution Report will be used, when needed, as additional information for analysis and discussion, but it will not be used directly for Progress Report.</p> <p><b>Financial Report:</b> Interim Financial Reports and financial reporting system are explained more in detail in heading 8 of this POM. Financial report will be used as additional information for analysis and discussion, taking into consideration that it contains data on the execution of EEPs, but it will not be used directly for Progress Report.</p>	<p>Progress Report Template</p> <ol style="list-style-type: none"> <li>1. DLI achievement level compared to targeted values and verification protocols.</li> <li>2. KPI achievement level compared to targeted values.</li> </ol> <p>Performance Review Template</p> <ol style="list-style-type: none"> <li>1. Discussion on the problems and performance in the realization of KPIs</li> <li>2. Purposefulness and effectiveness of taken activities</li> <li>3. Obstacles in the implementation, coordination improvement possibilities and measures for performance improvement</li> <li>4. Budget adequacy</li> </ol> <p><b>Procurement Plan Execution</b> (described under heading 7 of this POM). Procurement Plan Execution Report will be used, when needed, as additional information for analysis and discussion, but it will not be used directly for Performance Review.</p> <p><b>Financial Report:</b> Interim and Annual Financial Reports and financial reporting system are explained more in detail in heading 8 of this POM. Financial report will be used as additional information for analysis and discussion, taking into consideration that it contains data on the execution of EEPs, but it will not be used directly for Performance reporting.</p>



## 5.3. Reporting templates and procedures

### 5.3.1. Progress Report Template

Progress Report template monitors achievement of DLI targeted values and Verification protocols, and achievement of targeted values of KPIs. Participating institutions are responsible to fill this template each time they obtain new information on the Project progress, and to submit them to PPS semiannually.

Progress Report Template is given in Annex 5 – Progress Report Template, of this POM.

This template contains:

- (a) **Level of achievement of targeted DLI in accordance with the Verification protocols** indicates the progress in achieving DLI, which is monitored continuously through the Progress Report Template. Besides. All supporting documents that prove achievement of DLIs should be submitted together with the Progress Report Template. Documents adopted by the institutions of the state administration which represent the proof of the achievement of DLIs, can be submitted to the Bank in Serbian language, but must be accompanied by explanation in English, which contains the summary of the most important provisions of this act that prove achievement of DLI (in accordance with Verification protocols for each DLI and Partial DLI).
- (b) **Level of achievement of targeted values of KPIs** – shows the advancement in achieving targeted values of KPIs which should be monitored through the Progress Report Template, and are fill-in every time there is new information or changes in the values of KPIs (depending on the frequency of collection and processing of the data needed for calculation of KPIs). The subject of monitoring are baseline values of KPIs and progress toward three-year targets. Each institution monitors its own DLIs and KPIs, while PPS monitors Project level KPIs, in cooperation with institutions participating in the Project.

### 5.3.2. Performance Review Template

The Performance Review Template allows performance review of the PPMC system supporting the competitiveness and jobs reforms (see DLI 1). As such, this template is used to measure the performance of the inputs, activities, outputs and outcomes of the Project components against the desired objectives of the Project. This review is conducted through collecting self-assessment reports covering: the activity relevance and effectiveness; the relevance of the defined KPIs; the obstacles for implementation of activities, coordination potential and performance improvement measures planned and taken; and a budget adequacy assessment. This template is filled-in on continuous basis by the institutions responsible for implementing each component and subcomponent of the Project , i.e. Internal units of the participating institutions, and is submitted to the PPS/PIU in the period January-February each year, in line with the reporting timeline. The Performance Review Template is contained in Annex 6 – Performance Review Template, of this POM, while the contents of the template are described below:

- (a) **Activity relevance and effectiveness** – the relevance and effectiveness of the project activities is estimated by the responses to the battery of questions provided in the Performance Review Template in order to review the appropriateness and effectiveness of the activities undertaken against KPI and DLI targets of the Project. In brief, this element evaluates the contribution of the undertaken activities in meeting the targets of selected indicators on the Project.
- (b) **Relevance of the KPIs selected** – the relevance of the defined KPIs for achievement of desired outputs, outcomes and Project objectives is performed by battery of questions contained in the Performance Review Template, in order to review the degree of the relevance of the selected KPI indicators in measuring the changes in the value of the Project results. This section of the Performance Review Template also provides to participating institutions, responsible for achieving



KPI targets, a platform to propose more appropriate ways of measuring and improving their performance.

- (c) **Implementation barriers, coordination potential and performance improvement measures** – This section of the Performance Review Template enables identification of the barriers to performance, endogenous or outside of control of the reporting institution. Also, in order to enable creation of synergies reporting institutions are encouraged to point out similar or complementary measures implemented by other institutions, that can contribute to achievement of Project results and/or individual results
- (d) **Budget Adequacy** – The objective of this segment of the report is to enable the overview of the distribution of Budget (National and Project's) in comparison to needs of the institutions in order to fully achieve results of the Project. Institutions, through the Performance Review, indicate separately those barriers they faced during the project implementation which are caused by inadequate budget, and discuss them during IMWB session.

## 5.4. Report adoption

PPS is responsible, in cooperation with PIU, for integration and analysis of information, which are submitted with reporting templates, as well as for synthesizing of the results into draft report (annual or semiannual). PPS conducts initial analysis of the submitted proofs in order to determine whether they are acceptable, and, in case they are acceptable, submits them to the IMWB. All proofs also have to be acceptable to the Bank, regarding their technical content and presentation.

Reports are submitted to the IMWB for consideration, adoption and discussion. Working Body is responsible for evaluation of findings from the reports, to provide feedback and to improve content of the draft report in such way that will help in conducting the Project toward predefined results. PPS chairs the IMWB, carries out administrative and technical support to the IMWB, keeps the minutes of meeting and prepares final version of the report. PIU assists PPS in analysis of the feedback and in the preparation of final version of report, which should be submitted to the IMWB for adoption. Adopted Project Progress Reports and Project Performance Reviews shall be published on the PPS website and afterward sent to the Bank within 60 days from the end of the reporting period. Description of the procedures of the IMWB are given in the Annex 2 – PPMC IMWB Rules of Procedure, of this POM.

## 5.5. Reporting timeline

Using the reporting templates contained in Annex 5 and Annex 6 of this POM, all institutions will follow the reporting timeline described below:

1. **One month before** the end of reporting period, PPS informs participating institutions that period of the reports preparation is approaching and sends out necessary documentation and guidelines;
2. **15 days prior to the ending of the reporting period**, specifically no later than June 15<sup>th</sup> each year for the mid-year reporting period, and no later than December 15<sup>th</sup> each year for the annual reporting period, institutions will alert PPS/PIU on fulfillment of the conditions for loan disbursement for the reporting period;
3. **Within 15 days after the end of the reporting period**, specifically no later than July 15<sup>th</sup> for the mid-year reporting period, and January 15<sup>th</sup> for the annual reporting period, institutions will submit the completed standardized reporting templates to the PPS/PIU. These templates are as follows:
  - 3.1. Progress Report Template completed;
  - 3.2. Performance Review Template completed (At the annual reporting period);
  - 3.3. Financial Report Template completed, as described under heading 8.7 by MoLEVSA;

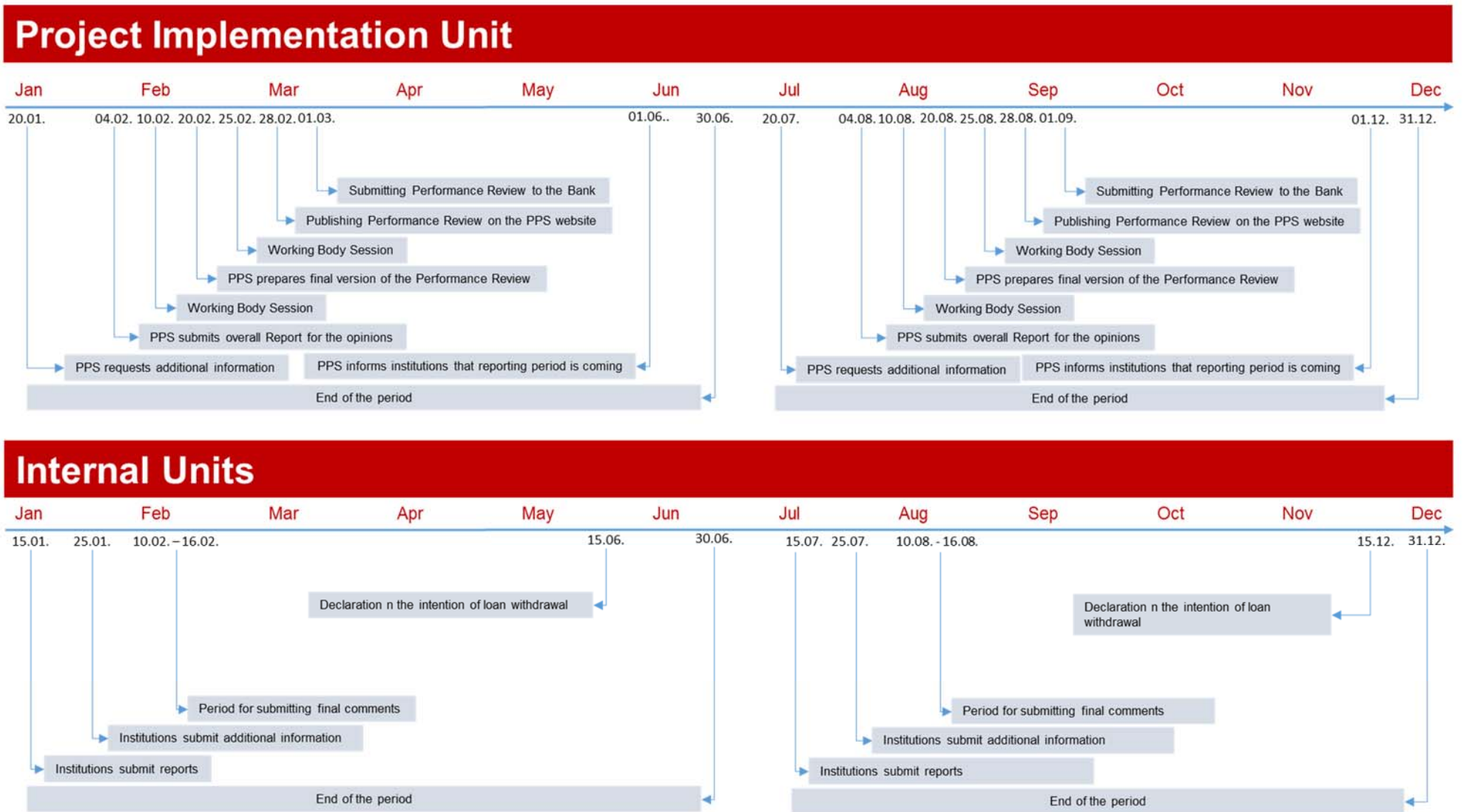




- 3.4. Procurement Plan execution report by MoLEVSA.**
- 4. Within 5 days from report submission**, specifically no later than 20<sup>th</sup> January and 20<sup>th</sup> July, the PPS/PIU will determine whether the reports are acceptable, and request additional information;
  - 5. Within 5 days from receiving the Request**, specifically not later than 25<sup>th</sup> July and 25<sup>th</sup> January, institutions submit additional information;
  - 6. Within 10 days from receiving additional information**, specifically no later than 4<sup>th</sup> August and 4<sup>th</sup> February, the PPS will prepare and submit it to the participating institutions for comments;
  - 7. Within 6 days from submitting the Draft report for comments**, specifically no later than the 10<sup>th</sup> of August and the 10<sup>th</sup> of February, the **PPS will** hold the IMWB meeting for consideration and improvement of the Draft reports;
  - 8. Within 6 days form the IMWB meeting**, specifically no later than the 16<sup>th</sup> of August and the 16<sup>th</sup> of February, participating institutions will submit their final comments on the Draft reports;
  - 9. Within 4 days from receiving the final comments**, specifically no later than the 20<sup>th</sup> August and the 20<sup>th</sup> February, the PPS will prepare the final version of the reports.
  - 10. Within 5 days from preparing final version of the report**, specifically no later than the 25<sup>th</sup> of August and the 25<sup>th</sup> of February, the PPS will hold a second IMWB meeting for final discussion and approval of the report;
  - 11. Within 3 days from the second IMWB meeting**, specifically no later than the 28<sup>th</sup> of August and the 28<sup>th</sup> of February, the PPS publishes the Progress Report or the Performance Review on its website.
  - 12. 60 days from the ending of the reporting period**, specifically no later than the 1st of September and the 1<sup>st</sup> of March, **PPS submits to the WB** the Progress Report or Performance Review together with the supporting verification documents and other reports prepared for the Bank (Interim Financial Reports and Report on execution of the Procurement Plan);
  - 13.** After the approval of reports is obtained from the Bank, PIU prepares disbursement request for the Part A of the project and submits it to the Bank;
  - 14. PPS contracts an independent audit** on annual financial reports within 60 days from the ending of the reporting period (until March 1<sup>st</sup> each year);
  - 15.** Independent **audit reports** are submitted to the Bank within 6 months from the ending of the reporting period (until June 30<sup>th</sup> each year).



Figure 4. Reporting timeline



## 5.6. Early warning system

Since the execution of EEPs and achievement of DLIs are preconditions for loan disbursement, an early warning system at mid-year has been introduced to prevent the absence of results and failure to meet obligations at the end of the year (see the heading 8.5.2 of this POM – What if the DLI has not been achieved within deadline?)

In order to establish the early warning system, color coding has been introduced which describes the level of fulfillment of obligations presented in the Progress Report Template, as follows:

- 1. Green** - in case execution of EEPs and progress in achievement of quantitative DLIs on Jun 30<sup>th</sup> is equal or higher than 50% of its annual value (where applicable), the achieved values are indicated with green color in the Progress report as acceptable, provided that supporting verification documentation which proves this achievement is submitted (budget execution and Verification protocols);
- 2. Yellow** – in case execution of EEPs and progress in achievement of quantitative DLIs on Jun 30<sup>th</sup> is between 40% and 50% of its annual value (where applicable), the achieved values are indicated with yellow color. In this case, the institution which is underachieving submits, besides supporting documentation, an explanation of underperformance which contains risk assessment of underperformance at the year-end, and mitigating measures which will be undertaken;
- 3. Red** - in case execution of EEPs and progress in achievement of quantitative DLIs on Jun 30<sup>th</sup> is lower than 40% of its annual value (where applicable) the achieved values are colored red in the Performance report. In this case the underperforming participating institution needs to submit, besides supporting documentation, an explanation on why there is such an underperformance containing the risk assessment of underperformance at year-end and the action plan for risk mitigating measures to be implemented mitigating the risks and removing obstacles for in achieving the annual targeted values of EEPs and DLI.

The EEP Execution Report, within the early warning system, is produced by the PIU in accordance with data provided by Internal Units.

During the meeting of the IMWB, all participants discuss the execution of duties, suggest corrective measures, especially when there is no progress in DLIs with highest financial value, taking into account disbursement dynamics.

It is expected that this monitoring system will be institutionalized within PPS as well as within other participating institutions, and that it will be improved during the Project lifespan. If it is successful, this monitoring and reporting system could be the introduction into the system of result-based management in other institutions. PPS will coordinate monitoring of results and support evaluation of specific programs, which will be implemented by the participating institution.

As this project contains not only quantitative, but also qualitative process indicators, for all processes that are subject to measurement of achievements, i.e. indicators, the following scale of early warning system describes the present state of processes<sup>13</sup> within the early warning system:

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<sup>13</sup> Scale has been taken from Guidelines for preparation of reports on the execution of Government Action Plan, which was sent to the instructions for the first time in November 2015, and is adjusted for the Project's purposes.

**Table 3. Early warning system**

Scale value and color coding:	Description of scale value and use in reporting:
1	<p>Executed according to the plan</p> <p>Use: In Progress report, it means that, until mid-year or the end of the year the targeted value of process/qualitative indicator has been achieved, or planned activity/measure has been executed completely.</p>
2	<p>Executed with delay</p> <p>Use: In Progress report, it means that in the first semester the targeted value of the indicator, which was due by the end of the previous year, has been achieved. It also means that, by the end of the year the targeted value of the Partial DLI has been achieved (DLI value set for the mid-year reporting deadline), or that targeted semi-annual KPI value has been achieved only at the end of the year.</p>
3	<p>Execution in progress according to the plan and will be fully implemented by the set deadline</p> <p>Use: It means that the minimal value of indicator has been achieved at mid-year, and that institution is confident that the full target will be achieved by the end of the year. Not applicable in year-end reporting period.</p>
4	<p>Not executed in accordance with the plan, but it is in progress and will be executed fully by due date – the end of the year</p> <p>Use: At mid-year, it means that some of the processes has been initiated, and that institution believes the targets will be achieved fully by the end of the year. Not applicable in year-end reporting period (since all targeted indicator values are set on annual basis).</p>
5	<p>Not implemented in accordance with the plan but it is in progress and will be fully implemented after due date</p> <p>Use: At mid-year, it means that institution already knows that it will not be in grade to achieve required targets set on annual basis. At the end of the year it means that the activities will be continued (since it is clear that the annual targets have not been achieved by due date).</p>
6	<p>Not started yet, but is expected to start with the measure/activities until due date, or after due date</p> <p>Use: At mid-year, it means that there is a significant possibility that the annual target will not be achieved (i.e. that process indicator will not be fully achieved). At the end of the year, only for activities lasting more than one year, it means that they are in significant delay.</p>
7	<p>The activity cannot be implemented</p> <p>Use: At mid-year, as well as at year-end, it means that the process needs to be revised, as well as (most likely) the DLI, POM, Procurement plan or Loan</p>

	agreement (this a consequence of the omission in the planning process by the institution, and has to be explained in detail why it cannot be executed, i.e. which were the erroneous assumptions during planning process).
8	Activity dismissed Use: At mid-year or at the end of the year, the institution has to explain why the activity is dismissed. In this case, it is possible that changes to DLIs, POM, Procurement plan or Loan agreement will be needed.

## 6. PROJECT COMPONENTS

Table 4. Project components

<b>Reforms and investments</b>	Component <b>A.1</b> : Policy planning, monitoring and coordination (PPS in cooperation with MoE, MoESTD, MoLEVSA, NES, MoPALSG, MoF and PM Office) <b>DLI Value: EUR 3.6 million</b>		
	<b>Component A.2: Investment and export promotion</b>	<b>Component A.3: Innovation</b>	<b>Component A.4: Labor</b>
	Restructure Ministry of Economy investment and export support programs / agencies	Support enterprise innovation  Facilitate tech transfer and commercialization  Design public research sector reforms	Improve the effectiveness of labor intermediation services and active labor market programs  Facilitate social assistance beneficiaries' transitioning into formal jobs
	<b>DLI value:</b>	<b>EUR 19.7 million</b>	<b>EUR 31.3 million</b>
Responsible ministry	Ministry of Economy (MoE)	Ministry of education, science and technological development (MoESTD)	Ministry of labor, employment, social and veteran affairs (MoLEVSA)
<b>Project Management and Technical Assistance</b> (Coordinated by the Public Policy Secretariat; EUR 4.25m)			

Project development objective is to improve the effectiveness and coordination of selected public programs in order to alleviate constraints to competitiveness and job creation, including investment and export promotion, innovation, active labor market programs, labor intermediation, and activation of social assistance beneficiaries

Project is structured in two parts:

**Part A** uses the mechanism of result-based financing for the reforms which are supported by the Project, and

**Part B** in the form of technical assistance for project management and implementation, which will facilitate the implementation of the Part A of the Project.

In line with the Project development objective, Part A of the project is divided in 4 compatible and complementary components:

**Component A.1.** – Supports the implementation of the program of the RS for planning, monitoring and coordination of policies, through development and piloting of the inter-ministerial system for policy planning, monitoring and coordination (PPMC system) in support to the competitiveness and jobs agenda.

**Component A.2.** – Supports the implementation of the program of the RS for investment and export promotion through development and adoption of the strategic framework and overall action plan for investment and export promotion, including the restructuring/reform of the institutions and programs/services in investment and export promotion policy area.

**Component A.3.** – Supports the implementation of the program of the RS for innovation, technology transfer and reform of the public research sector.

**Component A.4.** – Supports the implementation of the program of the RS in the area of labor and employment, i.e. enhancement of the NES services, of the effectiveness of the ALMPs and transition of social assistance beneficiaries into formal jobs.

Each component, as well as their subcomponents is described in detail in the following text.

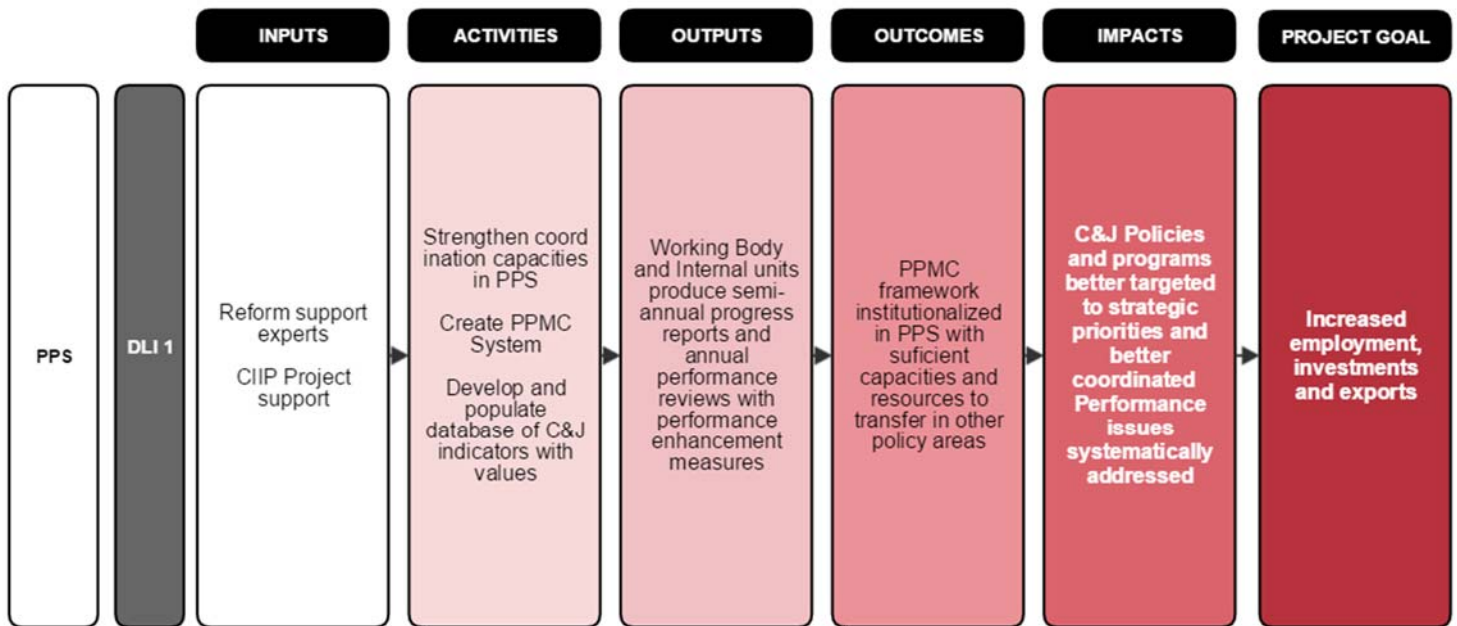
## 6.1. Component A.1: Policy planning, monitoring and coordination

**DLI VALUE:** EUR 3,6 million

**RESPONSIBILITY FOR RESULTS:** PPS in cooperation with other participating institutions.

### 6.1.1. Result chain for component A.1

Figure 5. Result chain for component A.2



### 6.1.2. Component A.1 goals and description

This project component supports the implementation of the program of the RS for improvement of policy planning, monitoring and coordination (PPMC). Namely, the PPS is established as Government's special organization with the Law on ministries (Official Gazette of the RS no. 44/2014, 14/2015 and 54/2015). With the aim of implementation of the PPS mandate the legislative package on planning system has been developed<sup>14</sup>. Piloting of the PPMC framework, in the context of this Project, represents the application and testing of the aforementioned legislative package in its most complex environment, i.e. the application of the rules and procedures of the planning system, including alignment with the program budgeting, on the result-based project with multiple (sectorial) policy areas and multiple project beneficiaries and responsible institutions.

This project component directly addresses the two main challenges in the policy development process in the RS: 1) weak strategic evidence-based planning, and 2) policy coordination.

Policy planning, monitoring and coordination system needs to be better connected with, as well as to build upon the existing Government's initiatives in policy planning and coordination, including development,

<sup>14</sup> The Law on Planning System (working text) and two accompanying decrees which elaborate further policy management and, inter alia, rules and principles of medium-term planning in the RS.



revision and implementation of the Action plan for the implementation of the Governments Program, the alignment and enhancement of the sectorial strategies, as well as enhancement of the program budgeting.

PPMC system needs to bring to better evidence-based policy design and coordination, as well as to the synergy of efforts made by individual institutions, given that, with the support from this Project, it will become a part of the clear, strategic framework with monitoring and evaluation system. The framework will be a work-in-progress in the coming years, requiring frequent adjustment and improvement (which can be caused, inter alia, with the adoption of the legislative package on planning system and program budgeting practice enhancement, as well as with including additional activities in the project with the aim of achieving better performance).

Furthermore, the MoPALSG will participate in the work of the IMWB with the aim of strengthening communication and coordination between responsible ministries and local self-government units, as well as the MoF, which will enable better coordination with the program budgeting practice.

The newly introduced practice of presentation of the Economic Reform Program (ERP) to the EU represents also the initiative that can influence the improvement of the policy planning, monitoring and coordination.

### 6.1.3. Component A.1 activities

This Project component will be implemented through development and piloting of the PPMC system in the competitiveness and jobs policy areas, more precisely through establishment and work of the IMWB. The work of IMWB is supported by the PPS and PIU through preparation of the semi-annual Progress reports and annual Performance reviews, based upon reports prepared by the Internal Units in all participating institutions.

Through PPMC system the participating institutions will develop KPIs and their hierarchy within the competitiveness and jobs policy areas, monitor and evaluate the progress toward expected results, perform analysis and contribute to the enhancement of the policies. The result matrix with the output and outcome hierarchy (Result chain) has been developed for all participating institutions at the component and subcomponent level, with protocols for monitoring and reporting.

Activities to be implemented through this component include:

- (a) Establishment and maintaining operative the IMWB, insuring in such a way that policy coordination leads to achievement of the Project objectives, as well as to the synergy of the results between Project components (membership and mandate of the IMWB are presented in the Annex 2 – PPMC IMWB Rules of Procedure of this POM);
- (b) Establishment of the institution-level Internal units with adequate mandate which participate in the PPMC system;
- (c) Improvement and, as needed, updating of the rules and protocols for coordination of the resources on this project (EEPs, Procurement plan) and reporting on results described with this POM with the aim of adoption by all participating institutions, i.e. by the IMWB;
- (d) Determining the methodology and resources needed for transition of this pilot PPMC system in other sectorial or horizontal policy areas, which would be integrated into the legislative package on planning system;
- (e) Determining the framework for evidence-based PPMC system harmonization with the program budgeting process/budgetary calendar and with the Action plan for the implementation of the Governments Program;



- (f) Analysis of the legislative package on planning system in comparison with the experience and recommendations deriving from this project end eventual revision of the its provisions accordingly;
- (g) Development of the tools for policy monitoring and evaluation on institutional and project level, where needed, with the aim of enhancement of internal and project procedures for monitoring and evaluation (i.e. Balanced Scorecard, Logical framework matrix etc.);
- (h) Strengthening of the capacities within PPS and participating institutions for evidence-based policy planning, budgeting, coordination, monitoring, evaluation as well as for relevant data and indicators collection, analysis and interpretation;
- (i) Development of the plan for transition of the methods for monitoring and evaluation, developed with this project support, into other policy areas;

In order to insure the sustainability and spillover of the results of the project, an endeavor to apply and transfer the PPMC system into other policy areas is needed.

#### 6.1.4. Component A.1 DLI

This project component, as defined in the LA, encompasses the **DLI 1 – Policy planning, monitoring, and coordination (“PPMC”) system (in support of competitiveness and jobs reforms) piloted.**

DLI	Retroactive <sup>15</sup> /2015	2016	2017	2018	Total
<b>DLI 1: Policy planning, monitoring, and coordination (“PPMC”) system piloted</b>	Inter-ministerial Competitiveness and Jobs PPMC Working Group (“PPMC WG”) formally created by the Participating Institutions  Each Participating Institution adopts institution-specific mandates and reporting lines for participation in PPMC system.	PPMC WG publishes on the PPS website one semi-annual progress report and one annual performance report of the PPMC system with inputs from each Participating Institution.	PPMC WG publishes on the PPS website one semi-annual progress report and one annual performance report of the PPMC system with inputs from each Participating Institution.	PPMC WG publishes on the PPS website one semi-annual progress report and one annual performance report of the PPMC system with inputs from each Participating Institution.	
<b>Amount of the Loan Allocated</b>	(Euro 895,000)	(Euro 895,000)	(Euro 895,000)	(Euro 895,000)	(Euro 3,580,000)

This DLI includes:

**DLI 1.1:** Establishment (2015) and functioning of the IMWB (in support to the competitiveness and jobs), and institution-level internal systems for planning and monitoring – Internal units;

**DLI 1.2:** Piloting of the PPMC system through semi-annual Progress reports and annual Performance reviews based on the reports prepared and submitted by participating institutions.

<sup>15</sup> Prior to the date of LA, as provided in Schedule 2, Section IV.B.1 of the LA.



**Partial DLI 1.2.1:** Publishing of the semi-annual Progress reports at mid-year.

### 6.1.5. Verification protocols for component A.1

Verification protocols serve to ensure the quality of the reforms supported by the project, through implementation of the activities and fulfillment of the assumptions, which represent the condition for recognition of the achievement of the expected results (DLIs) by the Bank.

General rules and protocols for disbursement of loan funds at mid-year and year-end, as well as its dependence on the level of the achievement of DLIs (total or partial) are described under title 8.5 of this POM.

Verification protocols for DLI 1, i.e. of the achievement of the expected results of the component A.1, on annual basis are:

**Deadline:** 2015. (retroactive)

Verification means:

**Verification protocol for DLI 1.1:** Submitting to the Bank, through reporting system, the act of the Government on establishment of the IMWB in competitiveness and jobs policy area, and the acts of the participating institutions that identify position/units in the internal structure with adequate mandates.

**Verification protocol for DLI 1.1:** Recognition of the achievement of this DLI is conditioned with:

1. Adoption of the act of the Government<sup>16</sup> establishing the IMWB for PPMC in competitiveness and jobs policy area, which includes:
  - 1.1. Leadership (PPS), membership (PPS, MoE, MoESTD, Mo LEVSA, NES, MoF, MoPALSG, MoF and PM Office), resources and mandates which, inter alia, include:
    - 1.1.1. Oversight of the PPMC launch and implementation process and protocols;
    - 1.1.2. Liaison with those responsible for PPMC in participating ministries, including suggestions regarding activities, indicators, targets;
    - 1.1.3. Assure alignment of activities, indicators, and targets with Government priorities;
    - 1.1.4. Data analysis, policy development, and M&E;
    - 1.1.5. Semi-annual IMWB meetings and Progress reports (based on inputs from the institution-level PPMC units);
    - 1.1.6. Annual performance reviews, including progress against targets, identification of constraints to improved performance, and suggested performance improvement measures (based on inputs from each institution);
    - 1.1.7. Support to the development of impact evaluations in the participating institutions, and
    - 1.1.8. Competitiveness and jobs policy coordination across participating institutions.

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<sup>16</sup> Decision on establishment of the IMWB stipulates that the tasks of the IMWB are set forth with the Project and with the Project Operations Manual. In addition, the working procedures of the IMWB are elaborated with the IMWB Rules of Procedure, whose adoption is also stipulated by the Decision on the establishment of the IMWB.



2. Establishment of the institution-level competitiveness and jobs PPMC Internal units/positions (with internal act by MoE, MoESTD and NES), whose mandates, inter alia, include:
  - 2.1. Development of KPIs (Key Performance Indicators) hierarchies, establishment of baselines and fixing of the yearly targets;
  - 2.2. Development of a platform to track/ monitor indicators and relevant budget performance;
  - 2.3. Identification and troubleshooting of problems;
  - 2.4. Periodical evaluation and revision of protocols and targets as needed;
  - 2.5. Provision of semi-annual Progress reports to their line minister/manager and the IMWB, and participation in IMWB meetings;
  - 2.6. Provision of annual Performance reviews with performance improvement measures to their line minister and IMWB, and
  - 2.7. The use of the Progress reports and Performance reviews to inform program-based budgeting decisions.

**Deadline:** 2016 - 2018. each year

Verification means:

**Verification protocol for DLI 1.2:** Publishing, on the PPS website (and websites of the Government, and other participating institutions, as possible) and submitting to the Bank the semi-annual Progress reports (at mid-year) and annual Performance reviews (at year-end) with adequate content.

**Verification protocol for Partial DLI 1.2.1:** Publishing on the website of PPS (and websites of the Government, and other participating institutions, as possible) and submitting to the Bank the semi-annual Progress reports (at mid-year) with adequate content.

**Verification protocol for DLI 1.2:** Conditions for recognition of the achievement of this DLI are:

1. Adequate content of the semi-annual Progress report for each institution contains:
  - 1.1. KPIs baseline values at project inception, progress, and targets for the following 2 years;
  - 1.2. Identification of the relevant budget lines and activities associated with each indicator;
  - 1.3. Reports are prepared in line with the reporting protocols established with IMWB meeting minutes;
  - 1.4. Publicly available – published on the PPS website.
2. Adequate content of the annual Performance review for each institution contains:
  - 2.1. Discuss performance problems in each KPI;
  - 2.2. Budget adequacy, and performance improvement measures (both planned and taken);
  - 2.3. Publicly available – published on the PPS website.

**Verification protocol for Partial DLI 1.2.1:** The condition for recognition of the achievement of this Partial DLI is publishing of the Progress report at mid-year each year during the period 2016-2018. The adequate content of the report should satisfy all conditions set for the DLI 1.2.



**Table 5. Component A.1 – DLI value overview, DLI breakdown and possible disbursement for Partial DLIs**

DISBURSEMENT LINKED INDICATORS (DLIs)			2015	2016		2017		2018		Total	
			Retro /2015	Partial (semi-annual)	Total 2016.	Partial (semi-annual)	Total 2017.	Partial (semi-annual)	Total 2018.		
<b>A.1 Policy planning, monitoring and coordination</b>											
<b>DLI 1</b>	Policy planning, monitoring, and coordination (“PPMC”) system piloted		<b>0.895</b>	0.224	<b>0.895</b>	0.224	<b>0.895</b>	0.224	<b>0.895</b>	<b>3.58</b>	
DLI breakdown and possible disbursements	Annual DLI	Partial DLI	DLI description								
			DLI 1.1	Establishment (2015) and functioning of the IMWB (in support to the competitiveness and jobs), and institution-level internal systems for planning and monitoring – Internal units	<b>0.895</b>					<b>0.895</b>	
			DLI 1.2	Piloting of the PPMC system through semi-annual Progress reports and annual Performance reviews		<b>0.671</b>		<b>0.671</b>		<b>0.671</b>	<b>2.685</b>
			DLI 1.2.1	Publishing of the semi-annual Progress reports at mid-year		0.224	<b>0.224</b>	0.224	<b>0.224</b>	0.224	

Legend: Columns with pattern represent possible partial payments (at mid-year).

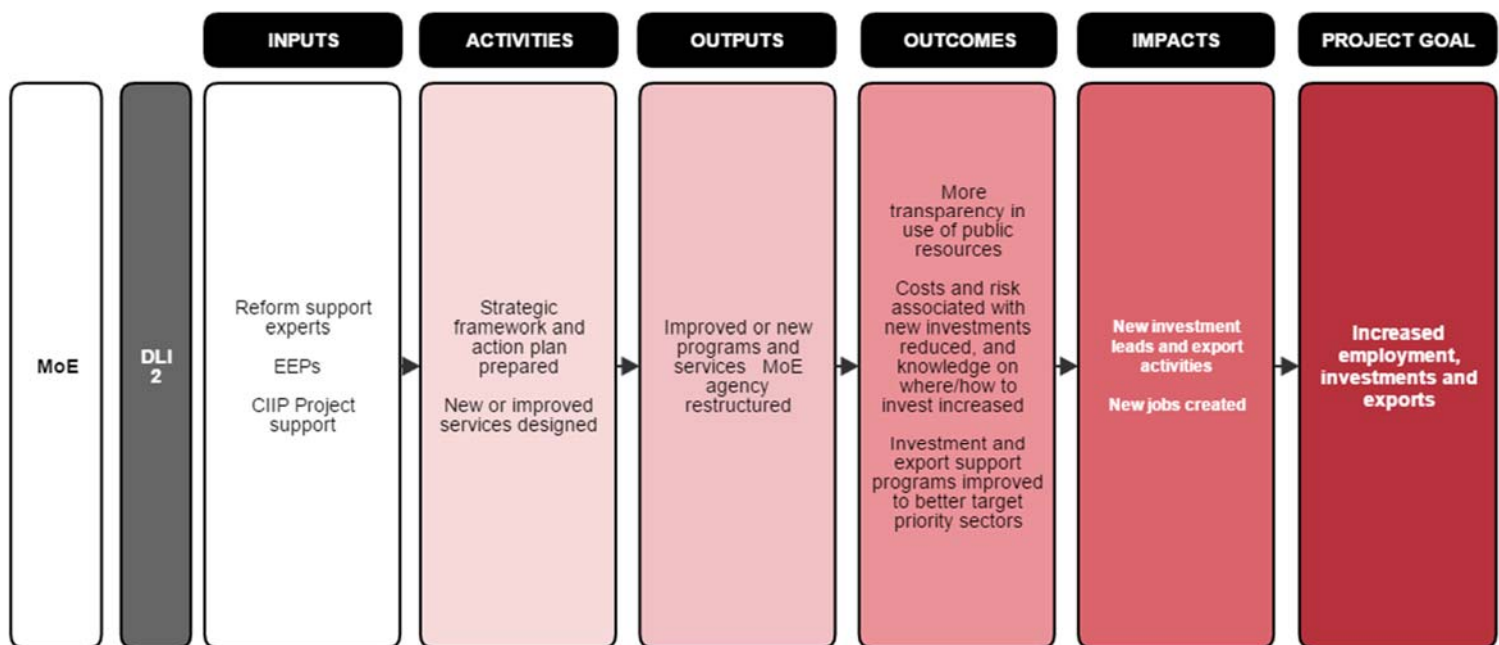
## 6.2. Component A.2: Investment and export promotion

DLI VALUE: EUR 19,87 million

RESPONSIBILITY FOR RESULTS: MoE (with agencies/organizations within its mandate)

### 6.2.1. Result chain for component A.2

Figure 6. Result chain for component A.2



### 6.2.2. Component A.2 goals and description

This project component supports reforms led by the MoE regarding restructuring and improvement of the functioning of institutional framework and programs and services for investment and export promotion.

Support system provided by MoE and agencies/organizations within its mandate is complex and not transparent. There are cases of overlapping mandates between agencies, the lack of coordination system and there are unclear links with the broader economic policy goals of the Government.

MoE will strengthen the strategic framework for investment and export promotion, including identification of the priority industrial sectors and development of initiatives for sector-specific value chains, which would provide better focus of the support programs, in line with the national development priorities.

When policy coordination is concerned, the activities and the results under this component should seek to support the activities and policies under component A.3 and A.4, contributing in such a manner to the synergy of the outcomes.



Even though significant funds are spent on the support programs, it is not clear what the outcomes of such spending are, and whether these funds are used in efficient manner. Cost and benefit analysis, as well as impact analysis of the support programs are not carried out in systematic manner.

The reform of the investment and export promotion support policy can be related either to the institutional arrangements underpinning those activities, or to the substance of implementation of the respective activities, thus, this component aims at supporting both, the institutional framework reform, and the way in which the mandate is carried out. In such a way, better conditions can be created for bigger return on investment of public resources.

### 6.2.3. Component A.2 activities

This project component will be implemented through two interconnected activities related to development and adoption of the strategic framework and overall action plan for investment and export promotion, including identification of priority industrial sectors and plan for investment and export supporting agency/organization reform, and Improvement of the programs and services of the RS regarding investment and export promotion.

The development of the strategic framework for investment and export promotion and relevant action plan will provide solid framework for reform/proposals for restructuring of agencies/organizations within MoE portfolio, given that reforms in investment and export promotion area can be related either to the institutional framework which support these activities, either to the content and the way in which these activities are carried out.

Reform of the institutional framework should build upon functional analysis and organizational mapping of the MoE and agencies/organizations within its mandate, produced under the *Wage Bill Reform* project implemented by the Bank.

One of the activities supported by this component is the analysis that should determine the priority industrial sectors, which can contribute the most to the growth of the national economy. In addition, the MoE seeks to strengthen transparency and governance arrangements by conducting more systematic analysis of the costs and benefits associated with its support programs, which is compatible with the identification of the priority industrial sectors and focus of the support programs.

Opportunities for better communication on available support programs and coordination with local initiatives will also be considered, as once investments reach implementation stage the capacity of local self-governments and utilities is often a bottleneck. This activity will, inter alia, support the implementation of the Law on investments, and build upon the functions of the IMWB where MoPALSG is also represented.

The activities to be implemented under this component include:

1. Development and adoption of the strategic framework and overall action plan for investment and export promotion, including identification of priority industrial sectors and plan for reform/restructuring of investment and export supporting agency/organization and/or their new or improved services (2016), and whose implementation, inter alia, enables that:
  - 1.1. MoE can monitor if sufficient progress towards objectives is made, sets adequate targets for agencies/organizations within its mandate and allocate resources accordingly, and
  - 1.2. Agencies/organizations within the MoE portfolio can manage their organization and resources more effectively.
2. Implementation, monitoring, evaluation and eventual updating and improvement of the action plan (2017-2018);
3. Strengthening of the governing structure in selected agencies (2016-2018);



4. Development of new or improvement of the existing programs and services in support to investment and export promotion which were identified with the strategic framework and action plan;
5. Strengthening capacities of the MoE and agencies/organizations within its portfolio in evidence-based policy planning, budgeting, monitoring and evaluation and relevant data collecting, analysis and interpretation;
6. Impact assessment of changes in different policies on private sector development;
7. Development of clear lines of communication between MoE and agencies/organizations, as well as coordination mechanisms in investment and export promotion planning with local and regional actors, so that policy guidelines can be accordingly implemented on the sub-national level.

With the aim of implementing the activity under no. 5, the MoE will identify the units within the agencies/organizations, which have mandate and are responsible for analytical and monitoring function relevant for the planning, coordination, monitoring and budgeting of activities in investment and export promotion area.

#### 6.2.4. Component A.2 DLI

This project component, as defined in the LA, encompasses **DLI 2 – MoE investment and export promotion programs restructured**.

DLI	Retroactive <sup>17</sup> / 2015	2016	2017	2018	Total
<b>DLI 2: MoE investment and export promotion programs restructured</b>		Strategic framework and overall action plan for investment and export promotion (“Action Plan”) prepared and adopted by the MoE. Sectorial policies and sector-specific implementation plans adopted for target sectors identified in the strategic framework.	Action Plan for year 2017 implemented , monitored, and updated.  Number of investment leads generated increased by at least 10 percent from previous year.	Action Plan for year 2018 is implemented, monitored, and updated.  Number of investment leads generated increased by at least 10 percent from previous year.	
<b>Amount of the Loan Allocated</b>		(Euro 7,160,000)	(Euro 6,265,000)	(Euro 6,265,000)	(Euro 19,690,000)

This DLI includes:

**DLI 2.1:** Development and adoption of the strategic framework and action plan for investment and export promotion with adequate content (2016);

<sup>17</sup> Prior to the date of LA, as provided in Schedule 2, Section IV.B.1 of the LA.





**Partial DLI 2.1.1:** Defining TOR and contracting of consultants to complete the strategic framework, overall action plan, and sector specific policies;

**DLI 2.2:** Implementation, monitoring and updating of the action plan (2017 - 2018), and

**DLI 2.3:** Increase of the number of documented interests<sup>18</sup> of the investors (investment leads) by at least 10% in respect to the previous year (2017 - 2018).

### 6.2.5. Verification protocols for component A.2

Verification protocols serve to ensure the quality of the reforms supported by the Project, through implementation of the activities and fulfillment of the assumptions, which represent the condition for recognition of the achievement of the expected results (DLIs) by the Bank.

General rules and protocols for disbursement of loan funds at mid-year and year-end, as well as its dependence on the level of the achievement of DLIs (total or partial) are described under title 8.5 of this POM.

It's characteristic for the component A.2 that the Verification protocol includes monitoring of the implementation of the action plan, whose adoption by itself represents a DLI.

Verification protocols for DLI 2, i.e. of the achievement of the expected results of the component A.2, on annual basis are:

**Deadline:** 2016.

**Verification means:**

**Verification protocol for DLI 2.1:** Submitting to the Bank, through reporting system, the act on adoption of the strategic framework and action plan for investment and export promotion support with adequate content.

**Verification protocol for Partial DLI 2.1.1:** Submitting to the Bank, through reporting system, the report on execution of the Procurement plan proving the hiring of the consultants.

**Verification protocol for DLI 2.1:** Cumulative conditions for recognition of achievement of this DLI are:

1. Strategic framework and action plan contain initial identification of the targeted industrial sectors and specific policies for targeted sectors;
2. Strategic framework and action plan contain performance targets for 3 years and monitoring mechanisms;
3. Strategic framework and action plan contain measures for improvement of existing or development of new programs and services;
4. Action plan is time bound, with costs and stages defined;

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<sup>18</sup> Documented interest can represent but is not limited to: a call or a walk in to the Investment Promotion Agency seeking information, or a contact with the investors by the IPA where the investor responds positively by sharing information about their needs or requests a follow up.



5. Contain reform/restructuring of one or more agencies/organizations within MoE portfolio, responsible for investment and export promotion (SIEPA, Development fund, AOFI and/or NARD)<sup>19</sup>, where restructuring may include the combination of existing or creation of new agencies;
6. Action plan contain measures for strengthening governing structure in selected agencies/organizations;
7. Sector specific policies (contained in the strategic framework) include:
  - 7.1. Policies for investment and export promotion and value chain strengthening in the identified targeted sectors;
  - 7.2. Performance targets and monitoring mechanisms;
  - 7.3. Sector specific actions plans;
  - 7.4. Sector policies aligned with the revised Industrial Strategy 2011-2020.
8. Strategic framework, action plan and sector specific policies are officially endorsed in the letter signed by the minister of economy and are acceptable to the Bank.

**Verification protocol for Partial DLI 2.1.1:** EUR 2.685 million can be disbursed at mid-year 2016 in case:

1. TOR are designed, and
2. Consultants to complete the strategic framework, overall action plan, and sector specific policies are contracted.

**Deadline:** 2017-2018 each year

Verification means:

**Verification protocol for DLI 2.2:** Submitting to the Bank, through reporting system, the progress report on implementation of the action plan for investment and export promotion with adequate content.

**Verification protocol for DLI 2.2:** Verification of this DLI will be done through semi-annual progress reports prepared by the MoE. Recognition of achievement of this DLI implies that:

1. Semi-annual progress reports (at mid-year and year-end) contain overview of the progress towards performance targets defined with the action plan;
2. Reports demonstrate changes in the governing structure of agencies/organizations within MoE portfolio (such as revision of the legal basis for performance of the tasks and/or internal operative procedures);
3. Reports contain proofs of funding and cost-benefit analysis of the new and/or improved programs and services;
4. Progress reports at year-end contain update of the performance targets for the following 3 years and update of the action plan for the following year (as needed to improve performance).

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<sup>19</sup> After the adoption of the Conclusion of the Government accepting report on loan negotiations with the Bank and project approval, the Law on investments was adopted stipulating the closure of SIEPA and NARD and establishment of the new agency RAS – Serbian Development Agency.



**Deadline:** 2017-2018 each year

Verification means:

**Verification protocol for DLI 2.3:** Submitting to the Bank, through reporting system, the report on number of documented interests of investors.

**Verification protocol for DLI 2.3:** This DLI regards new contacts with the investors, which are generated by the agencies/organizations in MoE portfolio and the MoE. Recognition of this DLI is conditioned with:

1. Increase of number of documented interests<sup>20</sup> of investors by at least 10% in comparison with the previous year;
2. That on the baseline value for 2017 and 2018 and achieved new contacts (for each year) exist official note/record, whose copies are submitted together with the report;
3. As of 2017<sup>21</sup>, majority of new contacts with investors corresponds with the goals and/or priority sectors set forth with the strategic framework and action plan for investments and export promotion;
4. The MoE (coordinating and supervising function of MoE over agencies) approves the report of agencies/organizations on progress towards this DLI.

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<sup>20</sup> Documented interest can represent but is not limited to: a call or a walk in to the Investment Promotion Agency seeking information, or a contact with the investors by the IPA where the investor responds positively by sharing information about their needs or requests a follow up.

<sup>21</sup> After adoption of the strategic framework and definition of priority industrial sectors, the goal is to generate investment leads which will correspond to goals defined in the strategic framework and/or to the priority industrial sectors. One of the KPIs, suggested by the Bank, is to monitor number of documented interests by investors (broken down by priority sectors. Even thaw this KPI is not in the list of KPIs to be reported on during the Project, this will allow to do so.



**Table 6. Component A.2 - DLI value overview, DLI breakdown and possible disbursement for Partial DLIs**

DISBURSEMENT LINKED INDICATORS (DLIs)			2015	2016		2017		2018		Total
			Retro /2015	Partial (semi-annual)	Total 2016.	Partial (semi-annual)	Total 2017.	Partial (semi-annual)	Total 2018.	
<b>A.2 Investment and export promotion</b>										
<b>DLI 2</b>	MoE investment and export promotion programs restructured			2.685	<b>7.16</b>			6.265		<b>19.69</b>
DLI breakdown and possible disbursements	Annual DLI	Partial DLI	DLI description							
	DLI 2.1		Development and adoption of the strategic framework and action plan for investment and export promotion with adequate content			<b>7.16</b>				<b>7.16</b>
		DLI 2.1.1	TOR designed and consultants contracted to complete the strategic framework, overall action plan, and sector specific policies		2.685					
	DLI 2.2		Implementation, monitoring and updating of the action plan (2017-2018)					3.58		<b>3.58</b>
	DLI 2.3		Increase of the number of documented interests of investors by at least 10% from previous year (2017-2018)					2.685		<b>2.685</b>

Legend: Columns with pattern represent possible partial payments (at mid-year).

Note: Partial payment at mid-year 2017 and 2018 for DLI 2.2. exist as possibility even though the achievement of DLI 2.2 is foreseen rather at the year-end than at mid-term, which will depend on the content of the action plan for investment and export promotion.



## 6.3. Component A.3: Innovation

**DLI VALUE:** EUR 32 million

**RESPONSIBILITY FOR THE RESULTS:** MoESTD (with IF – Innovation fund)

### 6.3.1. Component A.3 goals and description

This project component supports the implementation of the RS program for strengthening business innovation, enhancing technology transfer and improvement of the performance of the research sector towards economy and society. This component will be implemented through 3 compatible subcomponents:

**A.3.1:** Supporting the operations of the Innovation Fund and its Matching Grants Program (MGs Program);

**A.3.2:** Supporting the Technology Transfer Facility (TTF) service lines at the Innovation Fund, and

**A.3.3:** Undertaking strategic planning for institutional reform of the public research and development sector.

The first two activities will effectively provide continued financial support for pilot projects implemented via the IF<sup>22</sup> which have demonstrated to be well designed and where demand for such measures exists.

When policy coordination is in question the activities and results under this component should seek to support activities and policies under components A.1, A.2 and A.4, contributing in such a manner to the synergy of outcomes of the Project.

The third activity addresses the systemic issues in the public research sector that is in dire need of modernization if it is to meaningfully position Serbia in the European research and funding arena and contribute to the development of national economy and society in total.

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<sup>22</sup> The first pilot project has been successfully completed under IPA 2011 program – Serbia Innovation Project (SIP), and the second is to be conducted under IPA 2013 program – Serbia Research, Innovation and Technology Transfer Project (SRITTP).



## 6.4. Subcomponent A.3.1. – Supporting IF operations and its MGs Program

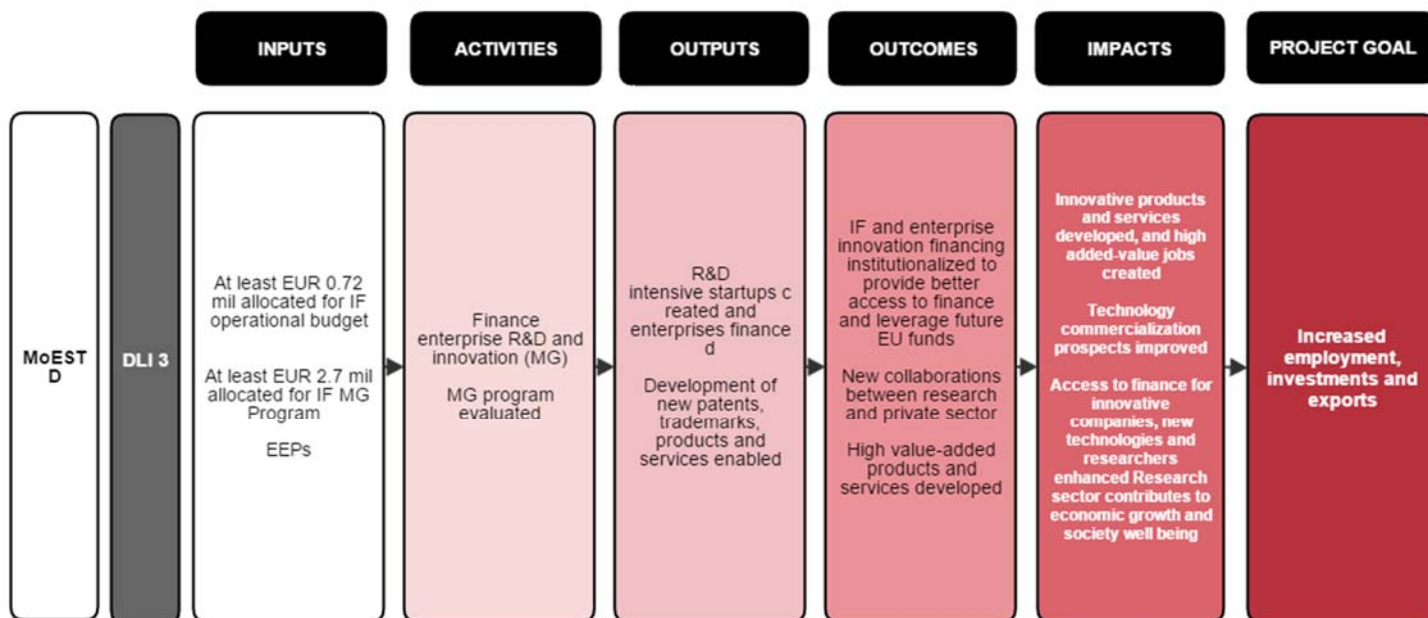
The focus of this component is the support to the implementation of the MGs program that demonstrated success in the past in the improvement of the innovation in young companies, in development and sales of new innovative products/technologies/services and creation of demonstration effects that attract additional risk financing for early-stage ventures. Registration of national and international patents, trademarks, intellectual property rights and establishment of the multiple international partnerships represent as well significant indicators of the success of this program.

The IF will also launch broader visibility and promotion efforts. The most important aspect is communication with stakeholders and supporting institutions in order to improve the innovation entrepreneurship environment in Serbia.

The IF will organize official calls for proposals events presenting to the public the details of the MG Program. A high profile final event will be organized after the conclusion of the MG Program under the Project to present the main results, conclusions, examples of best projects and set a basis for future activities. The IF may also organize a press-conference during the MG program implementation to present its results.

Also, IF plans to invest significant efforts into informing and encouraging potential Applicants through promotional events and info days and training workshops to provide the sub-grant beneficiaries with insight and guidance in building their capacity to effectively manage their projects, and promoting the project through the IF's website, social networks, electronic media, journals and magazines, locally organized information sessions, workshops, consultations and communications with local stakeholders. Result chain for the A.3.1 subcomponent

**Figure 7. Result chain for the A.3.1 subcomponent**



### 6.4.1. Subcomponent A.3.1 activities

Activities foreseen under this subcomponent will ensure that minimal amount of funds are allocated in the RS budget for these programs during the project implementation period, and that essential functions of the IF, such as, inter alia, using the IF's international peer review and investment committee mechanisms, are maintained<sup>23</sup>.

This subcomponent includes activities regarding implementation of the MGs program every year during this project implementation period, which means:

- (a) Allocating in the Republican Budget at least EUR 0.72 million annually for the IF operating budget;
- (b) Allocating EUR 2.7 million annually for enterprise innovation matching grants (MGs), including costs of selection based on international peer review and investment committee mechanisms;
- (c) Implementation of the MGs program using international peer review and investment committee mechanisms in financing decision making process;
- (d) Conducting an evaluation of the IF's MG program;
- (e) Developing a proposal for scaling up the MGs program using Government or donor funds;
- (f) Citizen engagement: Conducting an annual survey of innovation matching grant beneficiaries (2016-2018).

### 6.4.2. A.3.1 subcomponent DLI

As defined in the LA, this subcomponent encompasses **DLI 3 – Enterprise innovation supported via the Innovation Fund Matching Grants Program.**

DLI	Retroactive <sup>24</sup> / 2015	2016	2017	2018	Total
<b>DLI 3: Enterprise innovation supported via the Innovation Fund (“IF”) Matching Grants Program  (“MGP”)</b>		At least Euro 0.72 million allocated for IF's 2016 operational budget. At least Euro 2.7 million allocated to MGP in the Borrower's 2016 budget for IF. At least 80% of 2016 IF MGP budget committed using IF's international	At least Euro 0.72 million allocated for IF's 2017 operational budget. At least Euro 2.7 million allocated to MGP in the Borrower's 2017 budget for IF. At least 80% of 2017 IF MGP budget committed using IF's international	At least Euro 0.72 million allocated for IF's 2018 Operational budget. At least Euro 2.7 million allocated to MGP in the Borrower's 2018 budget for IF. At least 80% of 2018 IF MGP Budget committed using IF's international peer review and investment committee selection process. Proposal for	

<sup>23</sup> It is important that RS allocates these funds in the annual budget, since all IPA funds have been completely disbursed and IF could not publish the call for project funding in 2015.

<sup>24</sup> Prior to the date of LA, as provided in Schedule 2, Section IV.B.1 of the LA.



DLI	Retroactive <sup>24</sup> / 2015	2016	2017	2018	Total
		peer review and investment committee selection process.	peer review and investment committee selection process.  MGP implementation evaluation conducted.	scaling-up MGP submitted by MoESTD to the Borrower or development partner donor institutions	
<b>Amount of the Loan Allocated</b>		(Euro 3,580,000)	(Euro 3,580,000)	(Euro 3,580,000)	(Euro 10,740,000)

This DLI includes:

**DLI 3.1:** Allocating in the Republican Budget at least EUR 0.72 million annually for the IF operating budget and at least EUR 2.7 million annually for enterprise innovation matching grants (MGs) each year in the period 2016-2018;

**DLI 3.2:** Committing at least 80% of IF MGs annual budget using IF's international peer review and investment committee selection process, including adequate procedures in each year during the period 2016-2018;

**DLI 3.3:** Evaluating the MGs program in 2017, and

**DLI 3.4:** Developing the proposal for scaling up of the MGs program and submitting the project proposal to the Government or donors for funding in 2018.

#### 6.4.3. Verification protocols for subcomponent A.3.1

Verification protocols serve to ensure the quality of the reforms supported by the Project, through implementation of the activities and fulfillment of the assumptions, which represent the condition for recognition of the achievement of the expected results (DLIs) by the Bank.

General rules and protocols for disbursement of loan funds at mid-year and year-end, as well as its dependence on the level of the achievement of DLIs (total or partial) are described under title 8.5 of this POM.

Verification protocols for DLI 3, i.e. of the achievement of the expected results of the subcomponent A.3.1, on annual basis are:





**Deadline:** 2016-2018 each year

Verification means:

**Verification protocol for DLI 3.1:** Submitting to the Bank, through reporting system, the excerpt of the Budget Law of RS (or other comparable document) containing proof of allocation of foreseen funds for the functioning of the IF and MGs program implementation, together with the signed letter of the responsible manager of the IF confirming the allocation and availability of funds for IF functioning and MGs program implementation in appropriate amount.

**Verification protocol for DLI 3.2:** Submitting to the Bank, through reporting system, the report on commitment of MGs funds, with documentation relevant to financing decisions for all innovative projects which participated in the call for proposal.

**Verification protocol for DLI 3.1:** Each year Mo ESTD, together with the semi-annual project report submits to the PIU the excerpt from the Budget Law of the RS (or other comparable document) for that year, with clear indication of budget line, confirming that:

1. The operational budget of IF is allocated in appropriate amount, as well as that the allocated budget is available to the IF. Together with the excerpt from the Budget Law, a signed letter of the responsible manager of the IF is submitted confirming the allocation of the funds.
2. The budget for implementation of the MGs program is allocated in the appropriate amount, as well as that that the funds are available to the IF. Together with the excerpt from the Budget Law, a signed letter of the responsible manager of the IF confirming the allocation and availability of funds is submitted.

**Verification protocol for DLI 3.2:** Precondition for the implementation of the MGs program is the prior approval from the Bank (possible also in electronic form) on acceptability<sup>25</sup> of the Matching Grants Manual. Communication between the Bank and the IF, in this case can be direct, while the IF submits to the PIU the acceptability confirmation of the Bank with the text of the approved Manual. Besides the acceptability confirmation, the conditions for recognition of achievement of this DLI by the Bank are:

1. At least 80% of MGs annual budgets is committed;
2. The commitment of grant funds was done using IF's international peer review and investment committee selection process;
3. In accordance with the Loan Agreement, MGs programs are implemented in line with the MG Manual which is acceptable to the Bank in form and content<sup>26</sup>, is adopted by the IF, and which determines the procedures for selection, evaluation and approval of project and for monitoring and control of the implementation of the projects financed under MGs program, and which describes basic principles and acceptable procedures including, inter alia:

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<sup>25</sup> As defined with the Loan Agreement, MGs program needs to be implemented in the way acceptable to the Bank and in line with the MG Manual, Environment and social management framework and applicable Environment management Plan.

<sup>26</sup> Bank will control (prior) the first 3 contracts under MGs program, in accordance with the provisions of the Loan Agreement.



### 3.1. Criteria for eligibility and amounts within MGs, and

### 3.2. Mandatory provisions that:

- No civil works shall be financed by the MGs program;
- No land acquisition or involuntary resettlement shall occur in connection with the provision of any matching grant;
- Beneficiaries of the matching grants shall not award contracts to their subsidiary or affiliated companies unless there is an established arms-length arrangement;
- Matching grants will be provided and implemented in accordance with the ESMF and any applicable EMP thereunder; and
- International peer review and investment committee mechanisms are used for grant selection.

Deadline: 2017

Verification means:

**Verification protocol for DLI 3.3:** Submitting to the Bank, through reporting system, the report on evaluation of the MGs program.

**Verification protocol for DLI 3.3:** MoESTD submits to the PIU the report on evaluation of the MGs program together with the semi-annual Progress report or annual Performance review, depending on the moment of evaluation report readiness.

Deadline: 2018

Verification means:

**Verification protocol for DLI 3.4:** Submitting to the Bank, through reporting system, the copy of the document with which the project proposal for scaling up of MGs program is submitted for funding.

**Verification protocol for DLI 3.4:** Depending on the procedures for proposing a project for funding the MoESTD or IF submit to the PIU the copy of the document proposing to MoESTD, Government or international/bilateral donors or IFIs for financing of the scaling up project for MGs program. Such a document could be: program budget proposal for 2019, application for financing under EU programs, Action document for IPA programming, individual letters to donors or creditors, platform for negotiations with IFIs etc.



**Table 7. Subcomponent A.3.1 - DLI value overview, DLI breakdown and possible disbursement for Partial DLIs**

DISBURSEMENT LINKED INDICATORS (DLIs)			2015	2016		2017		2018		Total
			Retro /2015	Partial (semi-annual)	Total 2016.	Partial (semi-annual)	Total 2017.	Partial (semi-annual)	Total 2018.	
<b>A.3.1 Supporting to IF operations and its MGs Program</b>										
<b>DLI 3</b>	Enterprise innovation supported via the Innovation Fund ("IF") Matching Grants Program			1.193	<b>3.58</b>	1.593	<b>3.58</b>	1.593	<b>3.58</b>	<b>10.74</b>
DLI breakdown and possible disbursements	Annual DLI	Partial DLI	DLI description							
	DLI 3.1		Allocating in the Republican Budget at least EUR 0.72 million annually for the IF operating budget and at least EUR 2.7 million annually for enterprise innovation matching grants (MGs) each year in the period 2016-2018	1.193	<b>1.193</b>	1.193	<b>1.193</b>	1.193	<b>1.193</b>	<b>3.579</b>
	DLI 3.2		Committing at least 80% of IF MGs annual budget using IF's international peer review and investment committee selection process, including adequate procedures in each year during the period 2016-2018		<b>2.387</b>		<b>1.987</b>		<b>1.987</b>	<b>6.361</b>
	DLI 3.3		Evaluation of the MGs program in 2017			0.4	<b>0.4</b>			<b>0.4</b>
	DLI 3.4		Development of the proposal for scaling up of the MGs program and submitting the project proposal to the Government or donors for funding in 2018					0.4	<b>0.4</b>	<b>0.4</b>

Legend: Columns with pattern represent possible partial payments (at mid-year).



## 6.5. Subcomponent A.3.2. – Facilitate technology transfer and commercialization activities

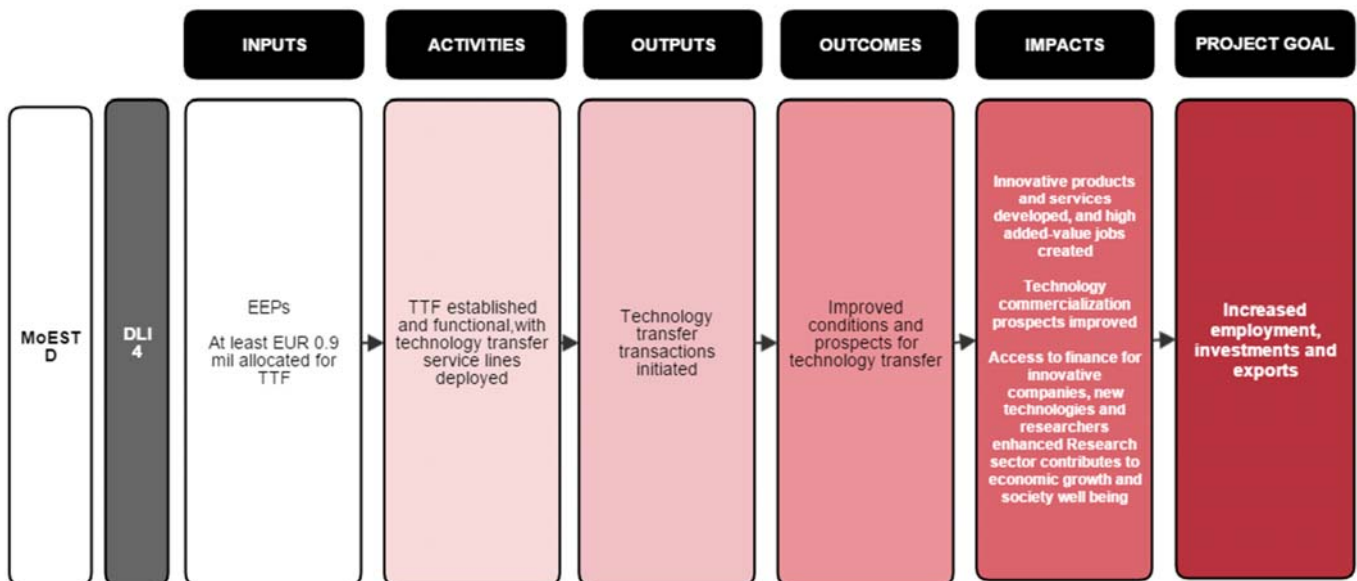
Previous engagement of the Bank with selected public RDIs through SIP project has confirmed the existence of the rudimentary group of technological projects with commercial potential. However, most high quality projects hail from the basic sciences, are at early technology readiness levels, and far from market readiness. It was estimated that the existing project pipeline would require as much as USD 10 million in support for research teams to further their innovative scientific ideas to a marketable level.

Previous donor support for technology transfer was dedicated to training local Technology Transfer Offices (TTOs). Given this learning, by nature, and limited IPA project, SRITTP was designed to pilot the establishment of a centralized TTF at the IF with the objective of attracting high quality transactional capacity at the IF and piloting transactions with local TTOs<sup>27</sup>. Current TTF funding under SRITTP (i.e. EUR 1.18 million) is deemed insufficient to finance and demonstrate a strong technology transfer pipeline at this stage.

The reforms supported by this project will build on the basic pilot activities to be financed under SRITTP and improve the odds of creating a demonstration effect in research commercialization.

### 6.5.1. Result chain for subcomponent A.3.2

Figure 8. Result chain for subcomponent A.3.2



### 6.5.2. Subcomponent A.3.2 activities

Activities to be implemented by the MoESTD, in cooperation with the IF, under this subcomponent are:

- (a) Design and deployment of one or more TTF service lines, which includes allocating at least EUR 0.9 million annually in the Government's 2017 and 2018 budgets to the IF;
- (b) Initiating a minimal number of technology transfer transactions;

<sup>27</sup> TTF is a body with special purpose established within IF with the aim of supporting the existing TTOs in the process of commercialization of academic research through design and development of key technology transfer services. Additionally, it can connect local companies interested in licensing global technologies.



- (c) Evaluation of the TTF program;
- (d) Preparation of a Government or donor proposal for scaling-up technology transfer activities.

### 6.5.3. Subcomponent A.3.2 DLI

In line with the provisions of the LA this subcomponent encompasses **DLI 4 – Technology transfer and commercialization facilitated via the IF TTF.**

DLI	Retroactive <sup>28</sup> /2015	2016	2017	2018	Total
<b>DLI 4: Technology transfer and commercialization facilitated via the TTF</b>		At least one TTF service line deployed.	At least Euro 0.9 million allocated in the Borrower's 2017 budget to TTF operations and services, and at least 3 technology transfer transactions initiated.	At least Euro 0.9 million allocated in the Borrower's 2018 budget to TTF operations and services, and at least 7 technology transfer transactions initiated. TTF program evaluation conducted and proposal for scaling-up technology Transfer activities submitted by MoESTD to the Borrower or development partner donor institutions.	
<b>Amount of the Loan Allocated</b>		(Euro 2,685,000)	(Euro 2,685,000)	(Euro 3,580,000)	(Euro 8,950,000)

This DLI includes:

**DLI 4.1:** Design and deployment of one or more TTF service lines (2016);

**Partial DLI 4.1.1:** Design of one or more TTF services (2016);

**DLI 4.2:** Allocation of at least EUR 0.9 million annually in the RS budget in 2017 and 2018 for TTF needs;

**DLI 4.3:** Initiation of a minimal number of TT transactions in the period 2017-2018 (3 in 2017, and 7 in 2018 cumulative with previous year);

**DLI 4.4:** Evaluation of TTF (2018), and

**DLI 4.5:** Preparation of project proposal for scaling-up technology transfer activities submitted by MoESTD to the Government or development partner donor institutions (2018).

### 6.5.4. Verification protocols for subcomponent A.3.2

Verification protocols serve to ensure the quality of the reforms supported by the Project, through implementation of the activities and fulfillment of the assumptions, which represent the condition for recognition of the achievement of the expected results (DLIs) by the Bank.

<sup>28</sup> Prior to the date of LA, as provided in Schedule 2, Section IV.B.1 of the LA.



General rules and protocols for disbursement of loan funds at mid-year and year-end, as well as its dependence on the level of the achievement of DLIs (total or partial) are described under title 8.5 of this POM.

Verification protocols for DLI 4, i.e. of the achievement of the expected results of the subcomponent A.3.2, on annual basis are:

**Deadline:** 2016

**Verification means:**

**Verification protocol for DLI 4.1:** Submitting to the Bank, through reporting system, the act which confirms the deployment of at least one TTF service lines of IF.

**Verification protocol for Partial DLI 4.1.1:** Banks approval of the TTF Guidelines for Applicants which defines design of the services offered by TTF.

**Verification protocol for DLI 4.1:** The condition for recognition of achievement of this DLI by the Bank is the deployment of at least one TTF service line, which is evidenced in IF quarterly monitoring reports. The deployment of the service is represented by the beginning of consideration of the first application for a given TT service.

**Verification protocol for Partial DLI 4.1.1:** At 2016 mid-year EUR 0.9 million can be disbursed once Bank approves TTF Guidelines for Applicants, prepared and submitted by IF.

**Deadline:** 2017-2018 each year

**Verification means:**

**Verification protocol for DLI 4.2:** Submitting to the Bank, through reposting system, the excerpt from the Budget Law (or other comparable document) and signed letter form the responsible manager in the IF confirming that the funds for TTF functioning have been allocated for TTF.

**Verification protocol for DLI 4.3:** Submitting to the Bank, through reporting system, the contract or other act confirming the conditions of TT transaction with beneficiaries.

**Verification protocol for DLI 4.2:** Each year the Mo ESTD submits to PIU the excerpt from the Budget Law of the RS (or other comparable document) with clear indication of the budget line containing the budget for TTF functioning in appropriate amount (EUR 0,9 million), and confirmation that the funds are available to the IF. Together with the excerpt from the Budget Law a signed letter form the responsible manager of the IF is submitted, confirming the allocation of such budget to the IF.

**Verification protocol for DLI 4.3:** At the end of 2017 and 2018, the MoESTD submits to PIU contracts or other acts, which determine the conditions for TT transactions with individual beneficiaries, as a proof that TT transactions have been initiated .



Deadline: 2018

Verification means:

**Verification protocol for DLI 4.4:** Submitting to the Bank, through reporting system, the report on evaluation of the TTF program.

**Verification protocol for DLI 4.5:** Submitting to the Bank, through reporting system, the copies of the documents with which the project proposal for scaling up of TTF activities is submitted for funding.

**Verification protocol for DLI 4.4:** MoESTD submits to PIU the report on evaluation of TTF program together with the annual Performance review (or Progress report at mid-year 2018 in case the evaluation is conducted earlier).

**Verification protocol for DLI 4.5:** Depending on the procedures for proposing a project for funding the MoESTD or IF submit to the PIU the copy of the document proposing to MoESTD, Government or international/bilateral donors or IFIs for financing of the scaling up project for MGs program. Such a document could be: program budget proposal for 2019, application for financing under EU programs, Action document for IPA programming, individual letters to donors or creditors, platform for negotiations with IFIs etc.

DLI 4.4 and DLI 4.5 are cumulative, i.e. the disbursement of the loan funds in 2018 can be made in case both DLI 4.4 and DLI 4.5 are achieved.



**Table 8. Subcomponent A.3.2 - DLI value overview, DLI breakdown and possible disbursement for Partial DLIs**

DISBURSEMENT LINKED INDICATORS (DLIs)			2015	2016		2017		2018		Total
			Retro /2015	Partial (semi-annual)	Total 2016.	Partial (semi-annual)	Total 2017.	Partial (semi-annual)	Total 2018.	
<b>A.3.2 Facilitate technology transfer and commercialization activities</b>										
<b>DLI 4</b>	Technology transfer and commercialization facilitated via the IF TTF			0.9	<b>2.685</b>	2.685	<b>2.685</b>	3.58	<b>3.58</b>	<b>8.95</b>
DLI breakdown and possible disbursements	Annual DLI	Partial DLI	DLI description							
	DLI 4.1		Design and deployment of one or more TTF service lines			<b>1.785</b>				<b>2.685</b>
		DLI 4.1.1.	Design of one or more TTF services		0.9	<b>0.9</b>				
	DLI 4.2		Allocating at least EUR 0.9 million annually in the RS budget in 2017 and 2018 for TTF needs				1.8	<b>1.8</b>	1.8	<b>1.8</b>
	DLI 4.3		Initiating a minimal number of TT transactions in the period 2017-2018 (3 in 2017, and 7 in 2018 cumulative with previous year)				0.885	<b>0.885</b>	0.89	<b>0.89</b>
	DLI 4.4		Evaluation of TTF program							
DLI 4.5		Preparation of project proposal for scaling-up technology transfer activities submitted by MoESTD to the Government or development partner/ donor institutions						0.89	<b>0.89</b>	<b>0.89</b>

Legend: Columns with pattern represent possible partial payments (at mid-year).

Note: Partial payments at 2017 and 2018 mid-year for DLI 4.3. exists as a possibility even though the achievement of this DLI is rather expected at the end of the year instead of mid-year, which will depend on the dynamics of initiation of minimal number of TT transactions.



## 6.6. Subcomponent A.3.3 – Design and adoption of public research sector reforms

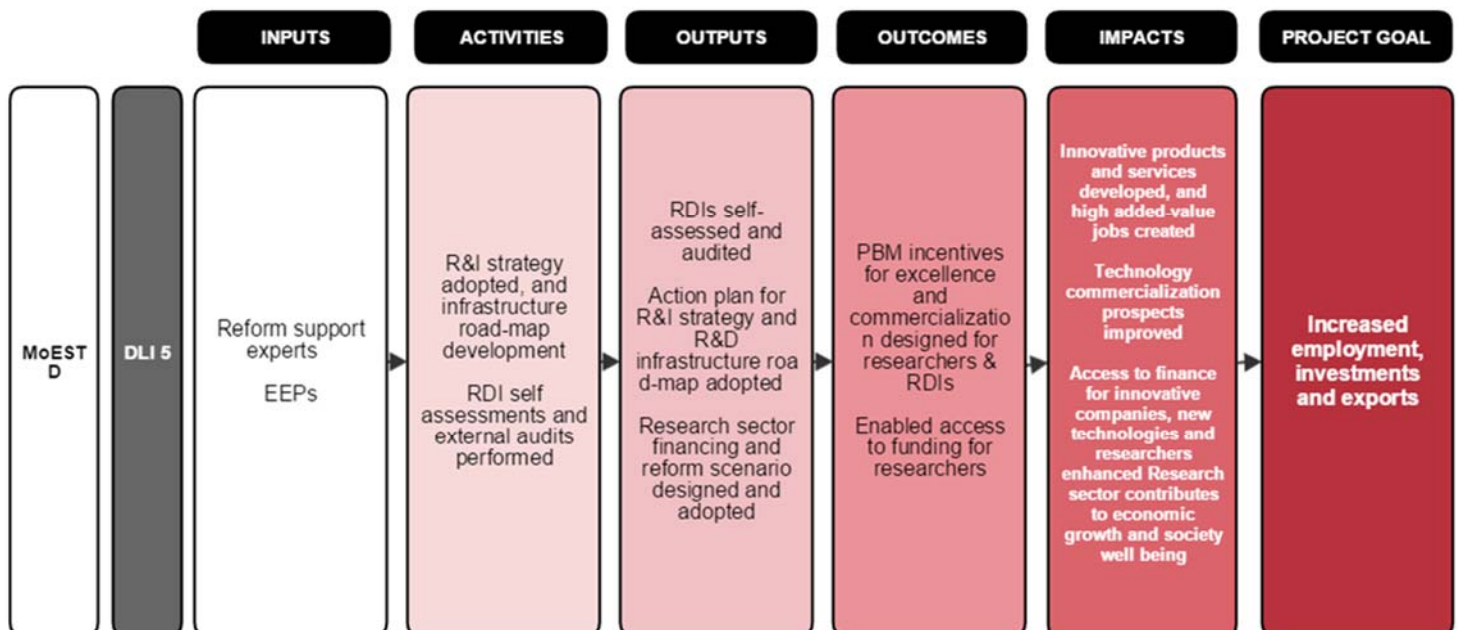
Serbia's public research sector suffers from the traditional post-transition malaise of being disconnected from contemporary needs and trends and therefore contributing to neither the Serbian economy nor society. It is highly fragmented, lacks strategic focus and critical mass of any significance in scientific areas, emphasizes quantity over quality of public expenditures in R&D, and for the most part has not succeeded in re-orienting its offering to the fledgling emergent enterprise sector domestically. Research sector does not support sufficiently the development policy and better evidence-based Government's planning.

The goal of this subcomponent is aiming at improving the structure and composition of financing of the public research sector, creating incentives for both excellence and relevance of research for the industrial sector, including commercialization and focus on integrating into European and global research trends and financing programs.

Thus, this project will support the design of the reform of research sector with the focus on creating necessary incentives on individual and institutional level, as well as the design of possible reform scenarios at the research sector level and development of financing mechanisms based on performance at researcher and RDI level.

### 6.6.1. Result chain for subcomponent A.3.3

Figure 9. Result chain for subcomponent A.3.3



## 6.6.2. Subcomponent A.3.3 activities

In line with above-mentioned goals of this subcomponent, the activities to be implemented include:

- (a) Development and adoption of a 2016<sup>29</sup>-2020 R&I Strategy and its Action Plan with commitment to reforming the public RDI sector;
- (b) Adoption of a time bound R&I Infrastructure Roadmap and its Action Plan;
- (c) Designing methodological framework for RDI self-assessments and RDI performance audits;
- (d) Conducting RDI self-assessments and RDI performance audits by international experts;
- (e) Defining and adoption of a RDI sector reform program, including performance based financing schemes, and
- (f) Preparation and submitting of a donor proposal for technical assistance to conduct sector and RDI reform implementation.

## 6.6.3. Subcomponent A.3.3 DLI

This subcomponent, as defined in the LA, encompasses the **DLI 5 – Public research sector reforms designed and adopted**.

DLI	Retroactive <sup>30</sup> / 2015	2016	2017	2018	Total
<b>DLI 5: Public research sector reforms designed and adopted</b>	2015-2020 research and innovation strategy adopted by the Borrower including commitment to reforming public RDI sector.	<p>Time bound action plan to implement research and innovation strategy action plan adopted by the Borrower.</p> <p>Time bound action plan to implement research and Innovation infrastructure roadmap and action plan adopted by the Borrower.</p> <p>At least 50 RDI self-assessments completed.</p> <p>Pilot performance audits of at least 4 RDIs carried out by international experts.</p>	<p>Performance audits of at least 20 RDIs carried out by international experts.</p> <p>RDI sector reform program adopted by the Borrower, including performance based financing schemes, and deployment timeline.</p>	Proposal (including costing, targets and timelines) for technical assistance funding to conduct RDI sector reform submitted by MoESTD to the Borrower or development partner donor institutions.	
<b>Amount of the Loan Allocated</b>	(Euro 2,685,000)	(Euro 2,685,000)	(Euro 3,580,000)	(Euro 2,685,000)	(Euro 11,635,000)

This DLI includes:

<sup>29</sup> It is possible, depending on the date of the adoption of the R&I Strategy, that its lifespan will be 2016-2020, even though Project documentation foresees adoption of the strategy for the 2015-2020 period.

<sup>30</sup> Prior to the date of LA, as provided in Schedule 2, Section IV.B.1 of the LA.



**DLI 5.1:** Adoption of the R&I 2016-2020 Strategy (2015), including commitment to reforming public RDI sector;

**Partial DLI 5.1.1:** Adoption of the R&I 2016-2020 Strategy (2015);

**Partial DLI 5.1.2:** Commitment to reform public D&R sector in the Strategy (2015);

**DLI 5.2:** Adoption of the time bound action plan to implement R&I Strategy (2016);

**DLI 5.3:** Adoption of the time bound action plan to implement R&I Infrastructure roadmap and its Action plan (2016);

**DLI 5.4:** Conducting at least 50 RDI self-assessments (2016) and pilot performance audits of at least 4 RDIs carried out by international experts;

**DLI 5.5:** Completing performance audits of at least 20 RDIs carried out by international experts;

**DLI 5.6:** Designing and adopting RDI sector reform program, including performance based financing schemes, and their deployment timeline (2017), and

**DLI 5.7:** Development and submission of proposal (including costing, targets and timelines) for technical assistance funding, to implement RDI sector reform, by MoESTD to the Government or development partner donor institutions (2018).

#### 6.6.4. Verification protocols for subcomponent A.3.3

Verification protocols serve to ensure the quality of the reforms supported by the Project, through implementation of the activities and fulfillment of the assumptions, which represent the condition for recognition of the achievement of the expected results (DLIs) by the Bank.

General rules and protocols for disbursement of loan funds at mid-year and year-end, as well as its dependence on the level of the achievement of DLIs (total or partial) are described under title 8.5 of this POM.

Verification protocols for DLI 5, i.e. of the achievement of the expected results of the subcomponent A.3.3, on annual basis are:

**Deadline:** 2015 (retroactive)

Verification means:

**Verification protocol for DLI 5.1:** Submitting to the Bank, through reporting system, the act of the Government on adoption of the R&I Strategy (2016-2020) which contains commitment to reform the public research sector.

**Verification protocol for Partial DLI 5.1.1:** Submitting to the Bank, through reporting system, the act of the Government on adoption of the R&I Strategy;

**Verification protocol for Partial DLI 5.1.2:** Submitting to the Bank, through reporting system, the act of the Government on adoption of the R&I Strategy which contains commitment to reform the public research sector.



**Verification protocol for DLI 5.1:** The Bank can recognize This DLI achievement if:

1. The strategic framework contains commitment, i.e. measures, for implementation of the public research sector reform, as well as if
2. The proposed reform is based on SRITTP project recommendations.

**Verification protocol for Partial DLI 5.1.1:** In case that the adopted R&D Strategy does not contain commitment to reform public research sector, recognition of achievement of Partial DLI is possible. In this case, the amount of possible loan disbursement is reduced to EUR 0,9 million.

**Verification protocol for Partial DLI 5.1.2:** In case of adding (initially or consecutive) the commitment to reform the public research sector into the R&D Strategy, the Bank may disburse additional EUR 1.785 million.

Deadline: 2016

Verification means:

**Verification protocol for DLI 5.2:** Submitting to the Bank, through reporting system, the act of the Government on adoption of the action plan for the implementation of the R&I Strategy.

**Verification protocol for DLI 5.3:** Submitting to the Bank, through reporting system, the act of the Government on adoption of the R&D Infrastructure Roadmap and accompanying Action Plan.

**Verification protocol for DLI 5.4:** Submitting to the Bank, through reporting system, detailed report on results of RDI self-assessments and piloted RDI performance reviews.

**Verification protocol for DLI 5.2:** The Bank can recognize the achievement of this DLI if:

1. Adopted action plan is time bound, and
2. Action plan is based on the recommendations deriving from Component 3 of the SRITTP project.

**Verification protocol for DLI 5.3:** The conditions for recognition of achievement of this DLI are:

1. Adopted action plan is time bound, and
2. Action plan is based on the recommendations of the SRITTP project.

**Verification protocol for DLI 5.4:** The conditions for recognition of achievement of this DLI by the Bank are that reports demonstrate that:

1. At least 50 self-assessments are completed by RDIs, and
2. At least 4 pilot RDI performance reviews are completed by the international experts.

Deadline: 2017

Verification means:

**Verification protocol for DLI 5.5:** Submitting to the Bank, through reporting system, the report on the results of RDI performance reviews.

**Verification protocol for DLI 5.6:** Submitting to the Bank, through reporting system, the act of the Government on adoption of the RDI sector reform program.

**Verification protocol for DLI 5.5:** Conditions for recognition of achievement of this DLI is:



1. That at least 20 RDI performance reviews has been completed by international experts;
2. That performance reviews build upon the 2016 piloted reviews.

**Verification protocol for DLI 5.6:** Conditions for recognition of achievement of this DLI is that the MoESTD submits the RDI sector reform program which:

1. Contains financing schemes based on performance on individual and institutional level;
2. Contains a timeframe for operationalization of the financing schemes.

Deadline: 2018

Verification means:

**Verification protocol for DLI 5.7:** Submitting to the Bank, through reporting system, the copies of the documents with which the project proposal for technical assistance to conduct RDI sector reform is submitted for funding.

**Verification protocol for DLI 5.6:** Depending on the procedures for proposing a project for funding the MoESTD or IF submit to the PIU the copy of the document proposing to MoESTD, Government or international/bilateral donors or IFIs for financing of the scaling up project for MGs program. Such a document could be: program budget proposal for 2019, application for financing under EU programs, Action document for IPA programing, individual letters to donors or creditors, platform for negotiations with IFIs etc. The project proposal should include costing, targets and timelines.



**Table 9. Subcomponent A.3.3 - DLI value overview, DLI breakdown and possible disbursement for Partial DLIs**

DISBURSEMENT LINKED INDICATORS (DLIs)			2015	2016		2017		2018		Total	
			Retro /2015	Partial (semi-annual)	Total 2016.	Partial (semi-annual)	Total 2017.	Partial (semi-annual)	Total 2018.		
<b>A.3.3: Design and adoption public research sector reforms</b>											
<b>DLI 5</b>	<b>Public research sector reforms designed and adopted</b>										
DLI breakdown and possible disbursements	Annual DLI	Partial DLI	DLI description	2.685	2.685	2.685	1.79	3.58	2.685	2.685	11.635
		DLI 5.1	Adoption of the R&I 2016-2020 Strategy (2015), including commitment to reforming public RDI sector	2.685							2.685
		DLI 5.1.1	Adoption of the R&I 2016-2020 Strategy	0.9							0.9
		DLI 5.1.2	Adding the commitment to reform public D&R sector in the Strategy	1.785							1.75
		DLI 5.2	Adoption of the time bound action plan to implement research and innovation strategy		0.895	2.685					0.895
		DLI 5.3	Adoption of the time bound action plan to implement research and innovation infrastructure roadmap and action plan		0.895						0.895
		DLI 5.4	Conducting at least 50 RDI self-assessments and pilot performance audits of at least 4 RDIs carried out by international experts		0.895						0.895
		DLI 5.5	Completing performance audits of at least 20 RDIs carried out by international experts				1.79	1.79			1.79
		DLI 5.6	Adopting RDI sector reform program, including performance based financing schemes, and deployment timeline					1.79			1.79
		DLI 5.7	Development and submission of proposal for technical assistance funding to conduct RDI sector reform						2.685	2.685	2.685

Legend: Columns with pattern represent possible partial payments (at mid-year).

Note: Partial payment at 2017 mid-year for DLI 5.5 exists as a possibility even though the achievement of this DLI is rather expected at year-end than at mid-year.



## 6.7. Component A.4: Labor

**DLI VALUE:** EUR 31 million

**RESPONSIBILITY FOR THE RESULTS:** MoLEVSA with National Employment Service (NES)

### 6.7.1. Component goals and description

The focus of this project component is the improvement of the capacities and services of the NES, more specifically of labor market intermediation services, provision of support programs which would increase job seekers prospects for employment (ALMPs) and support to activation of social assistance beneficiaries, which are characterized by low competitiveness on labor market, could expect only low-paying jobs, and their inclusion into the formal labor market. Those job seekers are discouraged to engage in low-paying or part time jobs, compared to the rest of the population in working age, so the reform of the social assistance could strengthen the incentives for active job seeking and inclusion into the formal jobs.

This component will support the achievement of specific goals of the National employment strategy 2011-2020 (currently being revised), specifically the implementation of the RS program for labor reform through:

When policy coordination is in the question the activities and results of this component should seek to support the activities and policies in the A.1, A.2 and A.3 components, contributing in such a manner to the synergy of outcomes.

- (a) Enhancing the effectiveness of the NES labor intermediation services for employers and the unemployed;
- (b) Improving the effectiveness of the RS active labor market programs, and
- (c) Facilitating the transition of social assistance beneficiaries into formal jobs.



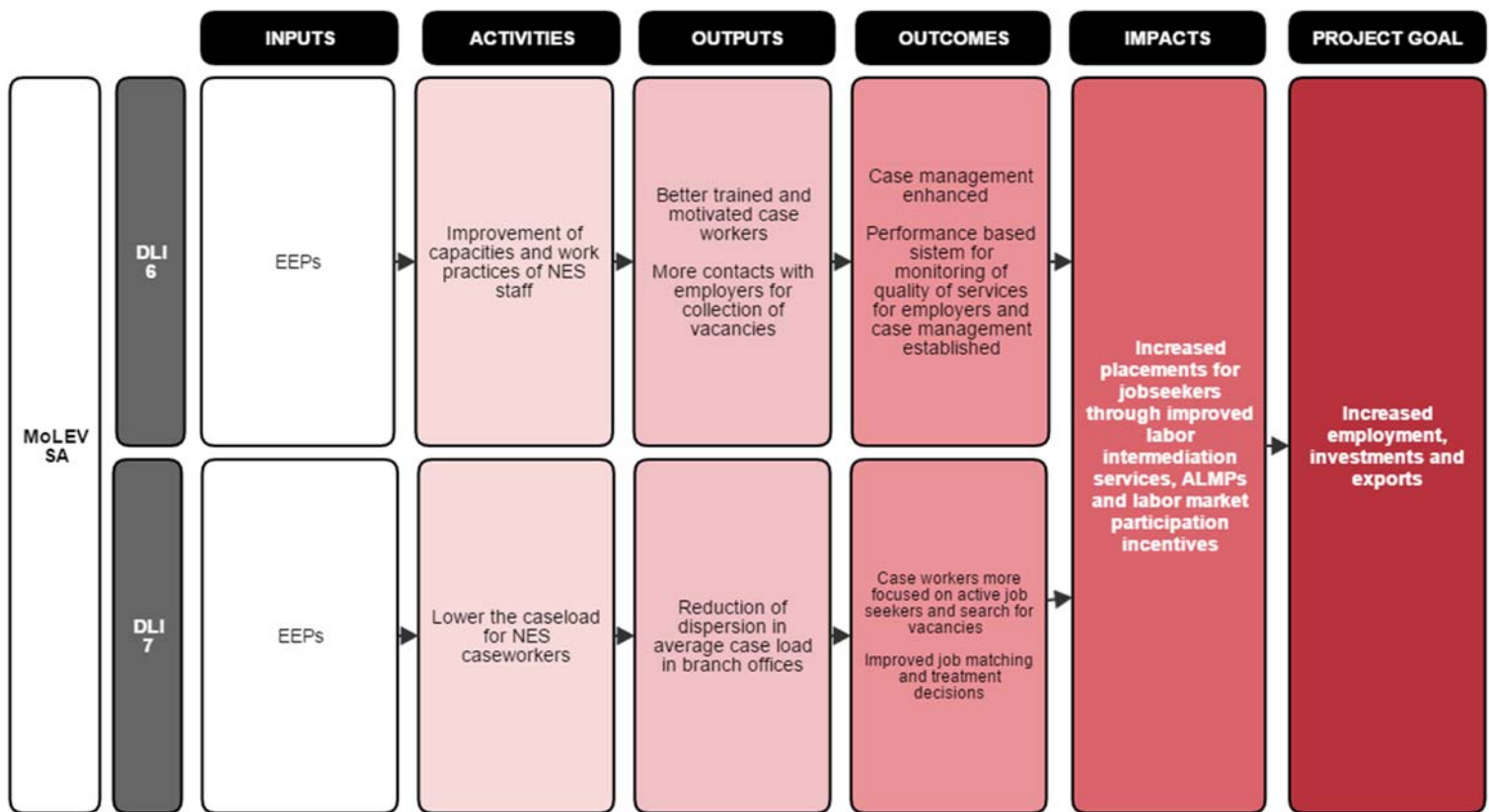
## 6.8. Subcomponent A.4.1 – Enhancing the effectiveness of the NES labor intermediation services

Reforms supported through this subcomponent encompass three elements:

1. Increasing the quality of labor intermediation services offered by the NES to employers in order to increase the number of job opportunities for registered unemployed, and the quality of matches for employers;
2. Improving the quality of case management the NES provides to active job seekers, through development of a new training and certification system for its case workers, and
3. Evening out the caseload<sup>31</sup> per caseworker across NES branch offices and focus caseworkers on active jobseekers.

### 6.8.1. Result chain for the subcomponent A.4.1

Figure 10. Result chain for subcomponent A.4.1



<sup>31</sup> Currently, the average caseload varies between around 200 to over 2,000 registered unemployed per caseworker across branch offices (compared to less than 100 in the average OECD country).





## 6.8.2. Subcomponent A.4.1 activities

In accordance with its goals, this subcomponent will be implemented by NES, in cooperation with MoLEVSA, through:

- (a) Adoption of the action plan to enhance the quality of employer services and case management (NES action plan);
- (b) Development of the methodological framework for certification of NES case workers;
- (c) Certification of NES case workers;
- (d) Increase of number of contacts with employers in order to increase the number of collected vacancies;
- (e) Monitoring of the number of registered unemployed persons transitioning into formal jobs;
- (f) Introduction of a special registry of unemployed persons who are temporarily prevented from working, and
- (g) Monitoring and reducing the dispersion in case load rates across NES branch offices.

## 6.8.3. Subcomponent A.4.1 DLI

This subcomponent encompasses two DLIs: 1) **DLI 6 - Effectiveness of NES labor intermediation services delivered to clients (employers and unemployed) improved**, and **DLI 7 - Caseload management in NES branch offices improved**.

DLI	Retroactive <sup>32</sup> / 2015	2016	2017	2018	Total
<b>DLI 6: Effectiveness of NES labor intermediation services delivered to clients (employers and unemployed) improved</b>		Action plan to enhance the quality of employer services and case management adopted by NES ("NES Action Plan")	85% of the total number of NES case workers as of December 31, 2017 are certified according to newly adopted standards under NES Action Plan	Number of employers contacted by the NES within the last 12 calendar month period: 23,000  Number of NES-registered unemployed individuals transitioning into formal jobs within the last 12 month calendar period: 280,000	
<b>Amount of the Loan Allocated</b>		(Euro 2,685,000)	(Euro 1,790,000)	(Euro 2,685,000)	(Euro 7,160,000)

**DLI 6** includes:

**DLI 6.1:** Adoption of the action plan to enhance the quality of employer services and case management (NES action plan) (2016);

**Partial DLI 6.1.1:** Development of the Draft NES action plan;

**DLI 6.2:** Certification of at least 85% of NES caseworkers (2017);

<sup>32</sup> Prior to the date of LA, as provided in Schedule 2, Section IV.B.1 of the LA.



**Partial DLI 6.2.1:** Certification of at least 40% of NES caseworkers;

**DLI 6.3:** Increase of number of contacts with employers to 23.000 within the last 12 calendar month period (2018);

**Partial DLI 6.3.1:** Contacting at least 11.500 employers, and

**DLI 6.4:** Increase of the number of registered unemployed persons transitioning into formal jobs to 280.000 within the last 12 calendar month period (2018);

**Partial DLI 6.4.1:** At least 140.000 registered unemployed persons have transitioned into formal jobs.

DLI	Retroactive <sup>33</sup> / 2015	2016	2017	2018	Total
<b>DLI 7: Case load management in NES branch offices improved</b>	Special registry of unemployed persons who are temporarily prevented from working established by NES.	Staffing reforms adopted by NES for 2016 are implemented, and targets on case load per branch office are published on the NES website.	Standard deviation of mean case load per branch office is 300 or less.	Standard deviation of mean case load per branch office is 250 or less.	
<b>Amount of the Loan Allocated</b>	(Euro 895,000)	(Euro 2,685,000)	(Euro 2,685,000)	(Euro 2,685,000)	(Euro 8,950,000)

**DLI 7** includes:

**DLI 7.1:** Establishment of a special registry of unemployed persons who are temporarily prevented from working by NES (2015);

**DLI 7.2:** Adoption and implementation of the staffing reforms in NES and publication of targets on caseload per branch office on the NES website (2016);

**Partial DLI 7.2.1:** Design of the NES staffing reform;

**DLI 7.3:** Decrease of standard deviation of mean caseload per branch office to 300 or less in 2017, and 250 or less in 2018;

**Partial DLI 7.3.1:** Decrease of standard deviation of mean caseload per branch office to 350 in 2017;

**Partial DLI 7.3.2:** Decrease of standard deviation of mean caseload per branch office to 275 in 2018.

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<sup>33</sup> Prior to the date of LA, as provided in Schedule 2, Section IV.B.1 of the LA.



#### 6.8.4. Verification protocols for subcomponent A.4.1

Verification protocols serve to ensure the quality of the reforms supported by the Project, through implementation of the activities and fulfillment of the assumptions, which represent the condition for recognition of the achievement of the expected results (DLIs) by the Bank.

General rules and protocols for disbursement of loan funds at mid-year and year-end, as well as its dependence on the level of the achievement of DLIs (total or partial) are described under title 8.5 of this POM.

Verification protocols for DLI 6 and DLI 7, i.e. of the achievement of the expected results of the subcomponent A.4.1, are:

Deadline: 2016

Verification means:

**Verification protocol for DLI 6.1:** Submitting to the Bank, through reporting system, the act of the NES on adoption of the action plan for enhancement of the quality of employer services and case management (NES action plan).

**Verification protocol for Partial DLI 6.1.1:** Submitting to the Bank, through reporting system, the draft of the NES action plan for enhancement of the quality of employer services and case management (NES action plan).

**Verification protocol for DLI 6.1:** The conditions for recognition of achievement of this DLI by the Bank are that:

1. Action plan contains KPIs to monitor the quality of employer services and case management.
2. Action plan includes recommendations to be implemented throughout the Project duration, including those planned to be implemented within one year from adoption of the action plan, as well as performance targets for 2018.
3. Action plan includes changes to the regulations, standards for certification of caseworkers, curriculum for training caseworkers, KPIs to monitor certification and individual performance of caseworkers starting from 2016. The certification system should focus both on compliance with regulations and on capabilities of caseworkers in working face-to-face with clients. Case workers need to be certified within 12 months from appointment;
4. Together with the action plan the revised Rulebook on internal organization of the NES which establishes the system to track the indicators is submitted;
5. In case any necessary legislation has to be revised, their drafts together with the letter proving the submission of the acts to the Government/relevant authority for adoption are submitted together with the Action plan;
6. Action plan is submitted to the Bank with accompanying letter stating that it has been officially adopted by the NES;
7. The action plan is acceptable to the Bank.

**Verification protocol for Partial DLI 6.1.1:** In 2016 EUR 0.9 million can be disbursed based on provision of a draft action plan to the Bank, which contains conceptually all elements foreseen with the Verification protocol for DLI 6.1.



Deadline: 2017

Verification means:

**Verification protocol for DLI 6.2:** Submitting to the Bank, through reporting system, the report on trainings conducted for at least 85% of certified case workers.

**Verification protocol for Partial DLI 6.2.1:** Submitting to the Bank, through reporting system, the proof of certification of at least 40% of case workers.

**Verification protocol for DLI 6.2:** The recognition of achievement of this DLI by the Bank is conditioned with:

1. Certification of at least 85% of total number of case workers in all NES branches, which includes both permanent and temporary contracts;
2. Case worker certification rates are verified through the periodic reports of the NES monitoring unit, where December 31, 2017 is used as the reference date for calculation of the rate of certified case workers;
3. System of certification is focused on both on compliance with regulations and on capabilities of case workers in working face-to-face with clients;
4. The certification system is acceptable for the Bank;
5. Caseworkers are certified within 12 months from their appointment.

**Verification protocol for Partial DLI 6.2.1:** In 2017 EUR 0.9 million can be disbursed once at least 40% of caseworkers (based on the number of case workers employed as of June 30, 2017) are certified, in accordance with the certification criteria defined with Verification protocol for DLI 6.2.

Deadline: 2018

Verification means:

**Verification protocol for DLI 6.3:** Submitting to the Bank, through reporting system, the report on the number of contacted employers.

**Verification protocol for Partial DLI 6.3.1:** Submitting to the Bank, through reporting system, the report proving that at least 11.500 employers have been contacted.

**Verification protocol for DLI 6.4:** Submitting to the Bank, through reporting system, the report on number of registered unemployed persons transitioning into formal jobs.

**Verification protocol for Partial DLI 6.4.1:** Submitting to the Bank, through reporting system, the report proving that at least 140.000 registered unemployed have transitioned into formal jobs.



**Verification protocol for DLI 6.3:** This DLI can be considered achieved if, with credible report prepared by the NES monitoring unit based on data from Information System, a proof has been given to the Bank that at least 23.000 employers have been contacted in 2018 (in the last 12 months<sup>34</sup>).

**Verification protocol for Partial DLI 6.3.1:** In 2018 EUR 0.9 million can be disbursed once at least 11,500 (in the last 12 months) employers have been contacted and 140,000 NES (in the last 12 months) registered unemployed transitioned into a formal job. The report on achievement of this Partial DLI is prepared by the NES monitoring unit.

Partial DLI 6.3.1 and 6.4.1 are cumulative, i.e. in 2018 EUR 0.9 million can be disbursed (at mid-year) only if both Partial DLIs are achieved.

**Verification protocol for DLI 6.4:** Achievement of this DLI is recognized by the Bank if MoLEVSA submits to the Bank a verified report of the NES monitoring unit proving that at least 280.000 registered unemployed have transitioned into formal jobs. Also, in accordance with indicators set during loan negotiations at least 145.000 of this number should be women.

**Verification protocol for Partial DLI 6.4.1:** In 2018 EUR 0.9 million can be disbursed once at least 11,500 (in the last 12 months) employers have been contacted and 140,000 NES (in the last 12 months) registered unemployed have transitioned into a formal job. The report on achievement of this Partial DLI is prepared by the NES monitoring unit.

Overview of the structure of DLI 6 and possible disbursement dynamics are presented in the following table.

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<sup>34</sup> Targets will be determined with the action plan prepared in the beginning of 2016. It is possible that targets set for DLI 6.3 and DLI 6.4 will, thus, be revised during the Banks monitoring mission (at projects mid-term, 1.5 years after its beginning).



**Table 10. DLI value overview, DLI breakdown and possible disbursement for Partial DLIs**

DISBURSEMENT LINKED INDICATORS (DLIs)			2015	2016		2017		2018		Total	
			Retro /2015	Partial (semi-annual)	Total 2016.	Partial (semi-annual)	Total 2017.	Partial (semi-annual)	Total 2018.		
<b>A.4.1 Enhancing the effectiveness of the NES labor intermediation services</b>											
<b>DLI 6</b>	Effectiveness of NES labor intermediation services delivered to clients (employers and unemployed) improved			0.9	<b>2.685</b>	0.9	<b>1.79</b>	0.9	<b>2.685</b>	<b>7.16</b>	
DLI breakdown and possible disbursements	Annual DLI	Partial DLI	DLI description								
	DLI 6.1		Adoption of the action plan to enhance the quality of employer services and case management (NES action plan)			<b>2.685</b>				<b>2.685</b>	
	DLI 6.1		Development of the Draft NES action plan			0.9					
	DLI 6.2		Certification of at least 85% of NES case workers					<b>1.79</b>		<b>1.79</b>	
		DLI 6.2.1		Certification of at least 40% of NES case workers				0.9			
	DLI 6.3		Increase of number of contacts with employers to 23.000								
		DLI 6.3.1		Increase of number of contacts with employers to 11.500							
	DLI 6.4		Increase of the number of registered unemployed persons transitioning into formal jobs to 280.000						0.9	<b>2.685</b>	<b>2.685</b>
		DLI 6.4.1		At least 140.000 of registered unemployed have transitioned into formal jobs							

Legend: Columns with pattern represent possible partial payments (at mid-year).



Verification protocols for DLI 7, i.e. achievement of the goals of the subcomponent A.4.1 are:

Deadline: 2015

Verification means:

**Verification protocol for DLI 7.1:** Submitting to the Bank, through reporting system, the act of the NES proving establishment of the special registry of unemployed persons who are temporarily prevented from working.

**Verification protocol for DLI 7.1:** The achievement of this DLI is recognized by the Bank if:

1. The registry of active job seekers and registry of unemployed persons who are temporarily prevented from working are separated, in accordance with the legislation in force.
2. The establishment of the registry of unemployed persons who are temporarily prevented from working is officially endorsed by the NES.

Deadline: 2016

Verification means:

**Verification protocol for DLI 7.2:** Submitting to the Bank, through reporting system, the act of the NES proving the implementation of the reorganization reform of the NES work (NES staffing plan).

**Verification protocol for Partial DLI 7.1.1:** Submitting to the Bank, through reporting system, the Draft staffing plan on approval.

**Verification protocol for DLI 7.1:** The conditions for recognition of achievement of this DLI by the Bank are:

1. The staffing plan is acceptable to the Bank, which includes submitting the Draft staffing plan to the Bank for approval (see Partial DLI 7.1.1)
2. The plan is submitted to the World Bank with cover letter stating its official adoption by the NES management;
3. Increase of the number of case workers is achieved through a combination of:
  - 3.1. Reassignment of administrative staff to case worker functions,
  - 3.2. Redeployment of temporary workers,
  - 3.3. Mobility of case workers from offices with low case load to offices with high case load,
  - 3.4. or other measures;
4. Case workers must be certified within 12 months from appointment to be considered in the caseload indicator;
5. Targets set for the caseload by NES branch office are published on the NES website.

**Verification protocol for Partial DLI 7.1.1:** In 2016 EUR 0.9 million can be disbursed once staffing reforms are designed, containing conceptually all elements provided with the Verification protocol for DLI 7.1.



**Deadline: 2017-2018**

Verification means:

**Verification protocol for DLI 7.3:** Submitting to the Bank, through reporting system, the report proving the value of standard deviation of case load per NES branch office is 300 or less in 2017, and 250 or less in 2018.

**Verification protocol for Partial DLI 7.3.1:** Submitting to the Bank, through reporting system, the report proving the value of standard deviation of case load per NES branch office is reduced to 350 in 2017.

**Verification protocol for Partial DLI 7.3.2:** Submitting to the Bank, through reporting system, the report proving the value of standard deviation of case load per NES branch office is reduced to 275 in 2018.

**Verification protocol for DLI 7.3:** The conditions for recognition of achievement of this DLI by the Bank are:

1. Mean case load per branch office is computed as active jobseekers (to be defined in DLI 8) per case worker in each branch office;
2. The standard deviation of mean case load is computed across the mean of all branch offices;
3. Report on standard deviation is verified through periodic reports of the NES monitoring unit;
4. Value of standard deviation achieved in 2017 is 300 or less, and 250 or less in 2018.

**Verification protocol for Partial DLI 7.3.1:** In 2017 EUR 0.9 million can be disbursed once the standard deviation of mean caseload per branch office has been reduced to 350 (compared to targeted 300). Conditions for recognition of achievement of this Partial DLI are the same as for the DLI 7.3.

**Verification protocol for Partial DLI 7.3.2:** In 2017 EUR 0.9 million can be disbursed once the standard deviation of mean caseload per branch office has been reduced to 275 (compared to targeted 250). Conditions for recognition of achievement of this Partial DLI are the same as for the DLI 7.3.





Table 11. Subcomponent A.4.1 - DLI value overview, DLI breakdown and possible disbursement for Partial DLIs

DISBURSEMENT LINKED INDICATORS (DLIs)			2015	2016		2017		2018		Total	
			Retro /2015	Partial (semi-annual)	Total 2016.	Partial (semi-annual)	Total 2017.	Partial (semi-annual)	Total 2018.		
<b>A.4.1 Enhancing the effectiveness of the NES labor intermediation services</b>											
<b>DLI 7</b>	Case load management in NES branch offices improved										
DLI breakdown and possible disbursements	Annual DLI	Partial DLI	DLI description	<b>0.895</b>	0.9	<b>2.685</b>	0.9	<b>2.685</b>	0.9	<b>2.685</b>	<b>8.95</b>
		DLI 7.1	Establishment of a special registry of unemployed persons who are temporarily prevented from working by NES	<b>0.895</b>							<b>0.895</b>
		DLI 7.2	Adoption and implementation of the staffing reforms in NES and publication of targets on case load per branch office on the NES website			<b>2.685</b>					<b>2.685</b>
		DLI 7.2.1	Design of the NES staffing reform		0.9						
		DLI 7.3	Decrease of standard deviation of mean case load per branch office to 300 or less in 2017, and 250 or less in 2018					<b>2.685</b>			
		DLI 7.3.1	Decrease of standard deviation of mean case load per branch office to 350 in 2017				0.9			<b>2.685</b>	<b>5.37</b>
		DLI 7.3.2	Decrease of standard deviation of mean case load per branch office to 275 in 2018						0.9		

Legend: Columns with pattern represent possible partial payments (at mid-year).



## **6.9. Subcomponent A.4.2 – Improvement of the effectiveness of ALMPs**

Improvement of the effectiveness of the Active Labor Market Programs (ALMPs) requires reforms in two areas:

- 1.** The way the ALMPs are targeted to beneficiaries, and
- 2.** The way ALMPs are piloted, monitored, and evaluated.

Introduction of the methods to profile unemployed on the labor market will enable their better segmentation according to the real needs from the NES, by which, the reduction of risk of spending scarce resources of ALMPs on those unemployed which can autonomously find employment and stronger focus on those unemployed whose goal is not only the social assistance but actual assistance in finding the job are achieved.

An initial reform will consist of refinement of the methodology to profile active job seekers, in order to better segment them according to their effective risk of becoming long-term unemployed. Scarce resources will then be concentrated on higher risk job seekers. Secondly, a more systematic use of evaluations of ALMPs will inform progressively the selection of training providers and the design of ALMPs.

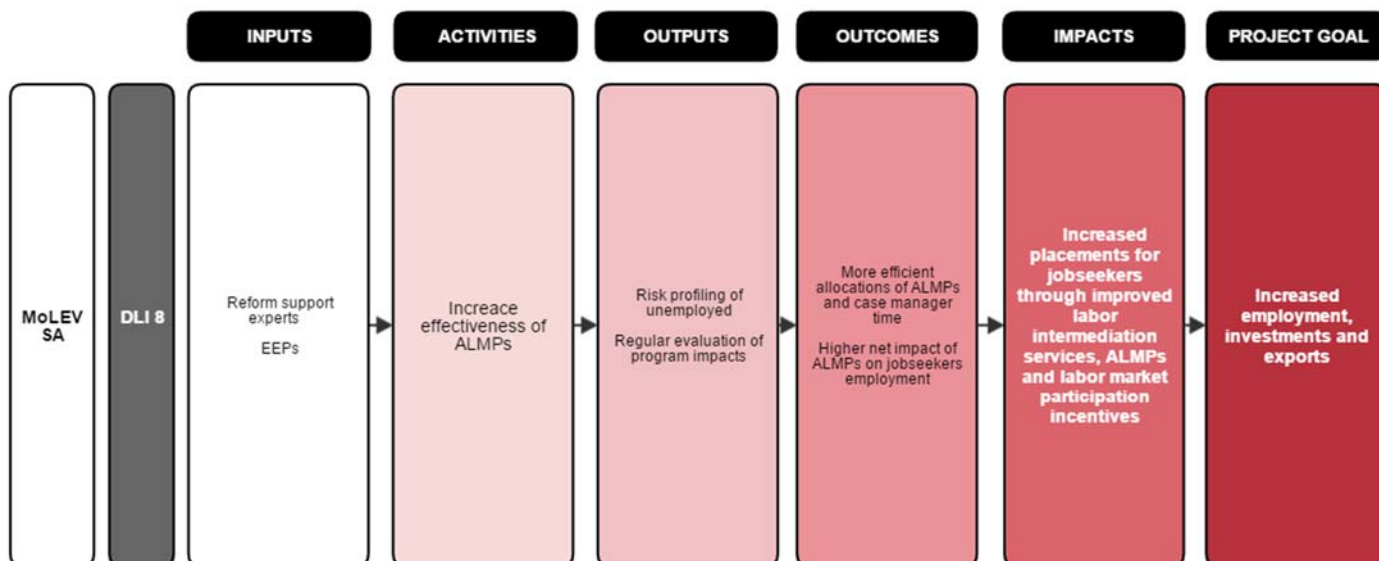
Data collection on beneficiaries of ALMPs, including follow-up interviews, is already being carried out. In order to improve the design and targeting of programs, this information should be better translated into concrete analysis of the effects of programs, disaggregated by characteristics of beneficiaries. The feedback loop, from data collection to policy design, is central to evidence-based policy making and requires a new institutional setup at either NES or MoLEVSA. Moreover, engagement with local self-governments should be supported in order to strengthen their capacity to identify employment opportunities. ALMPs should be fitted to the needs of unemployed at the local level, especially in the context of retrenchments and redundancies due to the ongoing right-sizing exercise.

Finally, the fiscal consolidation currently in place and the upcoming wave of Socially Owned Enterprises restructuring call for the protection of the budget expenditures on ALMPs for the large stock of unemployed. For this reason, an important share of the financing under this component will be tied to the provision of ALMPs that have proved successful at improving the chances of employment, according to past impact evaluations.



## 6.9.1. Result chain for the subcomponent A.4.2

Figure 11. Result chain for subcomponent A.4.2



## 6.9.2. Subcomponent A.4.2 activities

In accordance with the goals of this subcomponent, the activities to be undertaken include:

- (a) Preparation and implementation of a new methodology for profiling of the unemployed according to the long-term unemployment risk;
- (b) Development and implementation of the action plan for monitoring, evaluation and redesign of the ALMPs;
- (c) Piloting of the new/redesigned ALMPs, and
- (d) Piloting of the engagement of a training provider (service provider for labor market trainings) based on a performance-based contract.

## 6.9.3. Subcomponent A.4.2 DLI

This subcomponent, as defined in the LA, encompasses **DLI 8 - Effectiveness of ALMPs improved through statistical evidence**.

DLI	Retroactive <sup>35</sup> /2015	2016	2017	2018	Total
<b>DLI 8: Effectiveness of ALMPs improved through statistical evidence</b>	Rule book redefining “low-risk group” of its current risk profiling as “requiring minimal to no NES services”, taking into account registered unemployed individuals’ self-	Action plan on monitoring, evaluation and re-design of ALMPs; and on profiling of registered unemployed	50% of unemployed individuals registered in NES as of December 31, 2017 have a risk profile according to	NES starts pilot of a re-designed ALMP, taking into account evidence from previous evaluations of ALMPs undertaken by NES.	

<sup>35</sup> Prior to the date of LA, as provided in Schedule 2, Section IV.B.1 of the LA.



DLI	Retroactive <sup>35</sup> /2015	2016	2017	2018	Total
	assessment of service needs, adopted by NES.	individuals approved by NES management.	the new methodology.	At least 1 service provider for labor market trainings hired based on a performance based contract.	
<b>Amount of the Loan Allocated</b>	(Euro 895,000)	(Euro 2,685,000)	(Euro 2,685,000)	(Euro 2,685,000)	(Euro 8,950,000)

This DLI includes:

**DLI 8.1:** Adoption of the Rulebook redefining “low-risk group” of its current risk profiling, as “requiring minimal to no NES services” group (2015);

**DLI 8.2:** Preparation and adoption of the Action plan on monitoring, evaluation and re-design of ALMPs and unemployed profiling (2016);

**Partial DLI 8.2.1:** Preparation of the draft action plan (2016);

**DLI 8.3:** Implementation of profiling of unemployed according to the long-term unemployment risk (2017);

**Partial DLI 8.3.1:** Risk profiles determined for at least 25% of unemployed as of June 30, 2017;

**DLI 8.4:** Preparation and implementation of the new/redesigned pilot ALMPs (2018);

**Partial DLI 8.4.1:** Pilot ALMPs designed;

**DLI 8.5:** Piloting of the engagement of a training provider (service provider for labor market trainings) based on a performance-based contract (2018);

**Partial DLI 8.5.1:** Publication of the tender for performance-based contract.

#### 6.9.4. Verification protocols for subcomponent A.4.2

Verification protocols serve to ensure the quality of the reforms supported by the Project, through implementation of the activities and fulfillment of the assumptions, which represent the condition for recognition of the achievement of the expected results (DLIs) by the Bank.

General rules and protocols for disbursement of loan funds at mid-year and year-end, as well as its dependence on the level of the achievement of DLIs (total or partial) are described under title 8.5 of this POM.

Verification protocols for DLI 8, i.e. of the achievement of the expected results of the subcomponent A.4.2, are:



Deadline: 2015

Verification means:

**Verification protocol for DLI 8.1:** Submitting to the Bank, through reporting system, the act of the NES on adoption of the Rulebook redefining the “low-risk group”.

**Verification protocol for DLI 8.1:** The conditions for recognition of achievement of this DLI by the Bank include that:

1. During the redefining of the “low-risk group” registered unemployed individuals’ self-assessment of service needs were taken into account;
2. The methodology for redefining of the “low-risk group” as “requiring minimal to no NES services” is acceptable to the Bank;
3. The Rulebook is submitted to the Bank together with the cover letter stating its official adoption by the NES management.

Deadline: 2016

Verification means:

**Verification protocol for DLI 8.2:** Submitting to the Bank, through reporting system, the action plan for monitoring, evaluation and redesign of the ALMPs and profiling of the unemployed according to the long-term unemployment risk.

**Verification protocol for Partial DLI 8.2.1:** Submitting to the Bank, through reporting system, the draft action plan for monitoring, evaluation and redesign of the ALMPs and profiling of the unemployed according to the long-term unemployment risk.

**Verification protocol for DLI 8.2:** Conditions for recognition of achievement of this DLI by the Bank are:

1. Action plan is acceptable to the Bank (see Verification protocol for Partial DLI 8.2.1), and is submitted to the Bank together with the cover letter stating that it has been officially adopted by the NES management;
2. Action plan contains two mandatory elements:
  - 2.1. Strategy for monitoring, evaluation and redesign of the ALMPs which:
    - 2.1.1. Regulates the evaluation of ALMPs, which should institutionalize the quantitative evaluation methods piloted by the NES in previous TAs (such as IPA project);
    - 2.1.2. Recommends KPIs to regularly monitor outcome indicators of ALMPs offered by the NES;
    - 2.1.3. Establishes the design of an in-depth evaluation on one of the ALMPs (“in-depth” is a study to understand the causes of observed outcomes from quantitative evaluation results and informs the changes in the design of the program);
  - 2.2. A profiling tool which is defined as the method to segment registered unemployed according to:
    - Their risk of becoming long-term unemployed, and
    - The level of active support that is required in order to bring the unemployed back into employment.The risk-profiling tool should allow separating registered unemployed of each branch into two broad categories:
    - Those requiring no or minimal support from NES (see DLI 8.1), and
    - Those requiring medium to intensive support.



3. The action plan should establish how to target case work and ALMPs for different customer profiles
4. Adequate resources and deadlines for implementation of both parts of the action plan have been defined.

**Verification protocol for Partial DLI 8.2.1:** In 2016 EUR 0.9 million can be disbursed on the basis of submitting to the Bank a draft ALMP action plan, containing conceptually all elements defined with the Verification protocol for DLI 8.2.

Deadline: 2017

Verification means:

**Verification protocol for DLI 8.3:** Submitting to the Bank, through reporting system, the report on the percentage of registered unemployed with risk profile determined.

**Verification protocol for Partial DLI 8.3.1:** Submitting to the Bank, through reporting system, the report proving that for at least 25% of unemployed, as of June 30, 2017, the risk profile has been determined.

**Verification protocol for DLI 8.3:** Conditions for recognition of achievement of this DLI are:

1. Risk profiles have been determined for at least 50% of unemployed individuals registered in NES as of December 31, 2017;
2. Risk profile has been determined based on the methodology acceptable to the Bank, in accordance with the DLI 8.2.
3. Report is based on the periodic reports of the NES monitoring unit.

**Verification protocol for Partial DLI 8.3.1:** In 2017 EUR 0.9 million can be disbursed once 25% of unemployed as of June 30, 2017 have a risk profile determined. Conditions for recognition of this Partial DLI are equal to those determined with the Verification protocol for DLI 8.3.

Deadline: 2018

Verification means:

**Verification protocol for DLI 8.4:** Submitting to the Bank, through reporting system, the report on progress in implementation of pilot ALMPs.

**Verification protocol for Partial DLI 8.4.1:** Submitting to the Bank, through reporting system, the draft of new/redesigned pilot ALMPs.

**Verification protocol for DLI 8.5:** Submitting to the Bank, through reporting system, the performance-based contract for engagement of a training provider (service provider for labor market trainings).

**Verification protocol for Partial DLI 8.5.1:** Submitting to the Bank, through reporting system, the proof of publishing the tender for engagement of the training provider (service provider for labor market trainings) on performance base.

**Verification protocol for DLI 8.4:** Conditions for recognition of achievement of this DLI are:



1. During the design of new or redesign of pilot ALMPs the findings from previous evaluations of ALMPs implemented by the NES have been taken into consideration;
2. Design of the pilot ALMPs has been done in accordance with the National Employment Action Plan;
3. Report contains description of the intervention, including relevant evidence from evaluations that were incorporated into its design, information on targets, profile and number of participants, duration and location of intervention, number of individuals who completed the intervention;
4. Report on implementation of the pilot ALMPs has been officially endorsed by NES management and adopted in National Employment Action Plan;

**Verification protocol for DLI 8.4.1:** In 2018 EUR 0.45 million can be disbursed based on the design of the pilot ALMPs (at least 1). The draft of ALMP has to contain conceptually all elements defined for the verification of DLI 8.4.

**Verification protocol for DLI 8.5:** Recognition of achievement of this DLI conditioned with:

1. Bank's approval of the tendering documentation for contracting the training service provider on performance base (see Partial DLI 8.5.1).
2. Service provider is contracted according to the conditions described in tendering documentation.

**Verification protocol for DLI 8.5.1:** In 2018 EUR 0.45 million can be disbursed upon publishing of the tender for performance-based contract. Condition for recognition of this DLI as prior approval of tendering documentation by the Bank (see DLI 8.5).



Table 12. Subcomponent A.4.2 - DLI value overview, DLI breakdown and possible disbursement for Partial DLIs

DISBURSEMENT LINKED INDICATORS (DLIs)			2015	2016		2017		2018		Total	
			Retro /2015	Partial (semi-annual)	Total 2016.	Partial (semi-annual)	Total 2017.	Partial (semi-annual)	Total 2018.		
<b>A.4.2 Improvement of the effectiveness of ALMPs</b>											
<b>DLI 8</b>	Effectiveness of ALMPs improved through statistical evidence		<b>0.895</b>	0.9	<b>2.685</b>	0.9	<b>2.685</b>	0.9	<b>2.685</b>	<b>8.95</b>	
DLI breakdown and possible disbursements	Annual DLI	Partial DLI	DLI description								
	DLI 8.1		Adoption of the Rule book redefining “low-risk group” of its current risk profiling as “requiring minimal to no NES services”	<b>0.895</b>						<b>0.895</b>	
	DLI 8.2		Preparation and adoption of the Action plan on monitoring, evaluation and re-design of ALMPs and unemployed profiling			<b>2.685</b>				<b>2.685</b>	
		DLI 8.2.1		Preparation of the draft action plan		0.9					
	DLI 8.3		Implementation of profiling of unemployed according to the long-term unemployment risk for at least 50% of unemployed					<b>2.685</b>		<b>2.685</b>	
		DLI 8.3.1		Risk profiles determined for at least 25% of unemployed as of June 30, 2017				0.9			
	DLI 8.4		Preparation and implementation of the new/redesigned pilot ALMPs							<b>1.34</b>	
		DLI 8.4.1		Pilot ALMPs designed					<b>0.45</b>		
	DLI 8.5		Piloting of the engagement of a training provider (service provider for labor market trainings) based on a performance based contract							<b>1.34</b>	
		DLI 8.5.1		Publication of the tender for performance-based contract					<b>0.45</b>		<b>2.685</b>

Legend: Columns with pattern represent possible partial payments (at mid-year).





## 6.10. Subcomponent A.4.3 – Facilitation of transition of social assistance beneficiaries into formal jobs

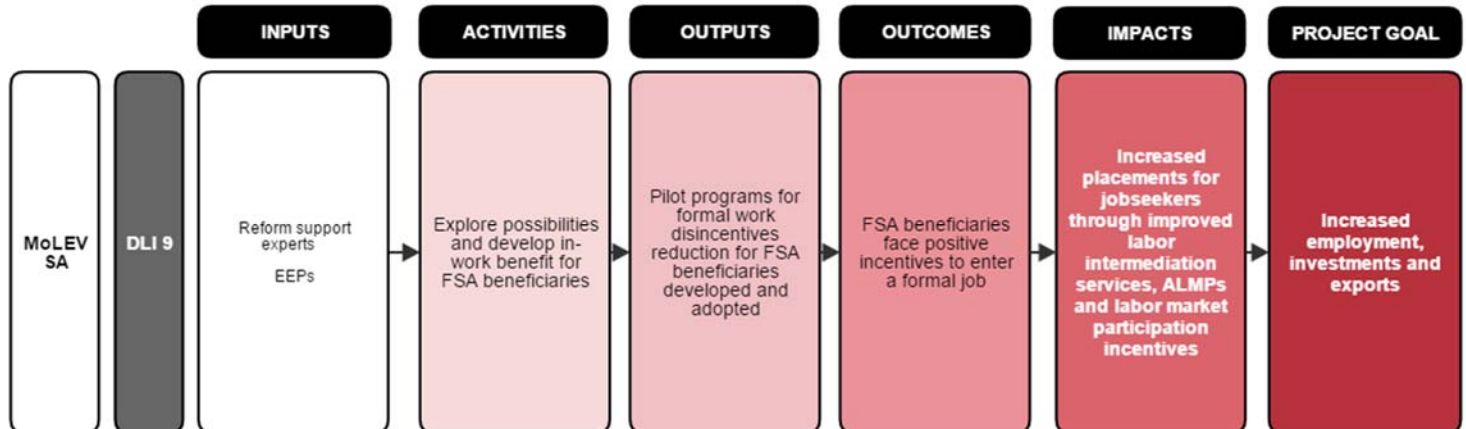
Serbia has one of the highest tax wedges on low-paying jobs in the entire ECA Region and a social assistance benefit that is reduced by at least one dinar—often by much more—for every dinar earned formally. This combination makes low-paying work unviable in the formal sector. To counter these disincentives, the subcomponent supports enhancing the activation of social assistance beneficiaries by designing and piloting a program to decrease work disincentives for a select group of social assistance beneficiaries. This could be in the form of a cash transfer conditional on having a formal job, for recipients of social assistance.

The cash transfer, similar what some OECD countries name an in-work benefit, will be designed in a way so as to make formal work worthwhile compared to receiving benefits. The benefit would be implemented through either the existing social protection system or the NES.

The fiscal implications will be carefully considered, but should be small or even positive as a substantial part would be financed from reduced social assistance payments and increased social security contributions. The prior study should include an assessment of the potential to use a benefit to reduce the tax wedge for low productivity work.

### 6.10.1. Result chain for the subcomponent A.4.2

Figure 12. Result chain for the subcomponent A.4.3



### 6.10.2. Subcomponent A.4.3 activities

Under this subcomponent, MoLEVSA and the NES will implement following activities:

- Analysis, including comparative analysis and best practice, on effective tax rate on low-paying jobs;
- Analysis of possible scenarios for introduction of reduction of tax rate (work disincentives) or in-work incentives with analysis of budgetary implications;
- Piloting the selected scenario;
- Evaluation, adjustment and development of plan for implementation of selected scenario in other, non-piloted cases.



### 6.10.3. Subcomponent A.4.3 DLI

This subcomponent, as defined in the LA, encompasses **DLI 9 - Transition of social assistance beneficiaries into formal jobs facilitated.**

DLI	Retroactive <sup>36</sup> / 2015	2016	2017	2018	Total
<b>DLI 9: Transition of social assistance beneficiaries into formal jobs facilitated</b>		Study to (i) design a program to reduce disincentives to enter formal jobs for social assistance beneficiaries; and (ii) improve activation of social assistance beneficiaries through improved services, carried out by the Borrower.	Pilot program to support formal employment of a select group of beneficiaries of social assistance and/or child allowance selected in accordance with criteria set forth in the Project Operations Manual, established by the Borrower.	Average effective tax rate for a social assistance beneficiary household with two children and who participates in pilot program for the previous calendar year, where one adult member transitions into a formal job at minimum wage, where the job is:  Half-time: 70% or less,  Full-time: 70% or less.	
<b>Amount of the Loan Allocated</b>		(Euro 1,790,000)	(Euro 1,790,000)	(Euro 1,790,000)	(Euro 5,370,000)

This DLI includes:

**DLI 9.1:** Carrying out the study in order to design a program to reduce disincentives to enter formal jobs for social assistance beneficiaries and improve activation of social assistance beneficiaries through improved services (2016);

**Partial DLI 9.1.1:** Contracting the consultant to carry out the study;

**DLI 9.2:** Implementation of the pilot program to support formal employment of a select group of beneficiaries of social assistance and/or child allowance;

**Partial DLI 9.2.1:** Development of the description of the pilot program design;

**DLI 9.3:** Reduction of the average effective tax rate for a social assistance beneficiary household with two children and who participates in pilot program for the previous calendar year, where one adult member transitions into a formal job at minimum wage, where the job is: Half-time: 70% or less; Full-time: 70% or less.

<sup>36</sup> Prior to the date of LA, as provided in Schedule 2, Section IV.B.1 of the LA.



#### 6.10.4. Verification protocols for subcomponent A.4.3

Verification protocols serve to ensure the quality of the reforms supported by the Project, through implementation of the activities and fulfillment of the assumptions, which represent the condition for recognition of the achievement of the expected results (DLIs) by the Bank.

General rules and protocols for disbursement of loan funds at mid-year and year-end, as well as its dependence on the level of the achievement of DLIs (total or partial) are described under title 8.5 of this POM.

Verification protocols for DLI 9, i.e. of the achievement of the expected results of the subcomponent A.4.3, are:

Deadline: 2016

Verification means:

**Verification protocol for DLI 9.1:** Submitting to the Bank, through reporting system, the study with adequate content.

**Verification protocol for Partial DLI 9.1.1:** Submitting to the Bank, through reporting system, the report on implementation of the Procurement Plan proving the contracting of the consultant to carry out the study.

**Verification protocol for DLI 9.1:** Conditions for recognition of achievement of this DLI by the Bank includes:

1. Assessment of the current work disincentives;
2. Best practice study from OECD countries on formal employment of low productivity workers, including beneficiaries of social assistance; and
3. Recommendations on the design and implementation arrangements for a pilot to support activation of a select group of beneficiaries of financial social assistance and/or child allowance;
4. Scenarios of budgetary implication including expenditure on social assistance, tax revenues;
5. Recommendations on how to improve services and institutional setup for activation, including linkages between NES and social welfare centers, and
6. Defining financial assistance that the beneficiaries would receive from the NES as an ALMP, instead of the centers for social work, so that the formal employment would yield higher income compared to receiving financial social assistance.

**Verification protocol for Partial DLI 9.1.1:** At 2016 mid-year EUR 0.7 million can be disbursed once the consultants are contracted to undertake the study, meaning:

1. ToR for consultants is defined according to the rules of procedure defined with this POM and approved by the Bank, and
2. Consultants are contrasted in line with the provisions of the ToR.



Deadline: 2017

Verification means:

**Verification protocol for DLI 9.2:** Submitting to the Bank, through reporting system, the regulation/act establishing the pilot program to support formal employment of a select group of social assistance beneficiaries.

**Verification protocol for Partial DLI 9.2.1:** Submitting to the Bank, through reporting system, the concept/description of the of the pilot program design to support formal employment of a select group of social assistance beneficiaries.

**Verification protocol for DLI 9.2:** Conditions for recognition of achievement of this DLI by the Bank are:

1. The pilot program is based upon the findings of the prior study (see DLI 9.1)<sup>37</sup>;
2. The pilot program is established by adequate regulations, adopted by competent body.

**Verification protocol for Partial DLI 9.2.1:** In 2017 EUR 0.7 million can be disbursed based on the description of the pilot design. The description of pilot program design should be based on the findings of the prior study (see DLI 9.1).

Deadline: 2018

Verification means:

**Verification protocol for DLI 9.2:** Submitting to the Bank, through reporting system, the analysis of the average effective tax rate in accordance with the legislation in force.

**Verification protocol for DLI 9.3:** Conditions for recognition of achievement of this DLI by the Bank are:

1. The average effective tax rate is computed as the percentage of formal gross income that is foregone by the worker through taxation, contributions, and withdrawal of social benefits when transitioning into a formal job, either full time or at half time, at minimum wage;
2. That effective average tax rate for a social assistance beneficiary household with two children and who participates in pilot program for the previous calendar year, where one adult member transitions into a formal job at minimum wage, where the job is: Half-time: 70% or less; Full-time: 70% or less<sup>38</sup>;
3. The analysis has been submitted to the Bank with the cover letter from the MoLEVSA;
4. The analysis demonstrates the computation of AETR based on the existing regulations and legislation.

A decrease for the average effective tax rate will be determined at project mid-term review (1.5 years after the project start).

<sup>37</sup> Criteria for selection of the group of social assistance beneficiaries will be determined based on findings of the study (DLI 9.1)

<sup>38</sup> A decrease of the average effective tax rate will be determined at mid-term review.



Table 13. Subcomponent A.4.3 - DLI value overview, DLI breakdown and possible disbursement for Partial DLIs

POKAZATELJI KOJI USLOVLJAVAJU ISPLATE (DLIs)			2015	2016		2017		2018		Total
			Retro /2015	Partial (semi-annual)	Total 2016.	Partial (semi-annual)	Total 2017.	Partial (semi-annual)	Total 2018.	
<b>A.4.3 Facilitation of transition of social assistance beneficiaries into formal jobs</b>										
<b>DLI 9</b>	Transition of social assistance beneficiaries into formal jobs facilitated			0.7	1.79	0.7	1.79		1.79	5.37
DLI breakdown and possible disbursements	Annual DLI	Partial DLI	DLI description							
		DLI 9.1	Carrying out the study in order to design a program to reduce disincentives to enter formal jobs for social assistance beneficiaries and improve activation of social assistance beneficiaries through improved services			1.79				1.79
		DLI 9.1.1	Contracting the consultant to carry out the study		0.7					
		DLI 9.2	Implementation of the pilot program to support formal employment of a select group of beneficiaries of social assistance and/or child allowance					1.79		1.79
		DLI 9.2.1	Development of the description of the pilot program design				0.7			
		DLI 9.3	Reduction of the Average effective tax rate for a social assistance beneficiary household with two children and who participates in pilot program for the previous calendar year, where one adult member transitions into a formal job at minimum wage, where the job is: Half-time: 70% or less; Full-time: 70% or less							1.79

Legend: Columns with pattern represent possible partial payments (at mid-year).



## 6.11. Part B of the Project: Project management and technical assistance

**VALUE:** EUR 4.56 million

**DIRECT BENEFICIARIES:** PPS, MoLEVSA

**INDIRECT BENEFICIARIES:** All participating institutions

This part of the project is designed as a small, catalytic group of activities, regarding Project management and technical assistance to support achievement of the DLIs and loan objectives. The assistance provided through this Project part will help PPS (main coordinating body on the Project) to coordinate monitoring of results, reporting, perform fiduciary function and safeguards, and carry out procurement for the account of PPS, MoE, MoESTD, as well as to MoLEVSA in project management and procurement activities. The funds provided through this part of the project are also used for financing of the technical assistance to the participating institutions in implementation of the reforms in the subject of this Project.

More concretely, this part of the project consists of 2 components as follows:

**Component B.1** – support to PPS in project management and implementation for the components A.1, A.2 and A.3 from the part A of the Project, through technical assistance provided by the Project Implementation Unit (PIU) established in PPS for the account of PPS, MoE and MoESTD. This project component supports and finances procurement of goods, consulting and non-consulting services, trainings and operating costs, as well as support in project reporting and monitoring and audit of the Project annual financial reports;

**Component B.2** – supports management and implementation of the component A.4 of the Project, and is implemented by the MoLEVSA in the form of technical assistance in procurement and provision of consulting services to the MoLEVSA under component A.4, financial management and reporting, and other tasks in accordance with the TOR for consultants to be engaged under this component (i.e. operative/administrative management).

Civil servants/employees in the participating institutions will, as needed, participate in the preparation of TOR and the work of Evaluation committees for the selection of consultants that will, during the Project life cycle, provide assistance in the implementation of the supported reforms.

The MoF will play an oversight role in the use of the TA funds, including periodic reviews of the planned TORs for key consultancies to be procured with Project funds.

The TORs for TA, where possible, will include knowledge transfer from international experts to build local capacity in the RS.



# 7. PROCUREMENT

## 7.1. Procurement management

For procurement management, the following experts are in charge:

1. Procurement Specialist in PIU - responsible for procurements under components A.1, A.2, A.3 and B.1, and
2. Procurement Officer in MoLEVSA is in charge for procurements under components A.4 and B.2.

Procurement Specialist in PIU:

1. Supports PIU Head in achieving overall Project objectives;
2. Assist Ministries and Commissions in preparing TOR and tender documents for the procurement of services, as well as Technical Specifications for the procurement of goods, for the purposes of implementing Components A.1, A.2, A.3, and B.1 of the Project; design criteria and documents to evaluate bids; and draft and submit procurement-related documents to the World Bank for review and approval, in compliance with the Project Appraisal Document and the Project Operational Manual;
3. Prepares and submits to the Bank draft bidding documents, draft Request for Proposals (RFPs), or draft ITQs for packages subject to prior review for review and no objection;
4. Publishes procurement notices and contract awards;
5. For prior review packages, submits to the Bank copies of final bidding documents and RFPs;
6. Maintains correspondence with bidders, provides necessary clarifications cooperating with certain PIU officers and other internal units;
7. Prepares amendments to the RFP or the bidding documents as deemed appropriate and submits to the Bank for review and no objection;
8. Participates in bid opening procedure and drafts minutes of bids opening;
9. Keeps a record of firms who purchase the bidding documents;
10. Receives bids and proposals and ensure that they are kept confidential until bid opening or opening of proposals;
11. Participates in evaluation of bids and clarifies evaluation procedure for the tendering commission;
12. Prepares reports on evaluation of bids or proposals based on the evaluation completed by the Evaluation Committee;
13. For contracts subject to prior review, submits bid evaluation report and technical evaluation report for Bank's review and no objection.
14. Sends notification of contract award to winning firms;
15. For consulting contracts subject to prior review, submits draft negotiated contracts to the Bank for review and no objection;
16. Ensures that the signed contracts are sent to the Bank promptly, to provide for funds withdrawal;
17. Prepares draft contract amendments if deemed appropriate for the Bank's review and no objection;
18. Cooperates with Finance Officer regarding Project disbursements;
19. Develops and implements procurement monitoring system;
20. Keeps all procurement documents on file per package as listed in the procurement plan, including copies of bids, proposals and quotations;
21. Provides procurements documents to the Bank during post review and audit;

22. Update the Procurement Plan on a regular basis to reflect any changes to deadlines for contracting procurement of goods and services; and prepare the annual procurement plan
23. Establish and maintain a database at the PIU of expressions of interest received from prospective consultants with the aim of inviting them for future engagement;
24. Communicate with selected consultants, participate in contract negotiations as an observer and prepare Minutes of Negotiations.
25. Submit draft negotiated contracts for approval and signature by authorized representatives of line Ministries and PPS Director and then submit them to the World Bank for prior approval;
26. Train PPS and Ministry staff in World Bank procurement procedures to build procurement capacity at these institutions;
27. Take part in the World Bank's verification missions and collaborate with auditors during mandatory audit of reports;
28. Perform other duties in support of Project implementation as required by the PPS Director;
29. Take part in the development, improvement, and implementation of the Project Operational Manual.
30. Any other procurement-related tasks that may be assigned by the PIU Head.

## **7.2. General rules for procurements**

Procurements on this project will be implemented in accordance with the provisions of the Loan agreement, as well as the procedures of the Bank including:

- (a) Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014) – hereinafter: Procurement guidelines;
- (b) Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014) – hereinafter: Consultant Guidelines;
- (c) Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 – hereinafter: Anti-Corruption Guidelines.

For each contract financed from the loan, the Procurement plan defines procurement method, estimated value, post or prior mandatory Bank's review, as well as procurement timeline and contract duration.

For contracts that were not foreseen with the initial Procurement plan, procedures and rules foreseen with this POM apply, regarding changes of the Procurement plan, as well as procurement procedures set forth with the Bank's guidelines.

Following procurements are foreseen under this project:

- (a) Procurement of consulting services, and
- (b) Procurement of goods and non-consulting services.

### **7.2.1. Obligations in procurement procedures**

Main actors and obligations in procurement procedures are:





1. Institution-level Internal units, with the support of PIU for the components A.1, A.2 and A.3 and Procurement Officer in MoLEVSA for component A.4, for preparation of ToR, technical specifications, cost estimation and evaluation criteria for each procurement of their particular benefit/interest;
2. Participating institutions, which are beneficiaries of services and goods being procured, decide on establishment of the Evaluation Committees and submit them in electronic or hard copy to their respective Procurement consultant, before initiating procurement procedure;
3. Procurement consultants control of eligibility of procurement and compatibility with the items in Procurement plan, before initiating the procurement procedures;  
Procurement procedure cannot be initiated in case particular procurement is not foreseen with the Procurement plan, and in case participating institutions have not submitted ToR, technical specifications, cost estimation and criteria for evaluation of offers for items of the Procurement Plan, including acts establishing Evaluation committees;
4. Procurement consultants, after receiving necessary documentation form the participating institutions, perform procurement preparation procedures;
5. Evaluation Committee (EC), composed of representatives of beneficiary institutions is responsible for objective evaluation of received offers;
6. Responsible managers of participating institutions are in charge for signing of contracts with selected consultants/suppliers, as follows:
  - 6.1. Responsible manager of the PPS is in charge for signing of contracts with consultants/suppliers under components A.1 and B.1;
  - 6.2. Responsible managers of the MoE and PPS are in charge for signing of contracts with consultants/suppliers under component A.2;
  - 6.3. Responsible managers of the MoESTD and PPS are in charge for signing of contracts with consultants/suppliers under component A.3;
  - 6.4. Responsible manager of the MoLEVSA is in charge for signing of contracts with consultants under components A.4 and B.2;
7. For the purpose of Training plan implementation, the responsible manager of the PPS is in charge for signing the relevant contracts;
8. For the purpose of implementation Operational costs on the projects, the responsible manager of the PPS is in charge for signing of respective contracts;
9. In case of procurement of goods, the responsible manager of the beneficiary institution for which the goods are being procured and of the PPS are in charge of signing the contract with supplier.

### 7.2.2. Evaluation committee

For each procurement under the Project, the EC has to be established. EC includes at least one expert-public servant from participating beneficiary institution, in the area in the subject of procurement. EC has at least 3 and not more than 5 members.

If necessary, EC can include external experts/advisors.

The representative of the PPS can participate in the EC upon invitation of the participating institution in charge for establishment of the EC (the institution for account of which the procurement is being carried out).

Procurement consultants provide technical assistance to the EC.

EC has a Chairperson, in charge of leading the EC in evaluating bids/proposals and signing the minutes of the meeting of the EC and evaluation reports.

### **7.2.3. Contract award**

Procurement consultants prepare the information on contract award to selected consultants and suppliers. The contract award information is signed by the EC Chairperson.

In case of consultancy services, and the contract award information represents the basis for negotiations with selected consultant. Negotiations with consultant are carried out by the Evaluation committee.

The contract with selected consultant can be signed in case conditions are accepted, and in case prior approval by the Bank has been obtained, where prior approval of the Bank is necessary.

Financial proposals of the consultants which didn't meet the minimum technical score, or who were considered non-responsive to the RFP and ToR, will be returned unopened after the signature of the contract with the selected consultant.

In case of procurement of goods, the winning supplier provides his performance security (if required) and puts in place the requisite services and insurances; the formal signing can take place provided that terms are accepted. Once the contract is signed with the winning supplier, the bid securities of the unsuccessful firms should be returned to them with a covering letter thanking them for their participation.

### **7.2.4. Confidentiality in procurement**

Confidentiality during the evaluation process should be maintained. The contents of bids or proposals must not be discussed outside of the EC.

Documents with sensitive or confidential information should be locked in the safe (or other comparable deposit) at all times, unless being worked on. Confidentiality must be maintained until contract award is published.

The Procurement consultants in PIU and MoLEVSA are in charge of safekeeping the procurement documentation.

The Bank's Procurement Guidelines also stress the confidential nature of the evaluation procedures [Guidelines; Procurement under IBRD Loans and IDA Credits], and the Bank's Standard Bidding Documents warns the bidder that any attempt to influence the EC in bid evaluation may result in rejection of the bid. The Bank's Guidelines for "Selection and Employment of Consultants by Bank borrowers" also outline the policy on Fraud and Corruption on this issue.

### **7.2.5. Procurement supervision**

The Procurement consultants under B.1 and B.2. should review the Procurement Plan when an activity is performed and update the actual dates for each procurement process and carry out routine monitoring of the procurement process.

The Bank shall also have the authority to monitor the procurement practices carried out under the project through procurement ex-post reviews or audits on a case-by-case basis. The Bank will perform control on at least 10% of contracts that are subject to post review.

Additionally, the periodic monitoring mission of the Bank is foreseen at project mid-term (mid-year 2017), during which additional supervision of procurement will be carried out.



Procurement documents must be kept on file and be available for the Bank and/or audit firm for review. The report of the Bank on procurement and post review will be shared with the PIU which in turn will share it with participating institutions during the next meeting of the IMWG.

## **7.2.6. Advertising**

### **General Procurement Notice - GPN**

To obtain expressions of interest and for timely notification to the business community about bidding opportunities under the Project, a General Procurement Notice is advertised in the Development Business Online (UNDB Online) and in the World Bank's external website.

General Procurement Notice for this Project was published on September 29, 2015.

### **Specific Procurement Notice - SPN**

Specific Procurement Notice cannot be published before the GPN is published, except in the specific cases subject to the Bank's prior approval. The SPN publication is carried out in line with the Bank's Guidelines by type and value of the procurement.



## 7.3. Procurement Plan

The initial procurement plan, dated July 7, 2015, was prepared during the loan negotiation and can be updated from time to time in line with para 1.18 of the Procurement Guidelines and para 1.25 of the Consultant Guidelines.

The procurement plan contains list of contracts, which are foreseen to be signed during the Project lifecycle, procurement procedure, estimated contract value, post/prior review status, implementation dates, contract signature date, name of consultant/supplier, and contract duration.

No procurement can be carried out for any activity that is not included in the procurement plan, approved by the Bank. Approved procurement plan (without cost estimates) should be published in the Bank's external website as required in the Procurement and Consultant Guidelines.

### 7.3.1. Procurement Plan updates and changes

Procurement plan changes may include, but are not limited to:

- (a) List of contracts to be signed during the fiscal year and the tentative list of the contacts to be procured in the subsequent year;
- (b) Estimated contract costs;
- (c) Schedule for bidding (steps of the procurement procedure);
- (d) Appropriate procurement methods.

Updates/changes on the procurement plan under point c) above are carried out on continuous basis by the Procurement experts during execution of the approved procurement plan. The updates of the procurement plan are reported to the Bank during semi-annual project reporting cycles (according to the Reporting timeline).

Procurement plan changes under points a), b) and d) are executed periodically in line with the project needs, i.e. with the needs of the participating institutions - Project beneficiaries. These changes are proposed to the Bank by the Procurement expert in the PIU. Once approved by the Bank, the changes of the Procurement plan are communicated to participating institutions by the Procurement expert in PIU.

In case the Procurement plan is changing under point a) above, and the changes are related to procurement of additional consulting services, except in case of the consulting services defined with the Training plan adopted by the participating institution, the proposal for additional procurement activities are communicated to the PIU Procurement expert by the Heads of Internal units in PPS, MoE and MoESTD, or the Procurement expert in MoLEVSA by MoESTD and NES, with relevant explanation. The Procurement expert in MoLEVSA is obliged to propose to the Procurement expert in PIU additional procurement for account of MoLEVSA and NES. These proposals for additional procurement are consolidated by the PIU Procurement expert, and prepared for approval by the IMWB, before proposing additional procurements to the Bank and insertion into the Procurement plan.

Procurement plan is also changed after preparation of the Training plan, as described under title 8.2 of this POM. In this case, Procurement plan is changed without the prior approval of the IMWB<sup>39</sup>, but with the prior approval by the Bank.

## **7.4. Procurement of consulting services**

Consulting services under this Project differ in value and complexity. These services include, inter alia, implementation of studies and analysis, development of strategies and plans, needs assessment, monitoring and evaluation, project management, capacity building in participating institutions in different areas etc.

Individual consultant (IC) selection will be carried out in line with the Section V of the Consultant Guidelines.

Selection of Consulting company will be carried out by one of the following procedures foreseen in the initial Procurement Plan:

- (a) QSBS - Quality- and Cost-Based Selection;
- (b) LCS - Least-Cost Selection, and
- (c) CQS - Consultant's Qualification.

### **7.4.1. Quality and Cost Based Selection - QCBS**

Quality and Cost Based Selection (QSBS) of consultants is carried out in line with the Section 2.1. – 2.35 of the Consultant Guidelines, and is implemented through following steps:

1. Project beneficiary institution establishes EC and prepares TOR and submits the decision on establishment of EC and TOR to the Procurement Specialist in PIU, or Procurement expert in MoLEVSA in case of procurement for account of MoLEVSA;
2. The Procurement Specialist/Procurement Officer submits the TOR to the Bank for approval;
3. The Procurement Specialist/Procurement Officer publishes the Request for Expressions of interest (REOI) in UNDB online and the PPS website;
4. The Procurement Specialist/Procurement Officer collects the Expression of Interest received and files/copies them;
5. Procurement Specialist/Procurement Officer organizes the EC meeting (in adequate composition, depending on the beneficiary institution);
6. Evaluation of the Expressions of Interest by the EC and preparation of the shortlist;
7. The Procurement Specialist/Procurement Officer prepares the Request for Proposals;
8. The Procurement Specialist/Procurement Officer submits to the Bank the evaluation report of expressions of interest, the proposed shortlist, and the draft Request for Proposals for no objection;
9. After receiving the Bank's no objection the Procurement expert issues the RFP to the shortlisted companies;
10. PIU Head holds the pre-proposal meetings with the Consulting companies (if defined in the RFP). Responsible representatives in preparing the TOR for the assignment should also participate in the

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<sup>39</sup> Given that the Training plan is prepared in cooperation with the Internal units of all participating institutions, its operationalization and implementation through Procurement plan is carried out in accordance with the agreed Training plan.



pre-proposal meetings. The Procurement Specialist/Procurement Officer may participate in the pre-proposal meetings if needed ;

11. The Procurement Specialist/Procurement Officer documents any questions/requests for clarifications and their respective answers, and responds to all consulting firms without identifying the name(s) of the consulting firms requesting clarification;
12. In case there is a need to modify RFP documents due to answers provided to the consultants, or due to Procurement experts own initiative, such modifications shall be made through an Amendment approved by the Bank. Procurement expert may extend the deadline for submission if an Amendment so warrants. Amendments may be sent by mail;
13. Technical and financial proposals are received in separate envelopes. Each envelope is marked "original" and "copy" as appropriate. Both envelopes are sealed in an outer envelope and marked "DO NOT OPEN EXCEPT IN THE PRESENCE OF THE EVALUATION COMMITTEE". Procurement expert shall mark the time and date the proposal was received. Any proposal received after the deadline shall be returned unopened;
14. The EC shall open the technical proposals immediately after the deadline for submission of proposals;
15. The financial proposals shall remain sealed and kept in safe.;
16. The EC shall evaluate and score the technical proposals based on the points assigned in the RFP. Each member shall score independently. Members may average evaluation results or reach a consensus on the ranking of technical proposals;
17. Firms scoring points equal to or greater than the minimum technical score required (specified in the RFP) shall be considered for second stage - evaluation of financial proposals;
18. The Procurement expert shall prepare the Technical Evaluation Report and submit to Bank for "No Objection";
19. After receiving Bank's "No Objection" on the Technical Evaluation Report, Procurement expert shall notify the firms that passed the minimum technical score and will advise the date, time and address for public opening of the financial proposals. Notice by email will be sent at least 10 days for local firms and not less than two weeks for international firms prior to the opening date of financial proposals. Financial proposals of firms which did not meet the minimum technical score will remain sealed and will be returned unopened after publication of contract award;
20. At the opening of financing proposals, the EC Chairman shall announce the names of the consultants, their technical score, present the sealed envelope of the financial proposal, open the financial envelopes one by one, and read-out amounts of the financial proposals ;
21. The Procurement Specialist/Procurement Officer shall prepare the minutes of the opening of the financial proposals and send it to the Bank;
22. The EC shall determine if financial proposals are complete and consistent with the technical proposals;
23. The Procurement Specialist/Procurement Officer shall complete the final evaluation report ranking the proposals according to their combined technical and financial scores using the RFP assigned weights, and send it to the Bank for records;
24. The Procurement Specialist/Procurement Officer will invite the firm scoring the highest combined technical and financial score for negotiations informing it and outlining the negotiation topics;
25. The negotiation, carried out by the EC, will include: Discussion of technical proposal, work plan, staffing and firm's suggestions to improve the ToR, client and firm's agreement on the final TOR to be incorporated in the description of services, including adjustment of the financial proposal where appropriate, clarification on tax issues, if any, and on how to account for them in the Contract;
26. If negotiations fail with the top ranked firm, Procurement expert shall invite the firm with the second highest score with Bank's prior approval;
27. The Procurement expert shall incorporate the results of the negotiations in a Draft Contract to be sent to Bank for "No Objection";

28. After receiving Bank's "No Objection" to the draft negotiated contract, the contract is signed with the winning consultant;
29. The Procurement expert submits the copy of the final contract to the Bank;
30. The procurement Specialist/Procurement Officer publishes the contract award in UNDB through Client Connection and through the PPS website
31. The Procurement Specialist/Procurement Officer returns the financial proposals of the firms which did not pass the technical evaluation stage;
32. The firm shall submit the invoice for advance payment (if provided in the contract) and the bank guarantee, and PIU/MoLEVSA shall pay the amount promptly for work to begin;
33. After payment of the advance, the beneficiary institution is informed to proceed with introduction of the Consulting Company into work.

#### 7.4.2. Least Cost Selection - LCS

Least Cost Selection method is carried out in line with the Section 3.6. of the Consultant Guidelines.

LCS is based on the comparison of prices among those firms whose quality of proposal was determined as satisfactory, so it is appropriate for assignments of standard or routine nature. LCS procedure will be used for contracting consultant services related to the annual project audits under the Project.

Contracting of Audit Company on the project is carried out through single contract for all Project components.

The LCS process for audit shall generally include the following steps:

1. Preparation the TOR by the PIU and obtaining clearance from the Bank;
2. The Procurement Specialist publishes the Request for Expressions of interest (REOI) in UNDB online and the PPS website;
3. The Procurement Specialist collects the expressions of Interest received and files/copies them;
4. Procurement Specialist organizes the EC meeting (in adequate composition, depending on the beneficiary institution);  
Evaluation of the Expressions of Interest by the EC and preparation of the shortlist based on the list of eligible firms approved by the Bank;
5. Preparation of the Request for Proposal (RFP) to be addressed only to the eligible audit companies;
6. Technical and financial proposals are received by the Procurement expert in PIU in separate envelopes. Each envelope is marked "original" and "copy" as appropriate. Both envelopes are sealed in an outer envelope and marked "DO NOT OPEN EXCEPT IN THE PRESENCE OF THE EVALUATION COMMITTEE";
7. The EC, established by the PPS, shall open the technical proposals immediately after the deadline for submission of proposals;
8. The financial proposals shall remain sealed and kept in safe;
9. The EC shall evaluate and score the technical proposals based on the points assigned in RFP;
10. Audit companies scoring points equal to or greater than the minimum technical score (specified in the RFP) shall be considered for second stage evaluation of financial proposals;
11. The PIU Procurement Specialist shall prepare the Technical Evaluation Report and submit to Bank for "No Objection". If the contract is subject to post review, then the PIU Procurement Specialist proceeds to the next step;
12. After receiving the Bank's "No Objection" on the Technical Evaluation Report, the PIU Procurement Specialist shall notify the firms that passed the minimum score and will advise the date, time and address for public opening of the financial proposals;

13. At the opening of financing proposals, the EC Chairman shall announce the names of the consultants, their technical score, present the sealed envelope of the financial proposal, open the financial envelopes one by one, and the read-out amounts of the financial proposals. Financial proposals of firms which did not meet the minimum technical score will remain sealed and will be returned unopened after publication of contract award; ;
14. The PIU Procurement Specialist shall prepare the minutes of the financial proposals opening meeting and send it to the Bank;
15. The EC shall determine if financial proposals are complete and consistent with the technical proposal;
16. The PIU Procurement Specialist shall complete the final evaluation report and send it to the Bank;
17. The PIU Procurement Specialist will invite the firm with the lowest price for contract award/negotiations;
18. The EC shall conclude the negotiations with a review of the Draft Contract;
19. The negotiated contract is sent to the Bank for “No Objection”. If the contract is subject to post review, then the PIU Procurement Specialist proceeds to the next step;
20. After receiving “No Objection” from the Bank, the contract is signed by the responsible manager of the PPS director and the selected Audit company;
21. The PIU Procurement Specialist publishes the contract award in UNDB through Client Connection and through the PPS website;
22. The PIU Procurement Specialist returns the financial proposals of the firms which did not pass the technical evaluation stage
23. The contract is managed by the PIU.

#### **7.4.3. Selection Based on Consultant’s Qualifications - CQS**

The CQS method is carried out in accordance with the Section 3.7. of the Consultant’s Guidelines.

This method shall be used for assignments for which the need for preparing and evaluating competitive proposals is not justified.

*Threshold:* Contracts with an estimated cost below USD 300,000 (or equivalent).

Post review is acceptable, except for the first contract under this procurement method, which is subject to Prior Review.

The CQS process shall generally include the following steps:

1. Preparation of the TOR, estimated cost and the evaluation criteria;
2. Verification by the Procurement Specialist/Procurement Officer that the activity is in the procurement plan;
3. The Procurement Specialist/Procurement Officer advertises the Request for Expressions of Interest on the PPS website, or in a daily newspaper of wide circulation. This should provide the Procurement Specialist/Procurement Officer with information on consultants experience, qualifications and key staff experience, brochures, if any;
4. The EC, with the support of Procurement Specialist/Procurement Officer, reviews the expressions of interest received, and prepares the shortlist (at least 3) of companies who responded to the advertisement;
5. The EC shall select the firm with the best qualifications and references;
6. Procurement Specialist/Procurement Officer prepares the Request for Proposal (RFP) to be addressed only to the selected firm, using the format of the Request for proposals for CQS which



includes: Letter of Invitation (LOI), TOR to be provided by the Internal unit of beneficiary institution, Technical Proposal Standard Forms, Financial Proposal Standard Forms, Standard forms for contracts;

7. The EC will review the proposal received and if found acceptable will enter into negotiations with the recommended consultant;
8. The negotiation will include: Discussion of the technical proposal, work plan, staffing and firm's suggestions to improve the TOR;
9. The EC's agreement on the final TOR is incorporated in the description of services of the consultant;
10. Discussion of the financial proposal is based on Consultants' information on remuneration rates, as described in the Financial Proposal - Forms of the RFP;
11. Special conditions of the contract are defined, regarding i.e. clarification on tax issues, if any, and on how to account for them in the Contract;
12. The EC and consultant conclude the negotiations with a review of the Draft contract;
13. If the contract is subject to prior review, the draft negotiated contract is sent to the Bank for no objection. Otherwise, the contract is signed by the consultant, the responsible participating institution's representative and authorized person from PPS/MoLEVSA;
14. Awards of contracts shall be published as per paragraph 7 of Appendix 1 of the Consultant Guidelines.
15. The contact is managed by the PIU in cooperation with the participating beneficiary institution, or by the Procurement Officer in the MoLEVSA for components A.4 and B.2.

#### **7.4.4. Selection of Individual Consultants (IC)**

Selection of Individual Consultants (IC) is conducted in accordance with the Section V of the Consultant's Guidelines.

Individual Consultants are selected based on their qualifications for the assignment. They may be selected based on references or through comparison of qualifications among those expressing interest in the assignment, or be approached directly by the Project beneficiary.

In case the candidates are approached directly by the Project beneficiary institution, each institution which will benefit from its' services is obliged to submit to the Procurement Specialist/Procurement Officer the curriculum vitae of the candidates considered eligible for the contact execution. Each project beneficiary institution is fully responsible for monitoring contract execution by the consultant. The selected consultants are obliged to report to the institution – service beneficiary on their work. The beneficiary institution submits to the PIU, or to the experts engaged on B.2 component in MoLEVSA, signed report of the consultant (Timesheet or other form of the report, as required by the beneficiary) as a proof of work and achieved results of the consultant, for payment purposes.

Individual consultants selected by the Evaluation Committee must be fully able to execute the contract completely.

Prior Review: All contracts above USD 100,000 (or equivalent).

Selection of Individual Consultants generally includes the following steps:

1. Preparation of the TOR, estimated cost and the evaluation criteria;
2. Verification by the Procurement Specialist/Procurement Officer if the contact is in the Procurement Plan;



3. The Procurement Specialist/Procurement Officer can request additional information from candidates if needed, and/or advise the execution of procedure for collection of Request for Expressions of Interest (REoI);
4. The Procurement Specialist/Procurement Officer sends out the invitation letter to the consultants (on standard Individual consultant selection format), unless enough resumes have already been collected;
5. The interested candidates will send their resumes in due deadline;
6. The EC will evaluate the candidates' resumes and select the one that best fulfills the requirements specified in the TOR;
7. The Procurement Specialist/Procurement Officer prepares the evaluation report (on standard Evaluation form for individual consultants);
8. If the contract is subject to prior review, the Procurement Specialist/Procurement Officer sends the evaluation report, to the Bank for review and no objection, along with the CVs of the candidates;
9. Once the Bank's no objection is obtained, the selected consultant is invited for contract negotiations and the draft negotiated contract is sent to the Bank for review and no objection;
10. Once the Bank's no objection is obtained, the contract is signed;
11. A copy of the signed contract is sent to the Bank;
12. Contract award is published in the Client Connection.
13. Only for the contracts with the cost estimate above USD 100,000 equivalents are subject to the Bank's prior review or "No Objection", as well as for all contracts regarding engagement of experts in the PIU staff;
14. Once the No Objection has been received, the Evaluation Committee negotiates the Contract with the selected consultant;
15. The Contract negotiations are concluded with the review of the Draft Contract;
16. The contract is signed by the consultant, the responsible participating institution's representative and authorized person from PPS, or by authorized representative of MoLEVSA;
17. The Procurement Specialist/Procurement Officer submits the copy of the Contract to the Bank;
18. The contact is managed by the PIU, or by the Procurement Officer in the MoLEVSA for components A.4 and B.2.

#### **7.4.5. Other selection methods**

Following procedures, even though are not foreseen with the initial Procurement plan, are permitted under this Project, in accordance with the Loan Agreement:

1. FBS - Fixed Budget Selection – in line with the Section 3.5 of the Consultant's Guidelines;
2. QBS – Quality Based Selection – in line with the Section 3.2 of the Consultant's Guidelines;
3. SSS - Single source selection – in line with the Sections 3.8-3.11 of the Consultant's Guidelines.

Single Source Selection method can be used for engagement of Consulting Companies (as defined with the Sections 3.8–3.11 of the Consultant's Guidelines) as well as for the selection of individual consultants (as defined with the point 5.6 of the Section V of the Consultant's Guidelines).

#### **7.4.6. Types of contracts for consulting services**

For contracts above USD 300,000 (or equivalent), the Bank recommends the use of one of the following two Banks Standard Forms of Contracts:

1. Standard Form of Contract (Complex Time Based). This form is used for complex assignments, where the remuneration is determined on the basis of the time of involvement.



2. Standard Form of Contract (Lump Sum Based). This form is used when tasks to be performed are clear, risks taken by the consultant are minimal, and the consultant is to carry out the assignment with specific milestones or deliverables.

For contracts less than USD 300,000 (or equivalent) “Sample Form of Contract, Small Assignments” (Time Based or Lump Sum) can be used.

### 7.4.7. Prior approval by the Bank for procurement of the consulting services

In the following table, thresholds for prior review of the Bank, for the procurement of consulting services, are presented.

**Table 14. Prior approval thresholds by the Bank for procurement of consulting services**

	<b>Selection method</b>	<b>Method threshold (in US\$/EUR equivalent<sup>40</sup>)</b>	<b>Prior review threshold (in US\$/EUR equivalent<sup>41</sup>)</b>
1.	Quality and Cost Based Selection (QCBS) Quality Based Selection (QBS); Fixed Budget(FBS); Least-Cost Selection (LCS)	>USD 300,000 / EUR 268,245	USD 200,00/EUR 178,833
2.	Selection based on Consultants' Qualification (CQS)	<USD 300,000 /EUR 268,245	First contract and USD 200,000/EUR 178,833
3.	Single-Source Selection (SSS) for firms and individuals		USD 2,000 / EUR 1,788
4.	Individual Consultants (IC)		USD 100,000 / EUR 89,417 and all TORs and Contracts for PIU staff

### 7.4.8. Shortlist of consultants containing only national bidders

Shortlists of consultants for services, i.e. contracts under US\$300,000 (or equivalent) can comprise only national bidders/service providers, in accordance with the provisions of para 2.7 of the Consultant's Guidelines.

<sup>40</sup> The Bank's exchange rate used for calculation of equivalent EUR amount as of June 30, 2015: 1,11836

<sup>41</sup> The Bank's exchange rate used for calculation of equivalent EUR amount as of June 30, 2015: 1,11836

## 7.5. Procurement of Goods and Non-consulting services

With the initial Procurement plan, one procurement of goods, in the amount of EUR 15.000, is foreseen. Additional procurement of goods and non-consulting services can be included in the Procurement plan only after Bank's approval.

Goods, which can be procured under the contract, include IT equipment of minor value, software, office equipment etc.

No procurement of goods and non-consulting services of higher value is foreseen under the Project, as defined by the rules set forth with the Standard Bidding Documents under International Competitive Bidding – ICB of the Bank, and which include procurement over US\$1,000,000 (or equivalent). All ICB contracts, in case included in the procurement plan, are subject to the Bank's prior review.

For procurement of goods with value below USD 1,000,000 (or equivalent), the procurement will be carried out through National Competitive Bidding – NCB method.

Goods and non-consulting services with estimated value below USD 100,000 (or equivalent) can be procured using Shopping method in accordance with the provisions of the point 3.5 of the Procurement Guidelines.

In cases and circumstances that are in accordance with the provisions of the point 3.7 of the Procurement Guidelines, Direct contracting method with the prior approval of the Bank can be applied.

In the procurement procedures no preferences for local bidders can be given.

### 7.5.1. Shopping for Goods

Shopping for Goods method is conducted in accordance with the provisions of the para 3.5. of the Procurement Guidelines.

Prior approval of the Bank in case of Shopping for Goods is necessary for the first contract, while all successive contracts under this method are subject of the Bank's post review. Shopping is a procurement method based on comparing price quotations obtained from several suppliers, with a minimum of three, to ensure competitive prices, and is an appropriate method for procuring limited quantities of readily available off-the-shelf goods or standard specification commodities that are small in value.

Procurement procedure under Shopping for Goods method generally includes the following steps:

1. Verification by the Procurement Specialist that the contract is included in the Procurement Plan;
2. Preparation of Technical Specification and estimated cost;
3. Prepare the Invitation for Quotation (ITQ) and list of Suppliers, using the standard format. For the list of suppliers, a general advertisement requiring expression of interest may be used for all the goods that the Project will need if suppliers are not known to the beneficiary. List of suppliers could be obtained from business directories. Procurement Specialist/Procurement Expert should ensure that the firms to be invited are still in active business. It is recommended that quotations be solicited from more than three suppliers;
4. Send ITQ to selected Suppliers, ensuring confirmation of receipt is filed in the Procurement registries;



5. The Procurement Specialist receives quotations and organizes the evaluation by the Evaluation Committee.
6. The EC evaluates the received quotations and recommends award to the lowest evaluated substantially responsive firm;
7. Procurement Specialist prepares the Evaluation report;
8. For a contract subject to the Bank's prior review, notification of Award is sent to the selected supplier after receiving the Bank's no objection to the evaluation report;
9. The contract is signed with the supplier, the responsible participating institution's representative and authorized person from PPS, or MoLEVSA;
10. Contract award is published;
11. Procurement expert sends out information to the unsuccessful suppliers;
12. Contract is managed by the PIU or MoLEVSA.

### 7.5.2. Other procurement methods for goods and non-consulting services

Evan though following procurement methods are not used in the initial Procurement plan, they could be used under this Project, if appropriate, based on the cost estimate of the package:

**ICB** - International Competitive Bidding in accordance with the Section 2 of the Procurement Guidelines;

**NCB** – National Competitive Bidding in accordance with the Section 3.3 of the Procurement Guidelines and additional rules defined with the Schedule 2 of the Program 2 of the Loan Agreement.

**DC** - Direct Contracting in accordance with the Section 3.7 of the Procurement Guidelines.

### 7.5.3. Prior approval of the Bank for procurement of goods and non-consulting services

Decision on selection of the suppliers of goods and non-consulting services are subject of the Bank's prior approval, as defined with the Annex 1 of the Procurement Guidelines, as follows:

**Table 15. Prior approval of the Bank thresholds for procurement of goods and non-consulting services**

	Procurement method	Method threshold (in US\$/EUR equivalent) <sup>42</sup>	Prior review threshold (in US\$/EUR equivalent) <sup>43</sup>
1.	International Competitive Bidding (ICB) for Goods	>USD 1,000,000 /EUR 894,166	USD 500,000 / EUR 447,083
2.	National Competitive Bidding (NCB) for Goods	<USD 1,000,000 /EUR 894,166	First contract

<sup>42</sup> The Bank's exchange rate used for calculation of equivalent EUR amount as of June 30, 2015: 1,11836

<sup>43</sup> The Bank's exchange rate used for calculation of equivalent EUR amount as of June 30, 2015: 1,11836



3.	Shopping (SH) for Goods	<USD 100,000 /EUR 89,417	First contract
4.	International Competitive Bidding (ICB) for Works	>USD 5,000,000 /EUR 4,470,832	USD 5,000,000 / EUR 4,470,832
5.	National Competitive Bidding (NCB) for Works	<USD 5,000,000 /EUR 4,470,832	First contract
6.	Shopping (SH) for Works	<USD 200,000 / EUR 178,833	First contract
7.	Direct Contracting	-	USD 50,000 / EUR 44,708

## 7.6. Procurement records

The Procurement consultants in PIU and in MoLEVSA will maintain complete procurement records, in accordance with sound procurement practices (including related supervision, review and auditing), the procurement activities on the Project and ensure that all such records are retained at least two (2) years after the Closing Date. Procurement expert in PIU is responsible for procurement records relative to components A.1, A.2, A.3 and B.1, while the Procurement expert in MoLEVSA is responsible for procurement records relative to components A.4 and B.2.

Procurement records mean:

With respect to procurement of goods, services and works: public notices of bidding opportunities; bidding documents and addenda; bid opening information; bid evaluation reports; formal appeals by bidders and outcomes; signed contracts, addenda and amendments; records on claims and dispute resolution; and records of time taken to complete key steps in the process.

With respect to selection of consultants: public notices for expressions of interest; requests for proposals and addenda; technical and final evaluation reports; formal appeals by firms and related outcomes; signed contracts, addenda and amendments; records on claims and dispute resolution, and records of time taken to complete key steps.

### 7.6.1. Communication and supervision

With the aim of avoiding any confusion, the procedures defined in this POM foresee clear lines of communication between the PIU Procurement Specialist, and/or Procurement expert in MoLEVSA and participating institutions, as well as between the PIU and the Bank, such as the correspondence procedures regarding the changes to the Procurement Plan and disbursement of the Loan proceeds for the Part B of the Project by the Bank, which is always carried out through PIU, including the intermediation of the PIU between the Procurement expert and the Implementation and financial expert in MoLEVSA and the Bank.

The goal of such detailed communication arrangements is to enable the accuracy and completeness of the information expected by the Bank. Additionally, precise definition of the procedures enable the PIU to follow the procurement procedures and other activities under Part B of the Project, and intervene timely in case of omissions or delay. Centralized coordination of the technical and administrative

content of the Project enables also timely production and delivery of the expected project reports to the Bank.

## **7.7. Corruption and fraudulent activities**

The Bank requires that the recipients, direct and indirect beneficiaries, as well as Contractors, Suppliers and Consultants participating in Bank-financed Projects adhere to the highest ethical standards, both during the selection process and throughout the execution of a contract. In pursuance of this policy, the Bank defines the terms set forth below:

1. “corrupt practice” is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence the actions of another party;
2. “fraudulent practice” is an act or omission, including misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain financial or other benefit or to avoid an obligation;
3. “collusive practices” is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party;
4. “coercive practices” is impairing or harming, or threatening to impair or harm, directly or indirectly, persons or their property to influence their participation in a procurement process, or affect the execution of a contract;
5. “obstructive practice” includes:
  - 5.1. deliberately destroying, falsifying, altering, or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive, or collusive practice; and/or threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or
  - 5.2. acts intended to materially impede the exercise of the Bank’s inspection and audit rights.

The PPS and all participating institutions, including bodies established for the purposes of this Project are obliged to address any potential issues on fraud and corruption and to proceed in accordance with Bank’s Guidelines on Preventing and Combating Fraud and Corruption, Procurement Guidelines (paragraph 1.16.) and Consultant Guidelines (paragraph 1.23.).

## **7.8. Safeguards**

### **7.8.1. Social and environment safeguards (including protective measures)**

As a main coordinating body on the Project, the PPS is responsible for implementation of social and environmental safeguard measures in accordance with the procedures set forth with the ESMF. The PPS works in close cooperation with participating institutions, especially with the MoESTD and IF (component A.3) in the implementation of the Project activities. During Project lifecycle individual Environmental and Social Management Specialist will be contacted for supervising sub-projects/grants financed under MGs program, in order to ensure:

1. compliance with the World Bank Group (IFC) exclusion list;
2. that no sub-projects with significant impacts of a Category A type are supported;
3. that subprojects/grants will not necessitate involuntary land acquisition, and





4. that no safeguard policy of the Bank, except OP/BP 4.01 on Environment protection assessment, is activated.

All activities corresponding to the World Bank Category B projects should have an Environmental Management Plan in place prior to approval that would identify potential environmental impacts and provide adequate mitigation measures.

Additionally, the Environmental and Social Management Specialist is responsible for ensuring that all outputs of the technical assistance on the Project are consistent with the Bank's safeguards.

### 7.8.2. Gender equality and marginalized groups

The project is fully gender-informed and addresses all three of the WBG's gender tags, including:

- *Gender analysis and/or consultation on gender related issues.* To ensure that the Project neither continues nor exacerbates gender inequality in employment, gender analysis will be incorporated in component 4.C, improving work incentives of social assistance beneficiaries.
- *Specific actions to address the distinct needs of women and girls, or men and boys, or positive impacts on gender gaps.* Analysis of and recommendations on the active labor market programs ALMP's under component 4.B will take into account beneficiary characteristics, including gender indicators.
- *Mechanisms to facilitate monitoring and/or evaluation of gender impacts.* Gender disaggregated statistics where applicable, such as for owners of enterprises and startups in (component 3.A) and NES job placements that are female (component 4.A) will be monitored.

### 7.8.3. Citizen engagement

Citizen engagement plays a major role in increasing the effects of the Project and improvement of the outcomes of supported reforms. It is expected that the cooperation with the key groups, such as the Chamber of Commerce of Serbia be continued during the projects lifecycle, given the fact that the Bank, during the Project assessment period has included this and other institutions in the dialogue.

Citizen engagement will be implemented also through periodic surveys, such as with beneficiaries of the MGs program of the IF, as well as the beneficiaries of the NES services. For these activities, the indicators have also been set.

## 8. PROJECT FINANCIAL MANAGEMENT

### 8.1. Project financing

This project is financed from the EUR 89.5 million (USD 100 million) IBRD Loan. Part A of the Project financing is based on the achievement of results, while the part B is financed based on the Statement of Expenditures (SoE).

Allocation of funds, and possible amount of loan disbursements by Project component, is provided in the following table:

**Table 16. Distribution of and possible disbursement values of Loan proceeds by components**

<b>Component:</b>	<b>Value, USD Mil.<sup>44</sup></b>
<b>A.1. Policy planning, monitoring and coordination</b>	<b>4.00 (EUR 3.60)</b>
<b>A.2. Investment and export promotion</b>	<b>22.00 (EUR 19.7)</b>
<b>A.3. Innovations</b>	<b>35.00 (EUR 31.3)</b>
<b>A.4. Labor/Employment</b>	<b>34.00 (EUR 30.4)</b>
<b>B. Technical Assistance for the Project Management</b>	<b>4.75 (EUR 4.25)</b>

Disbursement of funds for the A part of the project (EUR 86.47 million) are conditioned by the execution of EEPs and the achievement of DLIs (partial or total) simultaneously, while the disbursement of funds from the loan for part B (4:56 EUR million) is based on the Statements of Expenditure (SoE - Statements of expenditure) for the management activities and the implementation of the Project.

The front-end fee is paid from the part of the loan dedicated to the Part B of the Project, and is deducted from the total loan amount.

The Fiduciary functions rules of the Bank shall apply to EEPs for all payments<sup>45</sup>.

More precise, distribution of funds by DLIs, components and subcomponents, as well as the calendar of possible payments is provided in the following table:

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<sup>44</sup> Available loan funds are smaller than signed amount (EUR 89.5), because 0.25% of the front end fee.

<sup>45</sup> Estimation of the fiduciary functions discuss whether procedural or other solutions on the Project enables rational usage of the loan, with due attention to the efficiency, effectiveness, transparency and responsibility. Procurement procedures should be estimated up to the point where planning, competing, evaluation, contract award and contract management provide rational insurance that Project will achieve expected results through the procurement processes and procedures. Financial Management System is estimated up to the point where planning, budgeting, accounting, internal control, cash flows, financial reporting and audit provide rational insurance for appropriate use of funds on the Project, and usage of the assets provided during the Project. Estimation of the fiduciary functions shall also take into account how Project measures against corruption and fraudulent activities are implemented, including complains management mechanisms, and how those risks are reduced or how they are managed.

**Table 17. Distribution of Loan proceeds by DLI, components and subcomponents and possible disbursement calendar**

Disbursement Linked Indicators		2015	2016		2017		2018		Total
		Retro /2015	Partial (mid-year)	Total 2016.	Partial (mid-year)	Total 2017.	Partial (mid-year)	Total 2018.	
<b>A.1. Policy planning, monitoring and coordination</b>									
<b>DLI 1</b>	Policy planning, monitoring, and coordination (PPMC) system (in support of competitiveness and jobs reforms) piloted	0.895	0.224	0.895	0.224	0.895	0.224	0.895	3.58
<b>A.2. Investment and export promotion</b>									
<b>DLI 2</b>	MoE investment and export promotion programs restructured		2.685	7.16		6.265		6.265	19.69
<b>A.3.1 : Supporting the enterprise innovation</b>									
<b>DLI 3</b>	Enterprise innovation supported via the Innovation Fund ("IF") Matching Grants Program		1.193	3.58	1.593	3.58	1.593	3.58	10.74
<b>A.3.2: Facilitate technology transfer and commercialization activities</b>									
<b>DLI 4</b>	Technology transfer and commercialization facilitated via the IF TTF		0.9	2.685	2.685	2.685	3.58	3.58	8.95
<b>A.3.3: Design and adoption of public research sector reforms</b>									
<b>DLI 5</b>	Public research sector reforms designed and adopted	2.685	2.685	2.685	1.79	3.58	2.685	2.685	11.635
<b>A.4.1: Enhancing the effectiveness of NES labor intermediation services</b>									
<b>DLI 6</b>	Effectiveness of NES labor intermediation services delivered to clients (employers and unemployed) improved		0.9	2.685	0.9	1.79	0.9	2.685	7.16
<b>A.4.1: Enhancing the effectiveness of NES labor intermediation services</b>									
<b>DLI 7</b>	Case load management in NES branch offices improved	0.895	0.9	2.685	0.9	2.685	0.9	2.685	8.95
<b>A.4.2: Improve the effectiveness of ALMPs</b>									
<b>DLI 8</b>	Effectiveness of ALMPs improved through statistical evidence	0.895	0.9	2.685	0.9	2.685	0.9	2.685	8.95
<b>A.4.3: Facilitate the transition of social assistance beneficiaries into formal jobs</b>									
<b>DLI 9</b>	Transition of social assistance beneficiaries into formal jobs facilitated		0.7	1.79	0.7	1.79		1.79	5.37
<b>B. TA - Project management and implementation support</b>									<b>4.25</b>
B.1. TA for PPS, MoE, MoESTD					3.015				3.015
B.2. TA for MoLEVSA					0.445				0.445
Contingencies					0.79				0.79
*Front end fee - 0,25%					0.25				0.25
<b>TOTAL DISBURSEMENTS EXPECTED</b>		<b>5.37</b>		<b>26.85</b>		<b>25.955</b>		<b>26.85</b>	<b>89.525</b>
			<b>11.087</b>	<b>15.763</b>	<b>9.692</b>	<b>16.263</b>	<b>10.782</b>	<b>16.068</b>	

**Legend:** The columns with pattern represent possible partial payments if the Partial DLIs are achieved at mid-year. White columns represent projected total annual payment (and they are not depended on the achievement of results at mid-year).



## 8.2. Categories of the Eligible Expenditure

Table below defines Categories of eligible expenditures on the Project that can be financed from the Loan, provides information on the allocation of loan funds across Categories, and percentage of costs financed as Eligible Expenditures in each Category.

**Table 18. Categories of the eligible expenditures**

Categories	Loan Allocations (in EUR)	Percentage of costs that will be financed
(1) EEPs under Part A of the Project	85.025.000	100% up to the amount of the Loan allocated for each DLI as set out in Schedule 4 of the LA
(2) Goods, non-consultant services, consultant services, training, operational costs for part B.1 of the project	3.817.175	100%
(3) Consultant services for part B.2 of the project	434.075	100%
(4) Front-end Fee	223.750	Amount payable pursuant to Section 2.03 of the LA, in accordance with Section 2.07 (b) of General Conditions
<b>TOTAL</b>	<b>89.500.000</b>	

Loan proceeds, i.e. percentage of costs that will be financed from the Loan proceeds for Categories 2 and 3 of the eligible expenditures, contain net salaries/remunerations of the engaged consultants and all belonging taxes and social contributions, as well as all taxes on purchase of goods, training and operational costs on the Project.

Trainings can also be financed from this loan. PPS will, in cooperation with Internal Units of the participating institutions develop annual Training Plan, which must be approved by the Bank. Reporting on the execution of Training Plan should be on semi-annual basis, in line with the reporting system on the Project (Procurement Plan Execution Reports).

Trainings represent expenditures (other than for consultants' services), incurred during the implementation of the Project, based on periodic budgets (Procurement Plans) acceptable to the Bank, for: (i) reasonable travel, room, board and per diem expenditures incurred by trainers and trainees in connection with their training; (ii) course fees; (iii) training/workshop facility and equipment rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered.

Trainings include seminars, conferences, workshops and study visits related to the activities on the Project, which are included in the annual Training Plan. The Training Plan should cover lists of participants, agenda for trainings and estimation of needed financial funds. Experts that will prepare, facilitate or implement training should be selected through the adequate procurement procedures and methods (see Heading 7 for more information). Procurement of such experts should be included in the Procurement Plan, based on the agreed Training Plan.



Operational costs can also be financed from this loan. Operating costs represent reasonable incremental expenses incurred on account of implementation of the Project, for office supplies and other consumable goods, office rent, internet connection and communications costs, support for information systems, translation costs, bank charges, utilities, reasonable travel, transportation, per diem, accommodation costs (lodging), and other reasonable expenditures directly associated with the implementation of the Project, on the basis of semi-annual budgets acceptable to the Bank, excluding salaries of the RS civil service. Operating costs are not subject of IMWB decision.

### **8.2.1. Project contingencies**

Contingencies are projected at EUR 790,000.

These funds can be used for procurement of additional consultant services, support to the project implementation, procurement of goods, non-consultant services, training and operational costs, only after amending the Procurement Plan, in accordance with the previous approval from the Bank.

Any funds not spent from contingencies are disbursed at the end of the Project together with the last disbursement for the part A of the Project.

### **8.2.2. Savings on the project**

Savings on the Project are possible to achieve through the procurements, if the contract is of signed for a value less than estimated, as well as in the cases when during the implementation of the contract with the engaged consultant or supplier expected results are achieved, that is if the good and services are delivered in the expected quality, and quantity, with a savings in time or other resources allocated for that contract.

Cost savings can also be achieved in cases where the contract with the consultant is terminated, provided that the beneficiary institution conducts independently the remaining activities that were in the scope of work, or defined by the TOR of this consultant, or finances remaining activities from other sources.

The savings are attributed to the contingencies on the Project.

## **8.3. Eligible Expenditures Programs (EEPs)**

Throughout the negotiations, in the phase of project preparation, it has been defined that the Loan funds are disbursed under the condition that the Eligible Expenditure Programs (EEPs) are executed by the institution responsible for implementing the reform, that is:

- 1.** Ministry of Economy;
- 2.** Ministry of Education, Science and Technological Development, and
- 3.** National Employment Service.

EEPs include expenditure for salaries paid to the civil servants and others engaged in the preparation and implementation of the reforms supported by the Project. Amount of EEPs in 2015 and projections for each following year (2016/2018) are defined during the negotiations, as follows:



**Table 19. 2015 EEPs Overview**

Budget line	2015 (u mil. €)	2016+ (u mil. €)
<b>Ministry of Economy salaries (select units/agencies)</b> All expenditures for salaries, by all budget programs for all employees in the ministry within Heading 20,0 of the MoE budget (except specialized services – functioning of the agencies: AP, SIEPA and NARD)	1.3	1.3
<b>Researcher salaries (R&amp;D Institutes)</b> Net remunerations to researches within budget program of MoESTD for science and research (Section 24, Heading 24.0, Program 0201, Function 140, Program activity 0001 and economic classification 424).  NOTE: This budget line is bigger as it contains operational costs and contributions, while EEPs include only net salaries of researchers within this budget line.	72.7	72.7
<b>NES – salaries:</b> National Employment Service salaries form Financial Plan for 2015 (economic classification 411000 of the NES Financial Plan)	13	13
<b>TOTAL</b> (> than total annual loan withdrawals)	87	87

Disclaimer: The figures are rounded.

EEPs are directly linked to the achievement of DLIs, as they assume the work of civil servants and others employees in participating institutions who participate in the design and implementation of reforms supported by the Project, so the loan withdrawals for the part A of the Project are conditioned by both budget execution for EEPs and with achievement of DLIs.

Minimal amount of EEPs at the mid-year are introduced in order to stimulate better coordination, monitoring and reporting on their execution (see Heading 5.6 of this POM). If the institutions are in delay with the execution of EEP at the mid-year, and those EEPs can endanger the rule that the total disbursement request per reporting period cannot be higher than the executed EEPs, they have to define the measures in order to reduce the risk of executing EEPs below the planned value.

EEPs values, as of 2016 (and successive years) are presented in the **ANNEX 9 – Eligible Expenditure Programs for 2016** of this POM.

### 8.3.1. The procedure for amending the amount of annual EEPs

In order to monitor EEPs execution, this POM (**ANNEX 9 – Eligible Expenditure Programs for 2016**) defines budget lines in Program Budget of participating institutions/financial plan of NES, as of 2016 that contain EEPs.

PIU and MoLEVSA Financial Experts determine EEPs for each budget year after the adoption of Budget Law, as well as its eventual amendments, in cooperation with Internal units. Amounts in euros are calculated using the middle exchange rate of the NBS on the day when the Budget Law/Budget Amendments are adopted.

All changes in EEPs value shall be submitted to the Bank.



## 8.4. Reporting on the execution of EEPs

Each institution that has EEPs submits to PPS semiannually, through its Internal Unit, the documentation proving the execution of EEPs in accordance with reporting timeline:

1. MoE submits copy of statement of its subaccount within Single Treasury Account, which contains the indication of appropriate budget line (including section, heading, program, function, program activity/project, economic classification, description and RSD amount) each time when change has been made on that specific budget line (appropriation) and at least on semi-annual basis. A copy of account statement has to be signed by the authorized person from MoE.

2. MoESTD submits copy of subaccount statements within Single Treasury Account that contains the indication of appropriate budget line (including section, heading, program, function, program activity/project, economic classification, description and RSD amount) each time when change has been made on that specific budget line (appropriation) and at least on semi-annual basis. It also submits tabular form filled with net remunerations/salaries paid to the RDI researchers, in order to clearly separate them from other expenditures that are financed from that specific budget line. Copy of account and table have to be signed by the authorized person within MoESTD.

3. NES submits a letter, signed by the authorized person from the NES, with the amount of salaries, allowances and remunerations paid to employees in the NES, i.e. the report on execution of economic classification 411000 of the NES Financial Plan.

Evidences on the execution of EEPs are delivered to the PIU, they are denominated in RSD, as they are budgeted. Financial experts, during preparation of reports for the Bank, convert EEPs amounts into EUR using the average middle exchange rate of NBS for the reporting period (six months/semester).



## 8.5. Disbursement Linked Indicators

Since this Project uses the results-based financing modality, there are 9 indicators for part A of the Project (DLIs- Disbursement Linked Indicators), whose achievement is condition for the disbursement of the loan funds to the Budget of RS.

Recognition of achievement of DLIs by the Bank shall be carried out by comparing the achieved results with the Verification protocols, which represent a set of conditions, assumptions and activities that should be undertaken and proved during the reporting period. Verification protocols are defined under the headings in which each individual component or sub-component of the Project are described. The value of the funds for each DLI that can be withdrawn to the RS Budget are provided in the following table.

**Table 20. Potential payments through the DLIs**

DISBURSMENT LINKED INDICATORS (DLIs)		Total EUR, mil.
<b>A.1. Policy planning, monitoring, and policy coordination</b>		
DLI 1	Policy planning, monitoring, and coordination system piloted (in support of competitiveness and jobs reforms)	3.58
<b>A.2. Investment and export promotion</b>		
DLI 2	MoE investment and export promotion programs restructured	19.69
<b>A.3.1 Supporting to IF operations and its MGs Program</b>		
DLI 3	Enterprise innovation supported via the Innovation Fund Matching Grants Program	10.74
<b>A.3.2 Facilitate technology transfer and commercialization activities</b>		
DLI 4	Technology transfer and commercialization facilitated via the Innovation Fund Technology Transfer Facility	8.95
<b>A.3.3 Design and adoption of public research sector reforms</b>		
DLI 5	Public research sector reforms designed and adopted	11.635
<b>A.4.1 Enhancing the effectiveness of the NES labor intermediation services</b>		
DLI 6	Effectiveness of NES labor intermediation services delivered to clients (employers and unemployed) improved	7.16
<b>A.4.1 Enhancing the effectiveness of the NES labor intermediation services</b>		
DLI 7	Case load management in NES branch offices improved	8.95
<b>A.4.2 Enhancing the effectiveness of ALMPs</b>		
DLI 8	Effectiveness of ALMPs improved through statistical evidence	8.95
<b>A.4.3 Facilitating transition of financial social assistance beneficiaries into formal jobs</b>		
DLI 9	Transition of social assistance beneficiaries into formal jobs facilitated	5.37
<b>B. TA Support for the managing and implementation of the Project</b>		<b>4.25</b>
B.1. TA for PPS, MoE, MoESTD		3.015
B.2. TA for MoLEVSA		0.445
Contingencies		0.79
Front-end Fee - 0,25%		0.25
<b>TOTAL</b>		<b>89.525</b>





As DLIs are usually composite (they contain multiple results which should be achieved usually within one calendar year), they are decomposed into elements in the way that will allow defining partial values of DLIs for which loan can be partially withdrawn for the part A of the Project (for the elements of the results achieved at the mid-year), compared to the total amount which is projected for each DLI.

The DLI achievement proofs, as it is defined by the Verification protocols and targeted values for each DLI, are submitted to PPS by participating institutions. Evidence on the achievement of DLI should be submitted through the system of periodical reporting on the Project, in accordance with reporting timeline (see Heading 5.5).

PPS carries out initial reviews of the acceptability of the verification document which should prove the achievement of DLIs. Once found to be acceptable, PPS submits them to the Bank along with other Project reports and after the adoption by the IMWB. The DLIs achievement proofs have to be approved by the Bank, both in terms of technical content of evidences and the way in which they are presented, in order to recognize the achieved results and accept disbursement requests for the part A of the Project.

Loan funds shall be transferred to the state budget three months after the reporting period, or one month after the disbursement request is sent. So payments for annual DLIs should be expected in March, and for semiannual in September. Taking into account state budget liquidity issues at the end of the year, institutions should make an effort to achieve DLI at the mid-year.

### 8.5.1. Annual and partial DLI values

DLIs values are generally set on annual basis. For some DLIs, the partial execution is possible and thus the withdrawal of part of the total loan amount for part A of the Project connected to that DLI.

Partial DLI values are described under the headings related to each component or subcomponent of the project. Verification protocols that hold for annual hold for semiannual DLI also, unless otherwise defined.

Submitting of Disbursement requests for the partial DLIs at mid-year is optional, but it is highly recommended to use it.

If the annual DLI is achieved before the end of first semester, it is possible to request disbursement using the reporting system at mid-year, i.e. through Progress report.

In the situation when only the partial DLI is achieved at the end of the year, and not the annual DLI, it is possible to submit the partial disbursement request at the end of the year. In that case, the procedure is carried out in accordance with the rules applicable in cases where DLI is not reached within the deadline as described under the heading 8.5.2 of this POM.

DLIs for which there is no partial value defined, i.e. where disbursement of the loan is not foreseen for partial fulfillment of the DLI, it cannot be split without the prior consent of the Bank. Reviewing the results and proposing changes in the indicators and results is carried out by the IMWB, on a proposal of any of the members in accordance with this POM and the Rules of Procedure of the IMWB.

### 8.5.2. What if DLI is not achieved within deadline?

In accordance with LA, if the Bank based on submitted reports on the Project, concludes that:

- (i) DLIs are only partially achieved, planned funds will be reduced to degree of fulfillment of DLIs (partial DLIs), using the formulas defined in this POM (Verification protocols). Residual amount will be available in future periods, when DLI is completely achieved;



- (ii) Any DLI is not achieved, total amount of funds allocated to that specific DLI shall be available in future periods. Such amount can be withdrawn when DLI, which have not been achieved in previous period, are subsequently achieved.

In the case when annual DLI is not achieved, institution responsible for its achievement submits to the IMWB (through PPS) proposal of Request for Reassessment that should contain:

- (a) Explanation, an
- (b) Action plan for achieving targeted value of DLI.

IMWB considers proposal of Request for Reassessment during the period of Performance Review preparation and recommends improvements and modification of explanations and of the Action Plan.

Proposal of the Request for Reassessment shall be submitted during the regular meetings of the IMWB according to the reporting calendar for the Performance Report (January-February). If any participating institution during continuous monitoring of the Project determines that it is possible that it will not be able to achieve an annual value of DLI, it is obliged to request, via PPS, convening of the IMWB meeting in order to prepare a plan for troubleshooting.

The IMWB, through PPS, submits Requests for Reassessment to the Bank. The Banks decision upon Request for Reassessment can lead to the change project documents, including the Loan Agreement, if necessary. In case changes to the Loan Agreement are necessary, they shall be made in accordance with the Government Rules of Procedure. In this case, proponent of amendments of the Loan Agreement to the Government is MoF (which has its representatives in IMWB).

At its discretion, the Bank can issue a waiver and determine the amount and timing of the withheld disbursement, depending upon the explanation in the Request for Reassessment.

If DLI is achieved earlier, the Disbursement request may be submitted in any of the reporting period of the Project (every 6 months, in line with the reporting timeline).

## 8.6. Financial management

PPS, with the support of PIU, maintains Projects' financial management system. Following institutions and individuals are responsible for Project financial management:

1. PPS with support of Financial Expert within PIU (FE B1), which is responsible for his work to the PIU Head, and
2. MoLEVSA, with support of Expert of operational and financial management of the project (FE B2), which is responsible for its work to the MoLEVSA and cooperates with FE B1.

Financial management system should be in accordance with standards of financial management, reporting and accounting of the Bank and RS, including implementation of fiduciary functions.

Financial experts are responsible for general financial, accounting and administrative aspects of the Project, as well as for maintaining efficient system of financial management of the Project implementation, including support in management of Project accounts. Accounting information and documentation on the Project should be updated daily in order to secure efficient reporting, planning and Project budgeting.



### 8.6.1. Financial Experts Scope of Work

Financial Experts prepare Project budgets, keep records of all transactions on the Project, control budget execution and prepare financial reports on the Project. These activities include:

1. Participation in the development, promotion and application of procedures provided in this POM, production of the Project budget; participation in the preparation of the budget rebalance/supplements, if necessary, including the networking with the financial officers of participating institutions (through Internal units) and the Ministry of Finance, to ensure the inclusion of all expected and executed expenditures on the Project;
2. Financial management of the project, including collecting and controlling of the financial and accounting documents and reports, compilation and preparation of common financial reports (FE B1), monitoring cash flows on the Project, archiving and keeping of financial and accounting documents (copy of the account in the Treasury by component, reports on execution of EEPs, SoE, contracts, payments received and made and financial plans);
3. Bookkeeping in a manner acceptable to the Bank;
4. Development and implementation of the financial management system on the Project, which includes loan and budget control procedures, in order to allow adequate monitoring and advising of the PIU Head on issues concerning the availability of national funds and funds from the Bank;
5. Develop procedures and templates for the preparation of semi-annual and annual reports and audit of financial performance within the budget, and training of civil servants of participating institutions on the financial management of projects;
6. Preparation of the financial documentation (including systematic submission of basic documentation) and IFRs for part A and part B of the Project;
7. Preparation of the regular financial reports on the Project level related to the financial status for internal/external use (MoF, Bank, NBS and participating institutions);
8. Expenditures monitoring and control of expenditure compliance with the budget, including preparation of the financial plan of the Project for the purpose of the preparation of the Program Budget of the RS;
9. Timely and accurate submission of information on financial transactions to the Bank for the purpose of settling payments and replenishment of the designated account of the part B of the Project, and the preparation of Disbursement request for part A and part B of the project;
10. Communication and coordination with the NBS and the Treasury, in which designated foreign currency and RSD accounts needed for the part B of the Project are opened;
11. Monitoring the compliance of the work of technical unit in MoLEVSA (for FE B2) with the procedures of financial management on the Project and reporting to the PIU Head;
12. The primary contact and cooperation with the independent external auditors and Bank staff during supervision missions and audit execution;
13. Other financial operations in order to support the implementation of the Project, and at the request of the PIU Head, i.e. MoLEVSA for FE B2.

Specific tasks of the Financial experts are further defined in the TOR for their engagement.



## 8.7. Financial reports

Financial expert prepares:

1. Interim Financial Reports, semiannually, in accordance with the reporting timeline, and
2. Annual (separate) Financial Report, at the end of the calendar year that is a subject to the external audit.

Reports are made in accordance with cash-based IPSAS (International Public Sector Accounting Standard), using the templates provided in the Annex 7 – Financial report templates of this POM.

### 8.7.1. Interim financial Reports

All institutions that are required to report on the EEPs execution have to prepare semiannual reports on execution of EEPs, i.e. report on the execution of the budget appropriations which are assigned for payments of salaries of civil servants or other employees (see more under Heading 8.4), and submit them to the financial expert of PIU.

Financial expert prepares common IFRs using the inputs from all participating institutions and collected and processed accounting records for both part A and part B of the Project. IFRs are submitted to the Bank within 60 days from the end of the reporting period, in accordance with reporting timeline.

Financial expert under component B.2 prepares IFRs for components A.4 and B.2, and submits them to Financial expert in PIU in accordance with reporting calendar, for integration and preparation of common IFR for the Project as a whole.

IFRs are made semiannually for both parts of the Project (A and B). IFR for part A is made in EUR and RSD, and for part B in EUR, on templates defined in this POM.

IFRs represent a part of the conditions for loan withdrawal, demonstrating, inter alia, execution of EEPs

### 8.7.2. The content of IFR

The preparation of the IFR is based on the accounting records of cash transactions and reports on execution of EEPs submitted by Internal Units of MoE, MoESTD and NES.

IFR contain:

- (a) Overview of the sources and purposes of funds by Categories of eligible expenditures;
- (b) Overview of expenditures by components of the project and accumulated amounts up to date of the preparation of the IFR;
- (c) Reports on transactions on the Designated Account, including subaccounts, which provides information on the account settlements and includes information on the payments by the contracts whether they are subject of prior approval or not.
- (d) Report on execution of the Procurement Plan.

IFR for the **part A** of the Project, denominated in RSD, contains:

- Inflows and outflows, including comparison of planned vs. actual budget;
- Disbursement requests for the part A of the Project (based on achieved results);
- Explanations and accounting policies.



IFR for the **part B** of the project, denominated in EUR, contains:

- Inflows and outflows, including comparison of planned vs. actual budget;
- Expenditures by activities;
- Copies of all account statements related to the implementation of the Project;
- Explanations and accounting policies.

PPS submits IFR to the Bank. Additionally, on the request of Bank, PPS will submit other financial data and requested information. IFRs, approved by the bank, is the basis for the presentation of the Disbursement request for the A part of the Project.



### 8.7.3. The consequences of invalid IFRs and other reports on the Project

As defined in the LA, Bank is not obliged to accept any Disbursement requests if, at any moment, it considers that IFRs and other reports submitted to the Bank are not realistically reflecting the facts.

If the Bank, at any time, determines that any amount of the loan was used to pay for ineligible expenses, or that expenditures are not justified with the evidence submitted to the Bank, PPS will immediately after the Bank notifies it, submit additional evidence as the Bank may request, or will make a refund to the Bank in amount equal to the amount of such payments. Unless the Bank otherwise agrees, the Bank will not continue to approve the withdrawal of funds, until the evidence or refund are provided, depending on the situation.

Refunds to the Bank conducted in the manner indicated above will be transferred to the loan account for subsequent withdrawal of funds or cancelation, as the Bank may decide, in accordance with the provisions of the LA.

## 8.8. Annual Financial Reports

Financial expert prepares annual financial report, , in accordance with reporting timeline.

Annual financial reports are made for part A and part B of the Project, and they are subject to the independent external audit, acceptable to the Bank. PPS is obliged to contract independent audit of annual financial reports in accordance with Bank procedures and TOR defined in this POM.

Report on auditing of the annual financial reports should be submitted to the Bank within by June 30 for the prior year.

## 8.9. Loan withdrawals

Loan withdrawals takes place in two parallel cycles:

1. **Semiannually** – for the part A of the Project, based on the achieved results and EEPs execution in the period January – June and July-December.
2. **Periodically** – for the part B of the Project, upon submission of request for payments, based on the Statements of Expenditure (SoE).

The final deadline for the loan withdrawal is four months after the end of the Project.

Loan proceeds for the A part of the Project are available within one month after IFR are submitted, or after the Disbursement request has been sent, so for those disbursement requests submitted along with the annual report the payment should be expected in March, and for semiannual reports in September. Taking into account that there are State Budget liquidity issues at the end of the year, institutions should try to achieve DLIs until the mid-year.

### 8.9.1. Minimal amount of Disbursement requests

Loan funds are paid on the basis of Disbursement Letter, and according to the following conditions:



- a) For Category 1 of eligible expenditures minimal amount in Disbursement letter is at least EUR 500,000.00 or the equivalents,
- b) For Category 2 and 3 of eligible expenditures, i.e. for technical assistance for the part B of the Project, minimal amount of Disbursement letter is at least EUR 100,000.00. In the case of advance payments, maximal amount in the Disbursement letter can be EUR 500,000.00 for this part of the Project.

### 8.9.2. Results-based payments

Loan withdrawals for the part A of the project are conditioned by execution of the EEPs and achievement of DLIs (total or partial) at the same time. The basis for the payments are IFR, accompanied by Disbursement letter.

For the loan withdrawal based on the achieved results in the part A of the Project, following documentation is submitted along with the Disbursement letter:

1. IFR presented in RSD, as defined in this POM:
2. Confirmation by the Bank on the execution of one or more DLIs and partial DLIs in accordance with Verification protocols defined in this POM along with the sufficient amount of EEPs recorded in the IFR.

Previously mentioned rules hold also for disbursement of loan proceeds for results achieved in 2015 for which retroactive payment is foreseen, i.e. for EEPs which are incurred up to 12 months before the Date of the LA (October 7, 2015) until the December 31, 2015.

Disbursement letter for the part A of the project can be sent two times a year:

1. At mid-year, when Progress report is submitted to the Bank, under following conditions:
  - 1.1. Total amount of EEPs executed by all institutions in the period January – June is higher than total amount of requested withdrawal, across all DLIs, for which payment is requested, **and**
  - 1.2. DLIs are achieved partially in accordance with the minimal standard requested for the partial payments, **or**
  - 1.3. Annual DLIs are achieved at mid-year, **or**
  - 1.4. DLIs or partial DLIs from the previous periods are achieved with delay, in case the Bank accepted the Request for Reassessment for such DLI.
2. At the end of the year, when Disbursement letter is submitted to the Bank with the Performance Review. At this moment, Disbursement letter can be submitted under the following conditions:

Total amount of EEPs executed by all institutions in the period July – December is higher than total amount of requested withdrawal, across all DLIs, for which payment is requested, **and**

  - 2.1. Annual DLIs have been achieved, **or**
  - 2.2. That DLIs are partially achieved with delay in accordance with the minimum which is requested for partial payments, **or**
  - 2.3. That some DLIs, that had to be achieved in some of the previous periods, are achieved with delay, in case the Bank approved Request for Reassessment of such DLI.

For the purposes of disbursement of the loan on the basis of the achieved results there will not be designated accounts. The funds that are paid on the basis of the results achieved in part A of the Project shall be paid to the foreign currency account within the NBS in accordance with the currency of the LA.



### 8.9.3. Loan withdrawals for the part B of the project

Loan withdrawals for part B of the Project are based on Disbursement Letter which should be submitted to the Bank in advance.

Beside advanced payments, there is possibility of direct payments and refunds of previously incurred expenditures for the part B of the Project. To justify a request for direct payment by the Bank, the same documentation as for settlement of advance payments for part B of the Project should be submitted to the Bank.

For settlement of advanced payments, or justification of requests for refund of previously incurred expenditures, following documentation along with the Disbursement letter should be submitted:

- 1) Completed SoE with accompanying documentation (copies of account, invoices etc.), as follows:
  - a. For payment of goods with value higher than EUR 300,000.00;
  - b. For payment of consultant services with value higher than EUR 100,000.00;
  - c. For payments toward individual consultants for consulting and non-consultant services with value higher than EUR 50,000;
- 2) Completed SoE without any accompanying documentation for all other payments except those under point 1) above, including payments for Operational cost and Trainings;
- 3) List of payments by contracts subject to prior or without prior approval by the Bank, in accordance with LA and Procurement Plan.

In case of direct payment by the Bank, along with Disbursement letter, evidence (accounting documents) on incurred eligible expenses (copies of receipts, invoices, etc.) are submitted.

For the purposes of disbursement of the loan intended for the implementation of Part B of the Project and payment for cost Categories (2) and (3) a designated foreign currency account within the National Bank of Serbia (NBS) are opened. PPS and MoLEVSA shall open foreign currency accounts within NBS.

Bank makes advance payments part B of the Project on the designated, foreign currency account of PPS opened within NBS. Foreign currency payments for Categories 2 and 3 of the eligible expenditures are made from the designated account opened within NBS. For payments related to the components A.1, A.2, A.3 and B.1, as well as for the transfer of funds to the MoLEVSA designated foreign currency account, this account is used only by PPS. Currency of the account is euro.

For payments in RSD, funds shall be converted in RSD and be directed to the record account of PPS within to Single Treasury Account that has been opened exclusively for the purpose of Project-related payments in national currency.

After the payments of funds to the PPS designated account, part of the funds needed for the implementation of the components A.4 and B.2 of the Project shall be transferred to the MoLEVSA designated account within NBS, which currency is also euro. MoLEVSA has exclusive right to its, and will use it for financing implementation of A.4 and B.2 components of Project. For payments in local currency, MoLEVSA transfers the needed amount on the record account of MoLEVSA under Single Treasury Account that has been opened only for the purpose of payments on this Project, exclusively used by MoLEVSA.

MoLEVSA is obliged to transfer to foreign currency/RSD account of PPS on request of PIU Financial Expert, as well as on request of Bank, all funds on foreign currency and RSD designated accounts for which only MoLEVSA is authorized, if there is need for such transaction.





As the PIU is responsible for preparation of common financial reports for whole Project, MoLEVSA submits to the PIU copies of all account statements where transactions are registered, as well as invoices, or calculations and other documentation which represents basis for payments.

#### 8.9.4. Content of the Disbursement letters and their submission

Disbursement letter is submitted using the standard template determined during the technical negotiations on the loan.

Disbursement letter is submitted after the Bank accepts IFR.

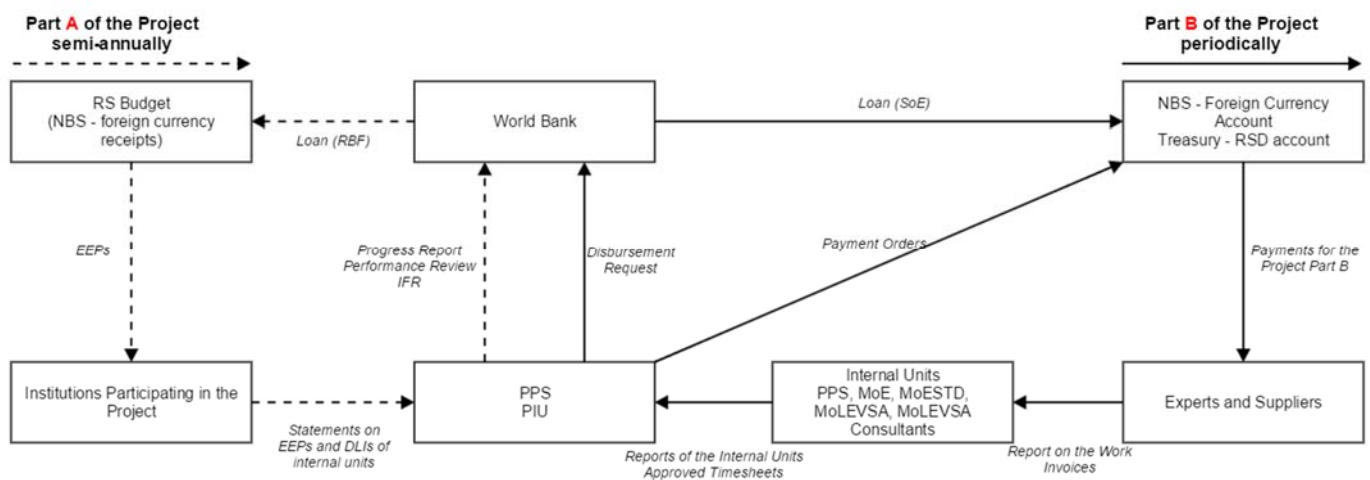
PIU prepares Disbursement letter, by compiling all individual evidences on the achievement of DLIs, and comparing the possibilities of loan withdrawals with the dynamics and amount of executed EEPs and disbursement thresholds, determined for the loan withdrawals by expenditure Categories (see Heading 8.9.1).

Institutions are obliged to inform PIU at least 15 days before the end of the reporting period, as it is described in the reporting calendar that they have fulfilled the conditions for the loan withdrawal.

## 8.10. Cash Flows

Cash Flows on the Project are illustrated in the following figure:

**Figure 13. Cash flows on the Project**



Financing part A of the project (left part of the **Error! Reference source not found.**)

1. EEPs are planned each year with the RS Budget (see Heading 8.3 of this POM), and they include salaries, allowances and remunerations of the civil servants and other employees participating in the development and implementation of the reforms, as well as the funds in the budget that represent DLIs (see the Verification protocols for components and subcomponents);
2. Execution of EEPs is recorded in the IFR, and along with evidences of achievement of DLIs they represent precondition for loan disbursements based on the achieved results. Institutions semiannually submit reports to PPS, which carries out initial control after receipt. In case evidence is found acceptable, PPS shares them with the Bank, after adoption by the IMWB.



After the report control and if all conditions are met, Bank issues confirmation on acceptability of the report.

3. PPS prepares Disbursement letter, signed by the authorized person and submits it to the Bank, upon which the funds will be paid into the state budget, i.e. special foreign currency account of the RS, in the amount presented in the Disbursement letter.
4. NBS submits copy of a foreign currency account statement to the PIU, that will be used in the preparation of the IFRs.

Financing part **B** of the Project (right part of the **Error! Reference source not found.**)

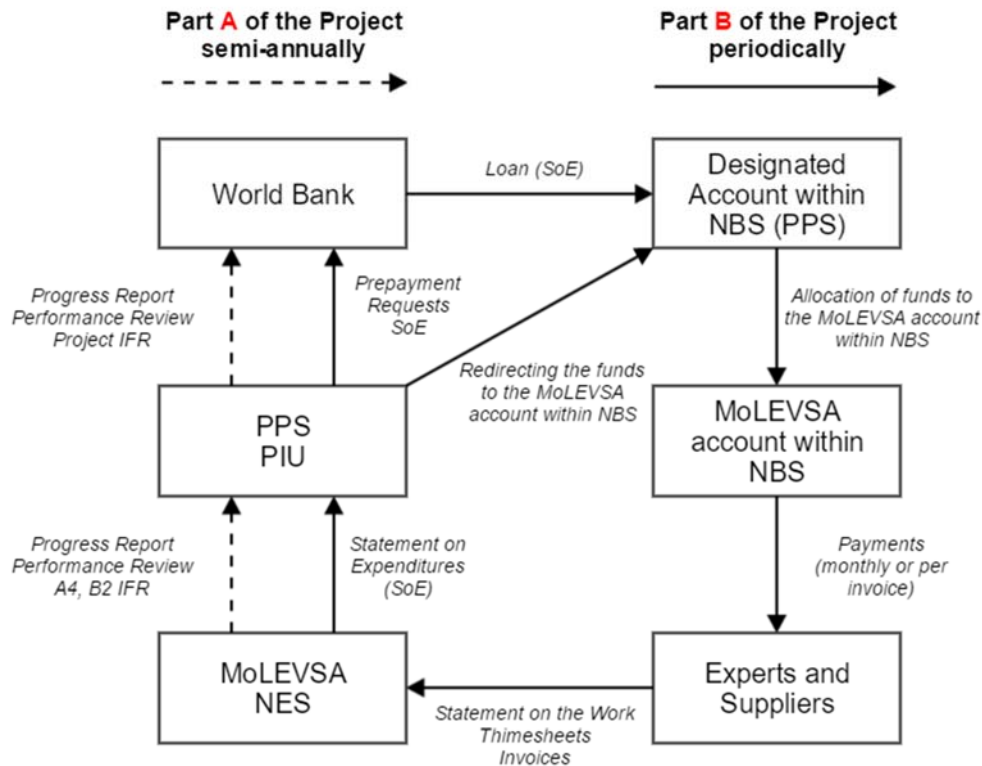
1. PIU prepares Disbursement letter for advance payments for the part B of the Project, and submits it to the Bank;
2. Bank makes payments for the part B of the Project to the foreign currency designated account of PPS opened with the NBS;
3. For local currency payments, PIU prepares order for conversion of foreign currency into dinars, and transfer of dinars to record account within Single Treasury Account opened for PPS;
4. Upon advanced payment to the foreign currency account of PPS, PIU prepares request for distribution of funds by which it directs inflows to the PPS account and MoLEVSA account within NBS in accordance with calculations by which advance payment has been made;
5. For services executed under all components of the project (including part B of the Project), engaged consultants submits reports on their work to Internal units of the institutions which are users of their services. Internal units approve (or not) experts' reports and submit them to financial experts with wage calculation of funds which should be paid to experts;
6. PIU prepares payment orders to experts, from designated account of NBS for foreign currency payments or from Single Treasury account for dinar payments;
7. Authorized person from the list of deposited signatories card makes the payment;
8. Payment is recorded in the books within the PIU in order to prepare project financial reports;

Additional procedures for payment under components A4 and B2 on the Project:

As MoLEVSA has its own technical unit, and that different cash flow for payments related to the component A.4 and B.2 is foreseen, cash flows that include these two components is illustrated in following figure:



**Figure 14. Additional procedures for payment under components A.4 and B.2 on the Project**



1. MoLEVSA prepares budget for the components A.4 and B.2 of the Project and submits projections to the PIU, which PIU then merges with other Project components projections and uses to submit Disbursement letter for advance payment of part B of the Project to the Bank;
2. Bank makes advance payment to the designated foreign currency account of PPS with the NBS;
3. When the Bank makes advance payment to the designated foreign currency account of PPS, PIU prepares request for distribution of funds by which it directs them to MoLEVSA foreign currency account with the NBS, in accordance with calculation by which advance payment was requested, and inform FE B2 on the payment;
4. MoLEVSA makes all foreign currency payments from designated account within NBS, while for all payments in RSD prepares order for conversation and converts foreign currency into RSD, and transfer funds on record account of MoLEVSA with the Single Treasury Account.
5. Engaged consultants, for all services provided under A.4 and B.2 components, submit Reports on their work to the Internal Units of NES and MoLEVSA. Internal Unit approves (or not) consultant reports, or invoices, and submit them to the Financial officer in MoLEVSA which performs report control and prepares payment orders for components A.4 and B.2;
6. Authorized person (from the list of deposited signatories cards of MoLEVSA accounts) makes payments for components A.4 and B.2 of the Project;
7. FE B2 within MoLEVSA timely and accurately records every account transactions in accordance with reporting rules defined in this POM;
8. FE B2 submits to the FE B1 SoE for components A.4 and B.2 of the Project, on monthly bases, in order to timely prepare Disbursement request for part B of the project;
9. FE B1, using the reports submitted by the SF B2, prepares new Disbursement request for part B of the project and sends them to the Bank for approval and payment;



## 8.11. Accounting rules and procedures

### 8.11.1. Books and records

All transactions should be recorded in General Journal, which is the basis document for entry of accounting data, and which should contain account number, transaction description, liabilities and amount of transactions.

Auditing is based on the original documentation which is the base for bookkeeping. General Journal contains control mechanisms for determination of calculation errors (i.e. reversed calculation).

All inflows to the designated accounts are recorded in the General Ledger.

Following basic books are prepared on the Project:

- (a) General Ledger;
- (b) The Record of Assets;
- (c) Budget.

General Ledger contains statements needed for the reporting and it should contain at least following information:

- (a) Date;
- (b) Transaction number;
- (c) Transaction description (with quantities/number of items if applicable);
- (d) Document number as an accounting basis;
- (e) Account number;
- (f) Amount.

The Record of Asset contains all data on the equipment purchased from the loan funds. Equipment purchased during the project is recorded at the purchase price, without application of the depreciation rate.

Budget contains journal with all data on the initial values of all financial liabilities and claims related to the Project, including changes made upon each decision related to the Procurement Plan changes and its execution, and EEPs. Budget is prepared for each following year with projections until the end of the Project. Projected budget should facilitate preparation of the program budgeting for the participating institutions.

### 8.11.2. Accounting tools

There will be no specific accounting software developed for the financial management and Project implementation.

PIU will use MS Excel for recording the data and information related to the part A and part B of the Project, in accordance with report templates defined in this POM.

Each data entry into the tables has to be supported with the relevant documentation which represents accounting basis:

1. Copies of the designated foreign currency accounts statements of PPS and MoLEVSA accounts opened with the NBS;



2. Copies of the record accounts (local currency accounts) of PPS and MOLEVSA opened with the Single Treasury Account;
3. Contracts with consultants/suppliers;
4. Approved reports on the work of consultants/supplier invoices;
5. Calculation of travel expenses related to the Project implementation/training;
6. Record on the Operational costs on the Project;
7. And any other documentation which can be basis for loan withdrawals and payments.

In any case, the accounting tools should enable:

1. Collecting and recording data related to the loan withdrawals to the designated account, including MoLEVSA accounts;
2. Collecting and recording the information on the payments related to the part B of the Project;
3. Distribution of financial information by:
  - 3.1. Project components,
  - 3.2. Individual contracts, and
  - 3.3. Eligible expenditure Categories.

Recording and data accounting should enable preparation of the financial reports, as well as the expenditure calculation in order to make payments and plan disbursements under part B of the Project.

### 8.11.3. Liabilities entry

Contracts concluded for the purposes of the Project are the basis for the booking and payment of obligations. Immediately after the conclusion of the contract, Financial experts prepare a record of the payments for each contract, initially entering the value of the contract into the books. After each payment, date and amount of payment are entered into the record, so that at any moment the amount of outstanding liabilities can be determined and calculated as the difference between the value of contracts and payments that have been made.

### 8.11.4. Submitting reports on the work and invoices of consultants/suppliers

Depending on the service/goods provider, and the agreed method of payment, suppliers or consultants submit invoices or report on the work.

Consultants are submitting the reports on their work to the Internal Units within the beneficiary institutions. Internal Unit control the execution of work/goods contracted with the consultants, and submits approved reports/invoices to their Financial expert. Financial experts, in cooperation with the Procurement expert controls adequacy of the requests for payment by comparing them with the Procurement Plan and consultant's job/goods description.

MoLEVSA Internal Unit submits approved reports to the FE B2. Then, FE B2, after he comparing performed with contracted services, in consultation with Procurement expert in MoLEVSA, calculates the remuneration which should be paid to the consultant, and then makes payments for services related to components A.4 and B.2 of the Project.

The same procedure is applied in the case of suppliers, and differs only in the document which is base of the process (invoice) and which should clearly indicates all taxes as well as all advanced payments.



### 8.11.5. Payment approval

Financial expert approves payments. FE B2 approves payments for the components A.4 and B.2.

Payment is conditioned with:

1. Internal Unit Head signature on consultant timesheet/report, or invoice from the supplier, as a sign that performed job/goods provided is of the expected quality and in line with contract;
2. Procurement expert signature on consultants timesheet/report or suppliers invoices as a sign that the expert has performed work, or that goods are provided in accordance with Procurement Plan;
3. FE signature on calculation of remuneration that should be paid for the consultant services, or provided goods.

Signature of FE represents approval of payment and it is the basis for preparation of Disbursement requests to the Bank, and payment orders to the consultant/suppliers. A signature of FE B1 on requests of FE B2 for advanced payments signifies that SoE, prepared by FE B2, is in line with submitted documentation which should be used for settlement of received advance payments for part B of the Project.

### 8.11.6. Payment orders

Financial expert prepares payment orders. Authorized persons of PPS and MoLEVSA enter payment orders into the paying system.

A copy of the payment order and account statement on payment made are attached to the invoice or to the report on the work of the consultant before placing it in the binders. Invoices, report on the work, payment orders and copies of the accounts are subject to audit.

## 8.12. Financial control system

All transactions on the Project must be supported by appropriate, supporting documents, which provides objective and verifiable data, especially in the case of documents produced within the participating institutions (e.g. evidence of achievement of the DLI that is not verifiable from external sources).

The process of recording of the supporting documentation, which is the legal basis for the transaction, is the basic step in the accounting practice that provides a trail for audit purposes. Recording of documents is carried out in accordance with the rules of office procedures in the public administration of RS.

### 8.12.1. Internal control

Internal control rules that apply to government authorities in the RS and procedures provided in this POM are applied in the course of Project implementation.

Internal control should ensure that the financial records are reliable and complete, and that the documentation and equipment used in the project are protected.

Control activities are foreseen for:

- (a) Procurement procedures– rules that apply for specific procurement methods, by controlling the content of TOR for consultants by the PIU Head;



- (b) Payment process– rules that are established for payments; approval;
- (c) Accounting procedures – rules on recording the documentation which is basis for transaction;
- (d) Cash flows – rules establishing procedures and sequences for loan withdrawals and payments;

Internal control is implemented through the division of responsibilities among participating institutions and other bodies established for Project purposes.

Control of the Project implementation is additionally secured with the occasional supervisions by the Bank and the supervisory missions during the Project, as well as with the audit of the annual financial reports and of the accompanying documentation.

### **8.12.2. Audit of financial reports**

Audit of financial reports shall cover the period of one fiscal year.

Annual financial report for part A and part B of the Project are the subject of audit. The audited Financial Reports for each period shall be submitted to the Bank no later than six months after the end of the fiscal year, including the last year in which the Bank disburses the loan.

Procurement of audit services is described under the heading 7.4.2 of this POM, and must be approved by the Bank. The TOR for the audit firm may contain requested for opinion, which will be primarily related to the system of payment of salaries and remunerations.

Audit should be performed in accordance with ISA - International Standards on Auditing.

In accordance with the project documentation, Draft of the TOR for the engagement of an independent audit institution is provided in the Annex 8 - Terms of reference for contracting independent audit of this POM.



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Annex 4 – Project Result Chain

Annex 5 – Progress Report Template

Annex 6 – Performance Review Template

Annex 7 – Financial Report Templates

Annex 8 - ToR for contracting independent audit

Annex 9 - Eligible expenditure programs for 2016



# 1.ANNEX 1 – THE LOAN AGREEMENT

- 2 -

LOAN NUMBER 8528-YF

**LOAN AGREEMENT**  
(Competitiveness and Jobs Project)

between

**REPUBLIC OF SERBIA**

and

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

Dated October 7, 2015



## LOAN AGREEMENT

Agreement dated October 7, 2015, between REPUBLIC OF SERBIA ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"). The Borrower and the Bank hereby agree as follows:

### ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

### ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of eighty nine million five hundred thousand Euros (EUR 89,500,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.
- 2.06. The Payment Dates are March 1 and September 1 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:
  - (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the

Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.

- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

### **ARTICLE III — PROJECT**

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, and in accordance with the provisions of Article V of the General Conditions, the Borrower shall:
  - (a) carry out Part A.1 of the Project through its Public Policy Secretariat ("PPS"), with the assistance of its Ministry of Economy ("MoE"), Ministry of Education, Science and Technological Development ("MoESTD") with the support of the Innovation Fund ("IF"), and Ministry of Labor, Employment, Veteran and Social Affairs ("MoLEVSA"), and National Employment Service ("NES");
  - (b) carry out Part A.2 of the Project through MoE;
  - (c) carry out Part A.3 of the Project through MoESTD and IF;
  - (d) carry out Part A.4 of the Project through MoLEVSA and NES;
  - (e) carry out Part B.1 of the Project through PPS, in coordination with MoE and MoESTD; and
  - (f) carry out Part B.2 of the Project through MoLEVSA and NES.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV —EFFECTIVENESS; TERMINATION**

- 4.01. The Additional Conditions of Effectiveness consist of the following:
  - (a) The Project Implementing Unit ("PIU") has been established within the PPS in a manner satisfactory to the Bank and has selected at least the PIU director, procurement specialist and financial management specialist, as referred to in Section I.A.2 of Schedule 2 to this Agreement.
  - (b) The MoLEVSA has selected a procurement specialist, as referred to in Section I.A.4 of Schedule 2 to this Agreement.
  - (c) The Project Operations Manual has been adopted by the Borrower, through PPS, in a manner satisfactory to the Bank.

- 4.02. The Effectiveness Deadline is the date one hundred and eighty (180) days after the date of this Agreement.

**ARTICLE V — REPRESENTATIVE; ADDRESSES**

- 5.01. For the purposes of Section 10.02 of the General Conditions, the Borrower's Representative, who, *inter alia*, may agree to modification of the provisions of this Agreement on behalf of the Borrower through exchange of letters (unless otherwise determined by the Borrower and the Bank), is its Minister of Finance.

- 5.02. The Borrower's Address is:

Ministry of Finance  
20 Kneza Milosa St.  
11000 Belgrade  
Republic of Serbia

Facsimile:  
(381-11) 3618-961

- 5.03. The Bank's Address is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD	248423(MCI) or	1-202-477-6391
Washington, D.C.	64145(MCI)	

AGREED at Lima, Peru, as of the day and year first above written.

**REPUBLIC OF SERBIA**

By

---

Authorized Representative

Name: Dušan Vujović

Title: Minister of Finance

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**

By

---

Authorized Representative

Name: Ellen Goldstein

Title: Country Director

## SCHEDULE 1

### Project Description

The objective of the Project is to improve the effectiveness and coordination of selected public programs to alleviate constraints to competitiveness and job creation, including investment and export promotion, innovation, active labor market programs, labor intermediation, and activation of social assistance beneficiaries.

The Project consists of the following parts:

#### **Part A: Implementation of Eligible Expenditures Programs Subject to Results-Based Financing**

1. Program for Policy Planning, Monitoring and Coordination  
Supporting implementation of the Borrower's program for policy planning, monitoring and coordination through developing and piloting an inter-ministerial policy planning, monitoring and coordination system (PPMC) in support of competitiveness and jobs reforms.
2. Program for Investment and Export Promotion  
Supporting implementation of the Borrower's program for investment and export promotion through:
  - (a) developing and adopting a strategic framework and overall action plan for investment and export promotion, including restructuring the MoE investment and export promotion agencies; and
  - (b) improving the Borrower's investment and export promotion programs and services.
3. Program for Innovation  
Supporting implementation of the Borrower's program for innovation through:
  - (a) supporting the operations of the Innovation Fund and its Matching Grants Program;
  - (b) supporting the Technology Transfer Facility ("TTF") service lines at the Innovation Fund; and
  - (c) undertaking strategic planning for institutional reform of the public research and development sector.
4. Program for Labor Reform  
Supporting implementation of the Borrower's program for labor reform through:
  - (a) enhancing the effectiveness of the NES labor intermediation services for employers and the unemployed;
  - (b) improving the effectiveness of the Borrower's active labor market programs; and
  - (c) facilitating the transition of social assistance beneficiaries into formal jobs.

#### **Part B. Project Management and Technical Assistance**

1. Supporting management and implementation of Parts A.1, A.2, and A.3 of the Project through the carrying out of technical assistance activities relating to



implementation, through the provision of goods, consultants' services, non-consulting services, Training and Operating Costs.

2. Supporting management and implementation of Part A.4 of the Project through the carrying out of technical assistance activities, through the provision of consultants' services.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. The Borrower shall maintain and operate, throughout Project implementation, PPS in a manner, with resources, staff, terms of reference, functions and responsibilities satisfactory to the Bank, and set forth in the Project Operations Manual.
2. The Borrower, through PPS, shall establish and, thereafter, operate and maintain throughout Project Implementation the PIU, as a technical coordination unit of the Project, with technical experts and other personnel in adequate numbers and with qualifications, and with terms and conditions, all satisfactory to the Bank, including a PIU director, a procurement specialist, and a financial management specialist.
3. In respect of Part A.3.(a) of the Project, the Borrower shall ensure that the Matching Grants Program is implemented in a manner satisfactory to the Bank, and in accordance with the Matching Grants Manual, the Environmental and Social Management Framework ("ESMF") and any applicable Environmental Management Plan ("EMP") thereunder.
4. In respect of the implementation of Part B.2 of the Project, the Borrower, through MoLEVSA, shall carry out the procurement, financial management and other associated activities, in coordination with PPS for Project reporting purposes, all in accordance with the Project Operations Manual, and with resources, staff (including a procurement specialist), terms of reference, functions and responsibilities satisfactory to the Bank.

##### B. Project Operations Manual

1. The Borrower shall carry out the Project in accordance with a manual (the Project Operations Manual), satisfactory in form and substance to the Bank, which consists of different schedules setting forth rules, methods, guidelines, specific development plans, standard documents and procedures for the carrying out of the Project, including the following:
  - (a) the detailed description of all Project activities supported under this Agreement, their sequencing and the prospective timetable and benchmarks in relation thereto;
  - (b) the Project administrative, financial, accounting, auditing, procurement and disbursement procedures, including all relevant standard documents;
  - (c) verification protocols for DLI achievement; and
  - (d) Protocols and operating procedures of the inter-ministerial policy planning, monitoring, and coordination framework pertaining to the Project.
2. The Project Operations Manual may only be amended from time to time in consultation with, and after approval of, the Bank. In case of any conflict

between the terms of the Project Operations Manual and those of this Agreement, the terms of this Agreement shall prevail.

**C. Matching Grants Manual**

1. The Borrower shall carry out Part A.3.(a) of the Project in accordance with a manual (the Matching Grants Manual), satisfactory in form and substance to the Bank, adopted by IF, setting forth the procedures for selecting, appraising, and approving mini and matching grants project proposals, and for supervising implementation of projects financed under Matching Grants Program, which shall describe the basic guiding principles and acceptable procedures which shall, *inter alia*, include: (a) the eligibility criteria and amounts for the mini and matching grants; and (b) mandatory provisions that: (i) no civil works shall be financed by the mini and matching grants; (ii) that no land acquisition or Involuntary Resettlement shall occur in connection with the provision of any mini and matching grants; (iii) beneficiaries of the mini and matching grants shall not award contracts to their subsidiary or affiliated companies unless there is an established arms-length arrangement; (iv) mini and matching grants will be provided and implemented in accordance with the ESMF and any applicable EMP thereunder; and (v) international peer review and investment committee mechanisms are used for grant selection.
2. The Project Matching Grants Manual may only be amended from time to time in consultation with, and after approval of, the Bank. In case of any conflict between the terms of the Matching Grants Manual and those of this Agreement, the terms of this Agreement shall prevail.

**D. Anti-Corruption**

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**E. Safeguards**

- (a) The Borrower shall ensure that the Project is carried out in accordance with the provisions of the ESMF and any EMPs, as applicable. The Borrower shall not assign, amend, abrogate, or waive the ESMF or EMPs, or any provisions thereof, without prior approval of the Bank.
- (b) The Recipient shall ensure that all measures necessary for the carrying out of the ESMF are taken in a timely manner, and in a manner acceptable to the Bank.

**Section II. Project Monitoring Reporting and Evaluation**

**A. Project Reports**

The Borrower, through PPS, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators acceptable to the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than two months after the end of the period covered by such report. Each report shall include progress toward achieving each of the DLIs. Midyear reports shall describe progress toward achieving each of the DLIs, in line with the verification protocols in the Project Operations Manual. End of year reports



should include evidence of fulfillment of each of the DLIs as described in the verification protocols in the Project Operations Manual.

**B. Financial Management, Financial Reports and Audits**

1. The Borrower, through PPS, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower, through PPS, shall prepare and furnish to the Bank not later than two months after the end of each calendar semester, separate interim unaudited financial reports of the Project (IFRs), in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements for the Project audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements of the Project shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Goods and Non-consulting Services.** All goods and non-consulting services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Non-consulting Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan:
  - (a) National Competitive Bidding, subject to the additional provisions set forth in the Attachment to this Schedule 2;
  - (b) Direct Contracting; and



- (c) Shopping.

**C. Particular Methods of Procurement of Consultants' Services**

- 1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
- 2. **Other Methods of Procurement of Consultants' Services.** The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan:
  - (a) Quality-based Selection;
  - (b) Selection under a Fixed Budget;
  - (c) Least Cost Selection;
  - (d) Selection based on Consultants' Qualifications;
  - (e) Single-source Selection of consulting firms and Individual Consultants; and
  - (f) Selection of Individual Consultants.

**D. Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

**Section IV. Withdrawal of Loan Proceeds**

**A. General**

- 1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions) (the "Additional Instructions"), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
- 2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in EUR)</u>	<u>Percentage of Expenditures to be financed</u>
(1) EEPs under Part A of the Project	85,025,000	100% up to the amount of the Loan allocated for each DLI as set out in Schedule 4 to this Agreement.



<b><u>Category</u></b>	<b><u>Amount of the Loan Allocated (expressed in EUR)</u></b>	<b><u>Percentage of Expenditures to be financed</u></b>
(2) Goods, non-consulting services, consultants' services, Training and Operating Costs for Part B.1 of the Project	3,817,175	100%
(3) Consultants' services for Part B.2 of the Project	434,075	100%
(4) Front-end Fee	223,750	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions
<b>TOTAL AMOUNT</b>	<b>89,500,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed EUR 5,370,000 may be made for payments made up to twelve (12) months prior to the date of this Agreement, for Eligible Expenditures under Category (1) provided that the Borrower has met the conditions referred to in paragraph 2(a) below.
2. Without limitation to the provisions set forth in paragraph 1 above, withdrawals from the Loan Account in respect of Category (1) shall be made on a semi-annual basis, upon submission by the Borrower of reports specified below, each in form and substance acceptable to the Bank, as follows:
  - (a) for withdrawals under paragraph 1 above, the Borrower shall submit pursuant to the Additional Instructions: (i) an interim financial report providing evidence, satisfactory to the Bank, of EEPs incurred during the twelve (12) month period prior to the date of this Agreement; and (ii) confirmation of achievement of DLIs, satisfactory to the Bank, for said twelve (12) month period.
  - (b) for all other withdrawals under Category (1), the Borrower shall submit pursuant to the Additional Instructions: (i) an interim financial report providing evidence, satisfactory to the Bank, of EEPs for the pertinent calendar semester; (ii) confirmation of achievement of DLIs, satisfactory to the Bank, for said calendar semester.
3. In connection with the foregoing:
  - (a) if the Bank shall determine, based on the evidence referred to in Section IV.B.2 above, as applicable, that:



- (i) the DLIs have only been partially met, the withdrawn amount of the Loan allocated to said DLI shall be reduced in proportion to the respective degree of DLI achievement, by an amount and in accordance with a formula set forth in the Project Operations Manual and any Loan balance allocated to said DLI shall remain available for a subsequent withdrawal in case DLI is fully met; or
  - (ii) any given DLI has not been met, the total Loan amount allocated to the respective unachieved DLI shall remain available for a subsequent withdrawal. Such Loan amount may be disbursed only if the DLIs which were not previously met shall subsequently be met.
- (b) the Bank may, after consultation with, and by notice to, the Borrower, cancel any amount of the Loan, in whole or in part, withheld pursuant to paragraph B.3 (a) above under Category (1).
  - (c) the Bank may, after due consideration of withdrawals requested in connection with paragraph 2(b) above, and by notice to the Borrower, adjust from time to time the amounts and targets set forth in Schedule 4 of this Agreement for specific DLIs, in accordance with the Project Operations Manual.

Notwithstanding the provisions of paragraphs 2 and 3 above, and without limitations to the provisions set forth in the Additional Instructions, the Bank shall not be required to approve further withdrawals from the Loan Account if the Bank, at any time, is not satisfied that the IFRs and other reports referred to in paragraph 2 adequately provide the information as specified in the Additional Instructions and Project Operations Manual.

- 4. (a) If the Bank determines at any time that any amount of the Loan was used to pay for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or refund to the Bank an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further withdrawals shall be made until the Borrower has provided such evidence or made such refund, as the case may be.
  - (b) Refunds to the Bank made pursuant to sub-paragraph (a) of this paragraph 4 shall be credited to the Loan Account for subsequent withdrawal or for cancellation, as determined by the Bank, and in accordance with the provisions of the Loan Agreement.
5. The Closing Date is June 30, 2019.



**Attachment  
to  
SCHEDULE 2**

The procedures to be followed for National Competitive Bidding shall be those set forth in this Attachment to Schedule 2 to this Agreement, provided, however that such procedure shall be subject to the provisions of Section I and Paragraphs 3.3 and 3.4 of the Procurement Guidelines, and the following additional provisions:

1. "Open Tendering" procedures as defined in Public Procurement Law of Serbia shall apply to all contracts;
2. Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process. Government-owned enterprises in Serbia shall be permitted to bid only if they are legally and financially autonomous and operate under commercial law of the Borrower;
3. Procuring entities shall use sample bidding documents approved by the Bank;
4. Bids shall not be rejected without the prior concurrence of the Bank, in case of higher bid prices compared to the official estimate;
5. A single-envelope procedure shall be used for the submission of bids;
6. Post-qualification shall be conducted only on the lowest evaluated bidder; no bid shall be rejected at the time of bid opening on qualification grounds;
7. Bidders who contract as a joint venture shall be held jointly and severally liable;
8. Contracts shall be awarded to the lowest evaluated, substantially responsive bidder who is determined to be qualified to perform in accordance with pre-defined and pre-disclosed evaluation criteria;
9. Post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;
10. Contracts of long duration (more than 18 months) shall contain appropriate price adjustment provisions acceptable to the Bank;
11. The bidding document and contract as deemed acceptable by the Bank shall include provisions stating the Bank's policy to sanction firms or individuals, found to have engaged in fraud and corruption as defined in the Procurement Guidelines; and
12. In accordance with the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Loan shall provide that bidders, suppliers and contractors, and their subcontractors, agents, personnel, consultants, service providers, or suppliers, shall permit the Bank to inspect all accounts, records, and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Bank. Acts intended to materially impede the exercise of the Bank's inspection and audit rights provided for in the Procurement Guidelines constitute an obstructive practice as defined in the Procurement Guidelines.





### SCHEDULE 3

#### Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share"). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each March 1 and September 1 Beginning March 1, 2026 through March 1, 2040	3.33%
On September 1, 2040	3.43%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
  - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
  - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date ("Original Installment Share") and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3.
  - (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
  - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which



invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

**Schedule 4  
Disbursement Linked Indicators**

<b>DLI</b>	<b>Retroactive<sup>1</sup>/2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>Total</b>
<b>DLI 1: Policy planning, monitoring, and coordination ("PPMC") system piloted</b>	Inter-ministerial Competitiveness and Jobs PPMC Working Group ("PPMC WG") formally created by the Participating Institutions  Each Participating Institution adopts institution-specific mandates and reporting lines for participation in PPMC system.	PPMC WG publishes on the PPS website one semi-annual progress report and one annual performance report of the PPMC system with inputs from each Participating Institution.	PPMC WG publishes on the PPS website one semi-annual progress report and one annual performance report of the PPMC system with inputs from each Participating Institution.	PPMC WG publishes on the PPS website one semi-annual progress report and one annual performance report of the PPMC system with inputs from each Participating Institution.	
<b>Amount of the Loan Allocated</b>	(Euro 895,000)	(Euro 895,000)	(Euro 895,000)	(Euro 895,000)	(Euro 3,580,000)
<b>DLI 2: MoE investment and export promotion programs restructured</b>		Strategic framework and overall action plan for investment and export promotion ("Action Plan") prepared and adopted by the MoE.  Sectoral policies and sector-specific implementation plans adopted for target sectors identified in the strategic framework.	Action Plan for year 2017 implemented, monitored, and updated.  Number of investment leads generated increased by at least 10 percent from previous year.	Action Plan for year 2018 is implemented, monitored, and updated.  Number of investment leads generated increased by at least 10 percent from previous year.	
<b>Amount of the Loan Allocated</b>		(Euro 7,160,000)	(Euro 6,265,000)	(Euro 6,265,000)	(Euro 19,690,000)
<b>DLI 3: Enterprise innovation supported via the Innovation Fund ("IF") Matching Grants Program ("MGP")</b>		At least Euro 0.72 million allocated for IF's 2016 operational budget.  At least Euro 2.7 million allocated to MGP in the Borrower's 2016 budget for IF. At least 80% of 2016 IF MGP budget committed using IF's international peer review and	At least Euro 0.72 million allocated for IF's 2017 operational budget.  At least Euro 2.7 million allocated to MGP in the Borrower's 2017 budget for IF. At least 80% of 2017 IF MGP budget committed using IF's international peer review and	At least Euro 0.72 million allocated for IF's 2018 operational budget.  At least Euro 2.7 million allocated to MGP in the Borrower's 2018 budget for IF. At least 80% of 2018 IF MGP budget	

<sup>1</sup> Prior to the date of this Agreement, as provided in Schedule 2, Section IV.B.1.



DLI	Retroactive /2015	2016	2017	2018	Total
		investment committee selection process.	investment committee selection process.  MGP implementation evaluation conducted.	committed using IF's international peer review and investment committee selection process.  Proposal for scaling-up MGP submitted by MoESTD to the Borrower or development partner donor institutions	
<b>Amount of the Loan Allocated</b>		(Euro 3,580,000)	(Euro 3,580,000)	(Euro 3,580,000)	(Euro 10,740,000)
<b>DLI 4: Technology transfer and commercialization facilitated via the TTF</b>		At least one TTF service line deployed.	At least Euro 0.9 million allocated in the Borrower's 2017 budget to TTF operations and services, and at least 3 technology transfer transactions initiated.	At least Euro 0.9 million allocated in the Borrower's 2018 budget to TTF operations and services, and at least 7 technology transfer transactions initiated.  TTF program evaluation conducted and proposal for scaling-up technology transfer activities submitted by MoESTD to the Borrower or development partner donor institutions.	
<b>Amount of the Loan Allocated</b>		(Euro 2,685,000)	(Euro 2,685,000)	(Euro 3,580,000)	(Euro 8,950,000)
<b>DLI 5: Public research sector reforms designed and adopted</b>	2015-2020 research and innovation strategy adopted by the Borrower including commitment to reforming public RDI sector.	Time bound action plan to implement research and innovation strategy action plan adopted by the Borrower.	Performance audits of at least 20 RDIs carried out by international experts.  RDI sector reform	Proposal (including costing, targets and timelines) for technical assistance funding to conduct RDI sector reform	

DLI	Retroactive /2015	2016	2017	2018	Total
		<p>Time bound action plan to implement research and innovation infrastructure roadmap and action plan adopted by the Borrower.</p> <p>At least 50 RDI self-assessments completed.</p> <p>Pilot performance audits of at least 4 RDIs carried out by international experts.</p>	<p>program adopted by the Borrower, including performance based financing schemes, and deployment timeline</p>	<p>submitted by MoESTD to the Borrower or development partner donor institutions.</p>	
<b>Amount of the Loan Allocated</b>	(Euro 2,685,000)	(Euro 2,685,000)	(Euro 3,580,000)	(Euro 2,685,000)	(Euro 11,635,000)
<b>DLI 6: Effectiveness of NES labor intermediation services delivered to clients (employers and unemployed) improved</b>		<p>Action plan to enhance the quality of employer services and case management adopted by NES ("NES Action Plan")</p>	<p>85% of the total number of NES case workers as of December 31, 2017 are certified according to newly adopted standards under NES Action Plan</p>	<p>Number of employers contacted by the NES within the last 12 calendar month period: 23,000</p> <p>Number of NES-registered unemployed individuals transitioning into formal jobs within the last 12 month calendar period: 280,000</p>	
<b>Amount of the Loan Allocated</b>		(Euro 2,685,000)	(Euro 1,790,000)	(Euro 2,685,000)	(Euro 7,160,000)
<b>DLI 7: Case load management in NES branch offices improved</b>	<p>Special registry of unemployed persons who are temporarily prevented from working established by NES.</p>	<p>Staffing reforms adopted by NES for 2016 are implemented, and targets on case load per branch office are published on the NES website.</p>	<p>Standard deviation of mean case load per branch office is 300 or less.</p>	<p>Standard deviation of mean case load per branch office is 250 or less.</p>	
<b>Amount of the Loan Allocated</b>	(Euro 895,000)	(Euro 2,685,000)	(Euro 2,685,000)	(Euro 2,685,000)	(Euro 8,950,000)

DLI	Retroactive <sup>1</sup> /2015	2016	2017	2018	Total
<b>DLI 8: Effectiveness of ALMPs improved through statistical evidence</b>	Rule book redefining "low-risk group" of its current risk profiling as "requiring minimal to no NES services", taking into account registered unemployed individuals' self-assessment of service needs, adopted by NES.	Action plan on monitoring, evaluation and re-design of ALMPs; and on profiling of registered unemployed individuals approved by NES management.	50% of unemployed individuals registered in NES as of December 31, 2017 have a risk profile according to the new methodology.	NES starts pilot of a re-designed ALMP, taking into account evidence from previous evaluations of ALMPs undertaken by NES.  At least 1 service provider for labor market trainings hired based on a performance based contract.	
<b>Amount of the Loan Allocated</b>	(Euro 895,000)	(Euro 2,685,000)	(Euro 2,685,000)	(Euro 2,685,000)	(Euro 8,950,000)
<b>DLI 9: Transition of social assistance beneficiaries into formal jobs facilitated</b>		Study to (i) design a program to reduce disincentives to enter formal jobs for social assistance beneficiaries; and (ii) improve activation of social assistance beneficiaries through improved services, carried out by the Borrower.	Pilot program to support formal employment of a select group of beneficiaries of social assistance and/or child allowance selected in accordance with criteria set forth in the Project Operations Manual, established by the Borrower.	Average effective tax rate for a social assistance beneficiary household with two children and who participates in pilot program for the previous calendar year, where one adult member transitions into a formal job at minimum wage, where the job is:  Half-time: 70% or less,  Full-time: 70% or less.	
<b>Amount of the Loan Allocated</b>		(Euro 1,790,000)	(Euro 1,790,000)	(Euro 1,790,000)	(Euro 5,370,000)
<b>Total</b>					(Euro 85,025,000)

## APPENDIX

### Section I. Definitions

1. "Additional Instructions" means the additional instructions referred to in Section IV.A.1 of Schedule 2 to this Agreement, dated as of even date herewith, as such Additional Instructions may be revised from time to time by the Bank.
2. "ALMP" means an active labor market program, such as career guidance, training, employment incentives, and public works.
3. "Anti-Corruption Guidelines" means the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011.
4. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014).
6. "Disbursement-Linked Indicator" or "DLI" means an indicator, set forth in Schedule 4 of this Agreement, the achievement of which is a condition for disbursement of Loan Proceeds, pursuant to Section IV.B. of Schedule 2 to this Agreement.
7. "Eligible Expenditure Programs" or "EEPs" means a set of defined expenditures for salaries incurred by the Borrower, through MoE, research institutes under MoESTD, and NES, all under the Borrower's sector budget lines set forth in the Project Operations Manual.
8. "EMP" means the Borrower's site-specific Environmental Management Plan, if necessary, satisfactory to the Bank and prepared and updated as necessary during Project implementation in accordance with the EMF's "Environmental and Social Screening Procedure for Mini and Matching Grants Program", defining details of measures to manage potential environmental risks and mitigate, reduce and/or offset adverse environmental impacts.
9. "ESMF" means the Borrower's Environmental and Social Management Framework, publicly disclosed on May 8, 2015, in form and substance acceptable to the Bank which contains, *inter alia*: environmental and social baseline information and potential environmental and social impacts; environmental and social mitigation measures to be taken during the implementation and operation of the Project to reduce potential adverse environmental and social effects; and the Borrower's institutions responsibilities for screening and monitoring activities, as said framework may be updated from time to time with the Bank's prior written concurrence.
10. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated March 12, 2012, with the modifications set forth in Section II of this Appendix.
11. "IFR" means interim financial report, referred to in Section II.B.2 of Schedule 2 to the Loan Agreement.

12. "Innovation Fund" or "IF" means the Borrower's entity established pursuant to Law on Innovation Activity, Official Gazette of the Recipient No. 110/2005, No. 18/2010, and No. 55/2013.
13. "Involuntary Resettlement" means the impact of an involuntary taking of land under the Project, which taking causes affected persons to have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently.
14. "Matching Grants Manual" means the set of manuals for the mini and matching grants under the Matching Grants Program, referred to in Section I.C of Schedule 2 to the Loan Agreement, satisfactory to the Bank and adopted by the Innovation Fund.
15. "Matching Grants Program" or "MGP" means the Borrower's mini grants and matching grants program to fund specific proof of concept, prototyping, research and development and technology development projects with commercialization potential in start-ups, micro and small and medium enterprises, incorporated in the Borrower's territory, with majority private sector ownership, all in accordance with the ESMF and the Matching Grants Manual.
16. "Ministry of Economy" or "MoE" means the Borrower's Ministry of Economy, or any legal successor thereto.
17. "Ministry of Education, Science and Technological Development" or "MoESTD" means the Borrower's Ministry of Education, Science and Technological Development, or any legal successor thereto.
18. "Ministry of Finance" or "MoF" means the Borrower's Ministry of Finance, or any legal successor thereto.
19. "Ministry of Labor, Employment, Veteran and Social Affairs" or "MoLEVSA" means the Borrower's Ministry of Labor, Employment, Veteran and Social Affairs, or any legal successor thereto.
20. "National Employment Service" or "NES" means the Borrower's National Employment Service, or any legal successor thereto.
21. "Operating Costs" means the reasonable incremental expenses incurred on account of implementation of the Project, for office supplies and other consumable goods, office rent, internet connection and communications costs, support for information systems, translation costs, bank charges, utilities, reasonable travel, transportation, *per diem*, accommodation costs (lodging), and other reasonable expenditures directly associated with the implementation of the Project, as agreed between the Borrower and the Bank on the basis of semi-annual budgets acceptable to the Bank, excluding salaries of the Borrower's civil service.
22. "Participating Institutions" means, in respect of DLI 1 set forth in Schedule 4 to this Agreement, PPS, MoE, MoESTD, and NES (in cooperation with MoLEVSA).
23. "PIU" means the Project Implementing Unit, referred to in Section I.A.2 of Schedule 2 of this Agreement.



24. "Procurement Guidelines" means the "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014).
25. "Procurement Plan" means the Borrower's procurement plan for the Project, dated July 7, 2015 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
26. "Project Operations Manual" means the manual referred to in Section I.B of Schedule 2 to this Agreement, as said manual may be amended from time to time, with the agreement of the Bank.
27. "Public Policy Secretariat" or "PPS" means the Borrower's Public Policy Secretariat reporting to the office of the Borrower's Prime Minister, or any legal successor thereto.
28. "Public Procurement Law" means the Borrower's Public Procurement Law published in "Official Gazette of the Republic of Serbia", No. 124/12 and 14/15.
29. "Research and Development Institutes" or "RDIs" means the Borrower's system of research and development institutes under the MoESTD.
30. "Technology Transfer Facility" or "TTF" means the centralized Technology Transfer Facility hosted at the Innovation Fund with the objective to conduct technology transfer and commercialization transactions in partnership with technology transfer offices or directly with RDIs and universities.
31. "Training" means expenditures (other than for consultants' services), incurred during the implementation of the Project, based on periodic budgets acceptable to the Bank, for: (i) reasonable travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training; (ii) course fees; (iii) training/workshop facility and equipment rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this definition.

## Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the Table of Contents, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.
2. Section 3.01. (*Front-end Fee*) is modified to read as follows:  
"Section 3.01. *Front-end Fee; Commitment Charge*
  - (a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the "Front-end Fee").
  - (b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."

3. In the Appendix, Definitions, all relevant references to Section numbers and paragraphs are modified, as necessary, to reflect the modification set forth in paragraph 2 above.
4. The Appendix is modified by inserting a new paragraph 19 with the following definition of "Commitment Charge", and renumbering the subsequent paragraphs accordingly:

"19. "Commitment Charge" means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b)."
5. In the renumbered paragraph 49 (originally paragraph 48) of the Appendix, the definition of "Front-end Fee" is modified by replacing the reference to Section 3.01 with Section 3.01 (a).
6. In the renumbered paragraph 68 (originally paragraph 67) of the Appendix, the definition of the term "Loan Payment" is modified to read as follows:

"68. "Loan Payment" means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower."
7. In the renumbered paragraph 73 (originally paragraph 72) of the Appendix, the definition of "Payment Date" is modified by deleting the word "is" and inserting the words "and Commitment Charge are" after the word "interest".

## **2.ANNEX 2 – PPMC IMWB RULES OF PROCEDURE**

In accordance with point 5 of the Decision on the establishment of the Inter-Ministerial Working Body for Competitiveness and Jobs Policy Planning, Monitoring and Coordination Working Body (IMWB) as a support to reforms financed from the loan of the International Bank for Reconstruction and Development, through the project for the improvement of competitiveness and jobs creation, IMWB, on the constitutive meeting on the February 23, 2016. adopts the following

### **RULES OF PROCEDURE OF THE INTER-MINISTERIAL WORKING BODY for policy planning, monitoring and coordination in the competitiveness and jobs creation policy area**

#### **The subject of the Rules of Procedure**

##### **Rule 1**

This Rules of Procedure regulates work methods, decision-making procedures, and other issues of importance related to the functioning of the Inter-Ministerial Policy Planning, Coordination and Monitoring Working Body in the competitiveness and jobs creation policy area (IMWB), supported by the IBRD (Bank) Loan through the Competitiveness and Jobs Project (Project).

Primary role of the IMWB, in accordance with Law on Government („Official Gazette of the Republic of Serbia”, no. 55/05, 71/05 - corr, 101/07, 65/08, 16/11, 68/12 – CC, 72/12, 74/12, 7/14 – CC and 44/14) is to discuss specific questions from its scope of work, provide suggestions and give expert explanations in order to achieve expected results and successfully implement the Project, as well as for successful implementation and functioning of the PPMC system in the field of competitiveness and job creation supported by the Project.

#### **IMWB Configuration**

##### **Rule 2**

President of the IMWB and members, or their deputies, participate in the work of the IMWB (Participants), in accordance with the Government Decision by which IMWB has been established.

President of the Working Body is director, or acting director of the Public Policy Secretariat. President has its deputy, who shall substitute the President in the case of his incapacity or absence.

Members of the IMWB are appointed from the rank of civil servants holding functions, where possible, or the civil servants or employees in managerial positions in institutions that are of a comparable rank.

Members of the IMWB have their deputies, which should be appointed from the managers in the institutions/organizations that participate in the Working Body, which will participate as substitutes when members are prevented or absent, except in the case of annual sessions of the IMWB when the Performance Review is discussed.

Each of the institutions that has its Participants in the IMWB is obliged to, without any delay, inform the Public Policy Secretariat on the changes of its Participant in the Working Body.



Working Body Observers are individuals, institutions or organizations, which are invited by the President of the IMWB or upon request of the IMWB members to participate in the IMWB sessions.

The list containing names of president, members and their deputies, secretary and clerks with contact information is in the annex of this Rules of Procedure, and can be modified in accordance with the changes in the configuration of the IMWB participants.

## **Scope of Work**

### **Rule 3**

The tasks of the IMWB are specified in the Project and the Project Operations Manual (POM) and, inter alia, include collaboration with units/civil servants of the ministries that are, in accordance with the Project, responsible for planning and monitoring, including proposing amendments to the goals, activities and indicators regarding the Project, ensuring compliance of objectives, activities and indicators with the Government's priorities and data analysis in order to develop policies, as well as monitoring and evaluation of the results, and supervision of the implementation of procedures and protocols described in the Project Operations Manual.

In accordance with the above mentioned, the IMWB:

- 1) Decides on adoption of the Rules of Procedure of the IMWB and Projects Operation Manual, and all their amendments, upon proposal of Public Policy Secretariat,
- 2) Oversees the establishment and implementation of the system, i.e. the processes and protocols for planning, monitoring and coordination of the policies in competitiveness and jobs policy area, and, upon proposal of any member of the IMWB discusses rules and procedures defined in POM and its annexes, and draws conclusions on the need and methods of amendments of the POM and its annexes;
- 3) Enables, through recommendations, harmonization of project activities, performance indicators and their targeted values with the Government priorities;
- 4) Decides on the adoption of the Progress Report and the Performance Review, and draws conclusions and suggests recommendations on its individual elements:
  - (a) Recommends measures and methods for improving the activities, performance indicators and their targeted values in order to improve overall Project impact and impact of its individual components, as well as measures of coordination, steering and integration of activities and results of the institutions participating in the Project implementation that are beneficiaries of the Project support, based on the integrated data/reports submitted by the individual institutions;
  - (b) Recommends measures for solving the problems in the Project implementation and in achieving results and impacts, that are identified by the individual institutions participating in the Project, including the Requests for reassessment to be sent to the Bank and which are prepared by the institution responsible for underperformance in achievement of DLI;
  - (c) Draws conclusions on measures needed for scaling up of the Project, and recommends introduction of additional activities and/or involvement of other institutions in order to improve Project performances and to solve the problems on the Project;
  - (d) Suggests the introduction of additional members in the work of the IMWB, in order to improve its work and higher Project performance;
  - (e) Monitors and draws conclusions on the state of the implementation of the Project and all of its elements, including, inter alia:
    1. Timeliness of goods and services procurement from the Loan;
    2. Allocation of funds in the RS Budget in the cases where such allocation of funds is a precondition (DLI) for the Loan withdrawal;



3. Allocation and execution of the EEPs as they are defined in the POM;
- (f) Analyzes the data, design of the policies and carry out monitoring and evaluation of the Project activities and the Project in general, and draws conclusions on it;
- 5) Decides, on a reasoned proposal of the institutions participating in the implementation of the Project, i.e. the Project support beneficiary, on use of the contingencies for additional procurement of consultant services except in cases when the procurement of consultant services have already been planned in the Training Program, in accordance with the rules set forth in the POM;
- 6) Provides support, through recommendations, in the development of impact analysis practice within the institutions participating in the Project, including help in monitoring and evaluation activities, cost-benefit analysis and gap analysis of the measures and activities implemented on the Project, acting as a forum for exchange of knowledge and experience of the institutions participating in the Project;
- 7) Submits, via PPS, the Request for reassessment to the Bank;
- 8) At least twice a year, through the PPS, informs the Government on its work, and mandatorily after the adoption of the Progress Report and the Performance Review which are submitted to the Government, as well as in the situation when problems in the project implementation have been identified and could not be solved within the IMWB;
- 9) Draws conclusion on the need and method of prospective amendments to the Loan Agreement;
- 10) Performs other tasks within the scope of its work that are needed in order to improve policy planning, monitoring and coordination in the field of competitiveness and job creation, their effectiveness, and strengthening of the capacities of the institutions participating in the Project in the implementation of result-based management.

In accordance with the point 6 of the preceding paragraph, IMWB serves as a forum for the exchange of experiences and opinions in cases when, within the scope of the activities supported by the Project, the institution that is the beneficiary of Project support prepares for production or produces any kind of program, project, strategic document or action plan, as well as in cases when the output of some of the Project activities is development of studies or analysis.

In the cases referred to in paragraph 3 of this Rule, members of the IMWB shall request the convening the Thematic session of the IMWB for discussion and support in the process of preparation analyses or studies, consideration of the options and the choice of optimal solutions to achieve expected results.

Institution from the previous paragraph, which requires convening of the IMWB Thematic Session, can ask for support of the PPS in order to include other interested parties and professional community in order to secure quality discussions and support for finding best solutions, or propose on its own invitation of other interested parties to the IMWB sessions.

## **IMWB Documents**

### **Rule 4**

The IMWB takes decisions, draw conclusions and gives recommendations, in accordance with and in the manner provided in Rule 3 of this Rules of Procedure.

Decisions, conclusions and recommendations are an integral part of the Minutes of the meetings of the IMWB and are not produced in the form of individual documents.

In cases where it is necessary to submit an individual decision, conclusion or recommendation of the IMWB, PPS, at the request of interested parties, shall submit an extract of the Minutes of the IMWB sessions, signed by the President of the IMWB or its deputy.



## **IMWB Sessions**

### **Rule 5**

IMWB holds its sessions and during its work Minutes of the meeting are drawn up.

Meetings of the Working Body are held as ordinary, extraordinary and thematic.

Ordinary sessions are planned by the reporting timeline, which is defined in the POM, and will be held four times a year.

Extraordinary sessions are convened upon the request of the IMWB members or the Bank.

Thematic sessions of the Working Body shall be held in accordance with Rule 3, paragraph 2 and Rule 3 Paragraph 4.

In order to take decisions, presence of all members of the IMWB or their deputies is needed.

Working body takes decisions by a simple majority of votes of the members/deputy members.

The right to vote in the decision-making process has each member or deputy member of the IMWB, except in the case provided in Rule 2, Paragraph 4 of this Rules of Procedure.

Members of the IMWB, or their deputies in the case of their incapacity, can vote in writing, i.e. by e-mail using the electronic address indicated in the invitation to the session of the IMWB.

In the case of a written vote each member or deputy member who votes in written, must sign a voting statement, or in the case of submitting the voting statement by e-mail such statement must be signed and scanned and sent so, no later than one working day before the date set for the IMWB session.

For drawing conclusions or providing recommendations of the IMWB, the quorum represents the majority of the members or deputy members.

## **Session Convening**

### **Rule 6**

The sessions of the IMWB are convened by the President of the IMWB, or its deputy in case of Presidents absence or incapacity.

Sessions of the IMWB shall be convened by a written invitation, which can be sent by e-mail, with the proposal of the agenda and list of decisions, recommendations and conclusions, which are planned during the session.

The invitation for the meeting is sent to all Participants in the work of the IMWB.

The invitation for the meeting contains the information about the day, time and place of the meeting and is sent at least five days before the date set for the meeting.

The session may be convened in a shorter period of time when there are special reasons to it.

Together with the invitation for the meeting, working material for the session is sent to Participants in the work of the IMWB.

Each member of the IMWB may request convening of the IMWB session, and it is mandatory in the case provided for in Rule 3, paragraph 4 of this Rules of Procedure.



Each member of the IMWB, or his deputy, may require introduction of additional items on the agenda and submit working material to the PPS for such an item on the agenda, if necessary, at least 3 days before the date set for the IMWB session.

## **Sessions Preparation**

### **Rule 7**

The activities of the technical secretariat for the IMWB are performed by Public Policy Secretariat.

Public Policy Secretariat prepares materials for the meeting of the IMWB, takes care of timely convening of meetings of the IMWB, provides information and explanations to the participants in the work of the IMWB related to the meetings of the IMWB, takes care of the keeping and adjustment of the Minutes of the meetings and the publication of the Progress Report and the Performance Review in accordance with the Loan Agreement.

## **The content of the Minutes of meeting**

### **Rule 8**

The compulsory content of the Minutes of meeting includes:

1. Time and place of the session;
2. The names of Participants present during the Working Body session, the secretary and the clerk;
3. Session Agenda and planned proceedings on the individual Agenda items;
4. Details related to the voting process on the decisions of the IMWB and list of the conclusions and recommendations of the IMWB with description;
5. Start and end time of the session, and
6. Other facts of importance for the work during sessions of the IMWB.

The sessions of the IMWB are recorded for the purpose of production of the Minutes of meeting.

The Minutes of meeting are submitted to all Participants of the IMWB, which participated in that session, in electronic form, within 3 working days from the day of the session day.

All objections, comments and amendments on the Minutes have to be submitted within 2 days from the day of receiving the Minutes, after which the clerk submits to all participants modified Minutes, or explanation why objections, comments and amendments have been dismissed.

Objections, comments and amendments, modified Minutes and explanations from the paragraph 4 of this Article are submitted in the electronic form.

Final version of the Minutes of meeting has to be signed by the IMWB president, is sent to all Participants of the IMWB electronically.

The Minutes of meeting, for the purpose of adoption, has to be sent with the invitation for the next IMWB session.

Original version of the Minutes of meeting shall be kept in the archive of Public Policy Secretariat.

## **Secretary and Clerk**

### **Rule 9**



IMWB has one or more secretaries.

Secretary of the IMWB is appointed among civil servants of the Public Policy Secretariat.

Secretary of the IMWB coordinates the convening of the IMWB sessions, collects and submits materials and information needed for the sessions to the IMWB Participants.

IMWB has one or more clerks that are responsible for production, adjustments, submission and keeping the Minutes of meeting of the IMWB sessions.

Clerk of the IMWB is appointed among civil servants from Public Policy Secretariat.

## **Proper implementation of the Rules of Procedures**

### **Rule 10**

The President of IMWB, or a person authorized by the President of the IMWB is responsible for the proper implementation of this Rules of Procedure, through the application of provisions of this Rules of Procedure or in the process of considering and deciding on specific issues.

## **Changes and Amendments**

### **Rule 11**

Changes and amendments to this Rules of Procedure shall be made in the manner and under the procedure provided for in Rule 3, paragraph 1, point. 1) of the Rules of Procedure.

## **Start of implementation**

### **Rule 12**

This Rules of Procedure enters into force on the day of its adoption.

## **PRESIDENT OF THE IMWB**

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Jasna Atanasijević, Acting Director of the Public Policy Secretariat

Number: \_\_\_\_\_/2016-

Belgrade, February \_\_\_\_, 2016





## List of the IMWB Participants

### IMWB President:

- 1) Jasna Atanasijević, Public Policy Secretariat, Acting Director;

### IMWB Deputy President:

- 1) Bojana Tošić, Public Policy Secretariat, Acting Deputy Director.

### Working Body Members:

- 1) dr Nenad Ivanišević, State secretary, Ministry of Labor, Employment, Veteran and Social Affairs;
- 2) Verica Ignjatović, Assistant minister, Ministry of Finance;
- 3) Irena Posin, Assistant minister, Ministry of Public administration and Local Self-Government;
- 4) Dušan Purić, Acting Assistant minister, Ministry of Economy;
- 5) prof. dr Viktor Nedović, Assistant minister, Ministry of Education, Science and Technological Development;
- 6) Dragana Dejanović, Senior adviser, Ministry of Finance – Public Debt Administration;
- 7) Dejan Raketić, Acting Assistant director, Public Policy Secretariat;
- 8) Milan Đuretanić, Head of the sector, National Employment Service, and
- 9) Gregor Virant, Prime Minister Cabinet.

### IMWB Deputy Members:

- 1) Marija Polak, Head of the group, Ministry of Finance;
- 2) Nina Zelić, Advisor, Ministry of Public Administration and Local Self-Government;
- 3) Branislav Pejčić, Head of the department, Ministry of Economy;
- 4) Branislav Stanojević, Special advisor to the minister, Ministry of Education, Science and Technological Development;
- 5) Tijana Knežević, Senior advisor, Ministry of Education, Science and Technological Development;
- 6) Dragana Tešić, Advisor, Ministry of Finance – Public Debt Administration;
- 7) Ivana Vukašinović, Head of the group, Public Policy Secretariat, and
- 8) Tanja Budimir, Head of the department, National Employment Service.

### Working Body Secretary:

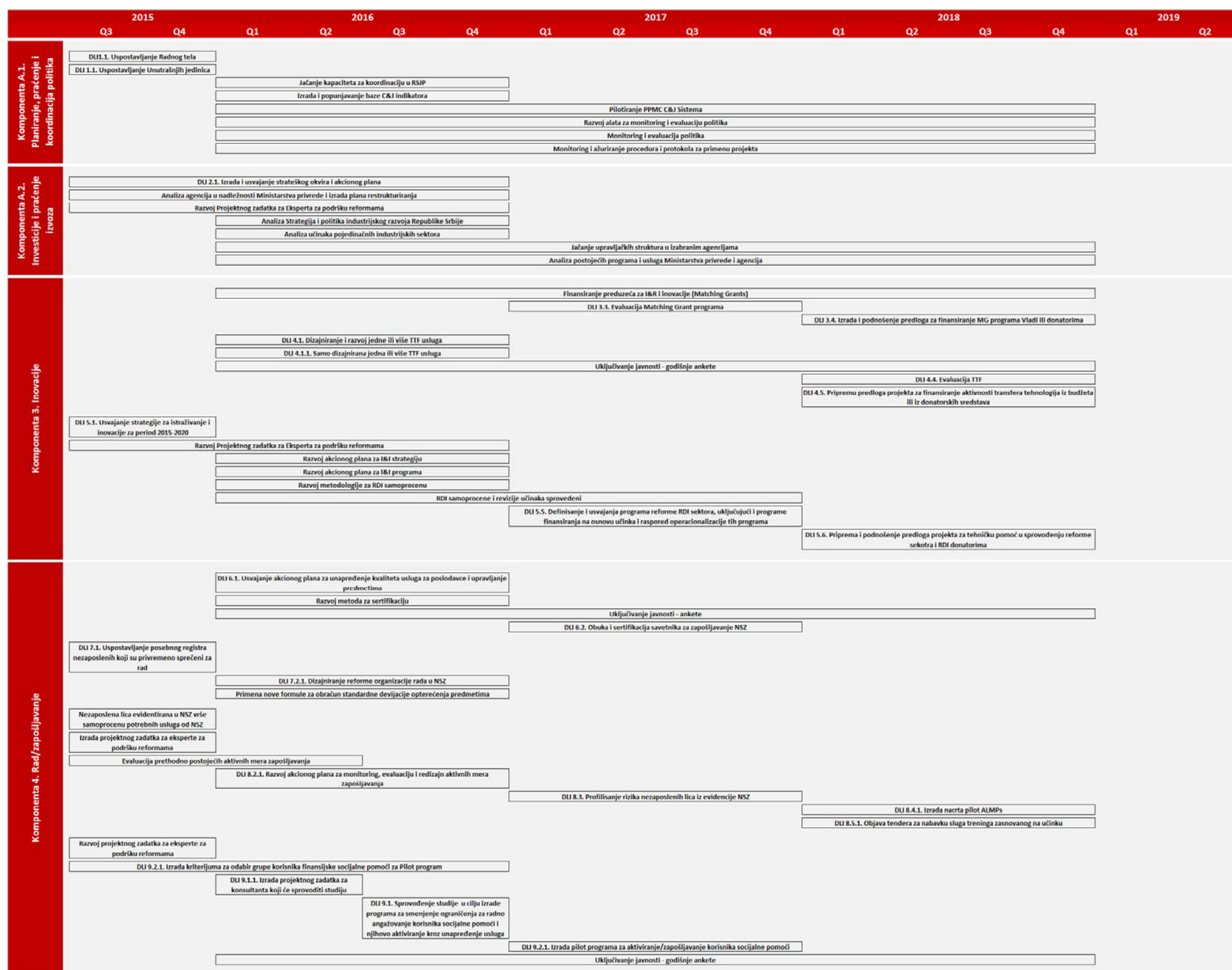
1. Danijela Karadžić, Independent advisor, Public Policy Secretariat;

### Clerk:

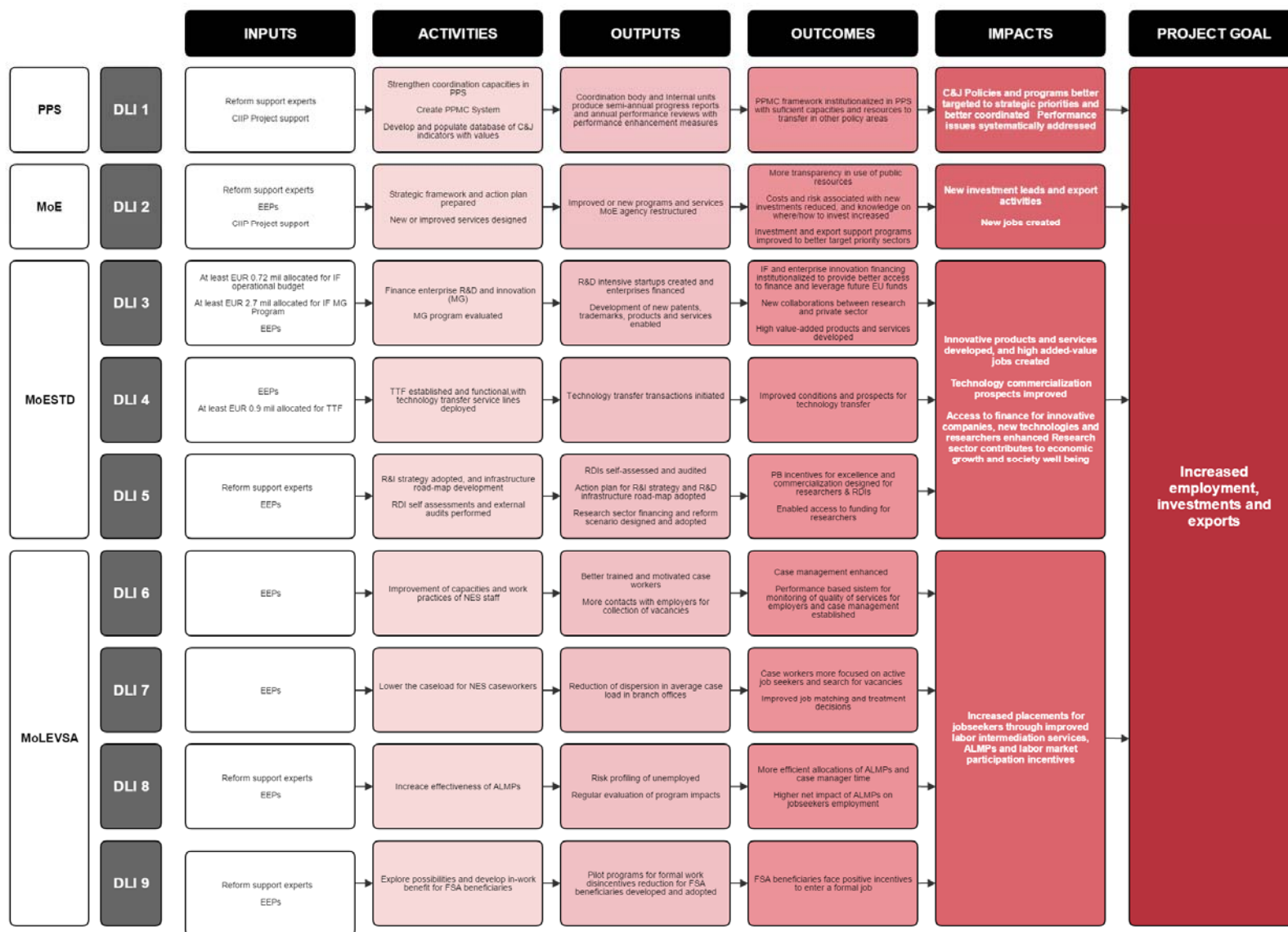
1. Slobodanka Tofilović, Advisor, Public Policy Secretariat;



# 3.ANNEX 3 - PROJECT TIMELINE



# 4.ANNEX 4 – PROJECT RESULT CHAIN



# 5.ANNEX 5 – PROGRESS REPORT TEMPLATE

DLI ACHIEVEMENT		COMPONENT AXXX MINISTRY NAME					
		2015 Retroactive	June 30 2016	December 31 2016	June 30 2017	December 31 2017	June 30 2018
<ul style="list-style-type: none"> <li>DLI XXX</li> <li>DLI XXX.1 DISBURSMENT LINKED INDICATOR</li> <li>DLI XXX.2.1 PARTIAL DISBURSMENT LINKED INDICATOR</li> <li>DLI XXX.2 DISBURSMENT LINKED INDICATOR</li> </ul>	Not Achieved 2015 Retroactive	Achieved 2016 Partial	Not Achieved 2016	Not Achieved 2017 Partial	Not Achieved 2017	Not Achieved 2018 Partial	Not Achieved 2018
	Not Achieved 2015 Retroactive	Achieved 2016 Partial	Not Achieved 2016	Not Achieved 2017 Partial	Not Achieved 2017	Not Achieved 2018 Partial	Not Achieved 2018
FALSE		December 31 2015	June 30 2016	December 31 2016			
<b>Quantitative indicators</b>							
<ul style="list-style-type: none"> <li>Non disbursement Linked</li> </ul>							
Outcome KPI 1 <i>Short indicator description including indication of the budget line to which it's connected (where applicable).</i>	Annual Cumulative Target	██████████ 100	██████████ 100 104	██████████	██████████	██████████ 100 110	██████████
Outcome KPI 2 <i>Short indicator description including indication of the budget line to which it's connected (where applicable).</i>	Annual Cumulative Target	██████████ 100	██████████ 100 104	██████████	██████████	██████████ 100 110	██████████
Outcome KPI 3 <i>Short indicator description including indication of the budget line to which it's connected (where applicable).</i>	Annual Cumulative Target	██████████ 100	██████████ 100 104	██████████	██████████	██████████ 100 110	██████████
Outcome KPI 4 <i>Short indicator description including indication of the budget line to which it's connected (where applicable).</i>	Annual Cumulative Target	██████████ 100	██████████ 100 104	██████████	██████████	██████████ 100 110	██████████
Outcome KPI 5 <i>Short indicator description including indication of the budget line to which it's connected (where applicable).</i>	Annual Cumulative Target	██████████ 100	██████████ 100 104	██████████	██████████	██████████ 100 110	██████████
Outcome KPI 6 <i>Short indicator description including indication of the budget line to which it's connected (where applicable).</i>	Annual Cumulative Target	██████████ 100	██████████ 100 104	██████████	██████████	██████████ 100 110	██████████
<b>PROGRAM YEAR 2016</b>		December 31 2015	June 30 2016	December 31 2016			
<b>Verification</b>							
<ul style="list-style-type: none"> <li><b>Milestone 1 (DLI XXX.1)</b> <span style="float: right;">In Progress</span></li> </ul>							
DLI Description							
<b>Verification 1.1</b>	Is this condition from the verification protocol achieved?	Verified	100.0%				
<b>Verification 1.2</b>	Is this condition from the verification protocol achieved?	Not Verified	0.0%				
<b>Verification 1.3</b>	Following conditions should be met:	Verified	100.0%				
	Is this condition from the verification protocol achieved?	Yes					
	Is this condition from the verification protocol achieved?	Yes					
	Is this condition from the verification protocol achieved?	Yes					
	Is this condition from the verification protocol achieved?	Yes					
<b>Verification 1.4</b>	Is this condition from the verification protocol achieved?	Verified	100.0%				
<b>Verification 1.5</b>	Following conditions should be met:	Verified	100.0%				
	Is this condition from the verification protocol achieved?	Yes					
	Is this condition from the verification protocol achieved?	Yes					
	Is this condition from the verification protocol achieved?	Yes					
<ul style="list-style-type: none"> <li><b>Milestone 2.A (DLI XXX.2.1)</b> <span style="float: right;">Achieved</span></li> </ul>							
Partial DLI Description							
<b>Verification 2.1 A</b>	DLI should contain:	Verified	100.0%				
	Is this condition from the verification protocol achieved?	Yes					
	Is this condition from the verification protocol achieved?	Yes					
	Is this condition from the verification protocol achieved?	Yes					
<b>Verification 2.2 A</b>	Is this condition from the verification protocol achieved?	Verified	100.0%				
<ul style="list-style-type: none"> <li><b>Milestone 2.B (DLI XXX.2)</b> <span style="float: right;">In Progress</span></li> </ul>							
DLI Description							
<b>Verification 2.1 B</b>	DLI should contain:	In Progress	66.7%				
	Is this condition from the verification protocol achieved?	Yes					
	Is this condition from the verification protocol achieved?	No					
	Is this condition from the verification protocol achieved?	Yes					
<b>Verification 2.2 B</b>	DLI should contain:	In Progress	66.7%				
	Is this condition from the verification protocol achieved?	Yes					
	Is this condition from the verification protocol achieved?	No					
	Is this condition from the verification protocol achieved?	Yes					
<b>Verification 2.3 B</b>	Is this condition from the verification protocol achieved?	Not Verified	0.0%				
		No					



# 6.ANNEX 6 – PERFORMANCE REVIEW TEMPLATE



## INSTITUTION KEY PERFORMANCE INDICATOR

Name and Surname   
Date

### KEY PERFORMANCE INDICATOR

Institution   
Indicator   
Indicator description   
Related goal   
Period

	Initial Value	31-Dec-15	30-Jun-16	31-Dec-16	30-Jun-17	31-Dec-17	30-Jun-18	31-Dec-18	30-Jun-19
Indicator Value									
Change related to the initial value									

Source

### KEY PERFORMANCE INDICATOR SELF-ASSESSMENT

- This indicator has been dedicated to follow the realization of the achievement according to the above-mentioned related goal. Do you think that change in his value in the previous period adequately reflect the progress towards the goal?

- This indicator is related to the success in the achievement of the abovementioned related goal. Do you think there are indicator/s which adequately describe the progress towards the goal?



SELF-ASSESSMENT INCOMPLETE

Activity name	Activity 1
Relevant Action Plan	
Relevant Sector	
Period	from <input type="text"/> to <input type="text"/>

• **Effectiveness evalutaion**

Assessment of the effectiveness of the activity in enhancing the value of the above-mentioned indicator

Assessment of the effectiveness of the activities mentioned in achieving the above-mentioned objective related

• **Sutiability Assesment**

How does this activity contribute to the improvement of the **above-mentioned indicator**?

How does this activity contributed to the above-mentioned **related goal**?

• **Barriers during the implementation of activity**

We encounter barriers within our institution

We encounter barriers cuased by other institutions

We encounter barriers caused outside the public administration

If you are facing barriers in the implementation of this activity, please describe them, and, if possible, propose solution

If you encounter barriers within the project or you are constrained with the national budget constraints, please describe them, and, is possible, propose solution

• **Coordination Potential**

Do you know of activities or projects that could contribute to the effectiveness of the activities, which carried out by other institutions participating in the project, or institution outside the scope of the project?

Please, fill in the institution and activity/project they conduct





# Interim Un-audited financial report - Cash receipts and payments in RSD

Interim un-audited financial report (IFR)

Project name  
**Cash Receipts and Payments**  
 For the period ending xx/xx/20xx  
 in RSD

	Actual			Budget			Variance		
	Current period	Year to	Cumulative to date	Current period	Year to	Cumulative to date	Current period	Year to	Cumulative to date
<b>Cash Receipts</b>									
Budget of the Republic of Serbia									
<b>Total sources</b>									
Less:									
<b>Cash Payments</b>									
Ministry of Economy salaries (selected units/agencies)									
Research salaries (R&D Institutes)									
National Employment Service salaries									
<b>Total uses of funds</b>									
<b>NET CASH FLOW</b>									

# Interim Un-audited financial report – Cash Receipts and Payments in EUR

Interim un-audited financial report (IFR)

Cash receipts and payments

Project name  
**Cash Receipts and Payments**  
 For the period ending xx/xx/20xx  
 in EUR

	Actual			Budget			Variance		
	Current period	Year to	Cumulative to date	Current period	Year to	Cumulative to date	Current period	Year to	Cumulative to date
<b>Cash Receipts</b>									
Designated account									
Direct payment									
Reimbursement									
MoLEVSA account									
PPS local currency account									
MoLEVSA local currency account									
Interests earned									
<b>Total</b>									
<b>Foreign exchange difference</b>									
Exchange gains									
Exchange losses									
<b>Total sources of funds</b>									
Less:									
<b>Cash Payments</b>									
Component 1									
Component 2									
Component 3									
<b>Total uses of funds</b>									
<b>Net increase/(Decrease) In cash flow</b>									
<b>Bank Balances beginning of period</b>									
<b>Bank Balances end of period</b>									





# Reimbursement request

Reimbursement Request

Interim un-audited financial report

Project name  
**Statement of Disbursement**  
For the period ending xx/xx/20xx  
in RSD

	Total expenditures of the period	Amounts of total expenditures requested for reimbursement*	Percentage of total expenditures requested for reimbursement*
<b>Amount to be reimbursed based on the expenditures for the reporting period</b>			
Ministry of Economy salaries (selected units/agencies)			
Research salaries (R&D Institutes)			
National Employment Service salaries			
<b>Total amount</b>			

\* as per PAD/Loan Agreement

## Explanatory report Notes and Accounting Policies

Explanatory notes

Interim un-audited financial report

Project name  
For the period ending xx/xx/20xx

### Explanatory notes and Accounting policies




# Interim Un-audited Financial Report by Project Activity

Uses of funds by project activity

Interim un-audited financial report (IFR)

Project name  
**Uses of Funds by Project Activity**  
 For the period ending xx/xx/20xx  
 in EUR

	Actual			Budget			Variance		
	Current period	Year to	Cumulative to date	Current period	Year to	Cumulative to date	Current period	Year to	Cumulative to date
<b>Component 1</b>									
Contract 1									
Contract 2									
Contract 3									
Contract 4									
Contract 5									
Contract 6									
Paymants without contract									
<b>Sub-Total</b>									
<b>Component 2</b>									
Contract 1									
Contract 2									
Contract 3									
Contract 4									
Contract 5									
Contract 6									
Paymants without contract									
<b>Sub-Total</b>									
<b>Component 3</b>									
Contract 1									
Contract 2									
Contract 3									
Contract 4									
Contract 5									
Contract 6									
Paymants without contract									
<b>Sub-Total</b>									
<b>Total Project Expenditure</b>									







# 8. ANNEX 8 - TERMS OF REFERENCE FOR CONTRACTING INDEPENDENT AUDIT

## TERMS OF REFERENCE (TOR)

FOR THE AUDIT OF THE [NAME OF PROJECT] FOR THE YEAR (PERIOD) ENDED [MONTH DATE, YEAR]

[This TOR is applicable to implementing agencies]

### Background [OPTIONAL]

The TOR should provide appropriate background information of the project, including:

- (a) a brief description of the project including information on project sources of funding;
- (b) a general description of implementation arrangements, including the organizational structure of all implementing entities (if more than one);
- (c) list the source and total amount of funds for the period subject to audit under this TOR (Bank's loan/credit, trust funds, counterpart funds, etc.).

### Objective

The objective of the audit of the project financial statements (PFS) is to enable the auditor to express a professional opinion on the project's financial position as at the end of [AUDIT REFERENCE DATE] and of the income and expenditure for the accounting period ending on that date. The project's books of account provide the basis for preparation of the financial statements and are established to reflect the financial transactions in respect of the project.

### Responsibility for preparation of financial statements

The responsibility for the preparation of financial statements including adequate disclosure is that of the project's management. This includes the maintenance of adequate accounting records and internal controls, the selection and application of accounting policies, and the safeguarding of the assets of the project. As part of the audit process, the auditor will request from management written confirmation concerning representations made to us in connection with the audit.

### Scope

The audit will be conducted in accordance with [International Standards on Auditing](#) (ISA) published by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC) [OR REFER TO RELEVANT NATIONAL STANDARDS OR PRACTICES]. Those Standards require that the auditor plans and performs the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In complying with ISA, the auditor is expected to pay particular attention to the following matters, including special considerations for public sector entities:

- a) In planning and performing the audit to reduce audit risk to an acceptably low level, the auditor should consider the risks of material misstatements in the financial statements due to fraud as



required by [International Standard on Auditing 240: The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements](#).

- b) When designing and performing audit procedures and in evaluating and reporting the results thereof, the auditor should recognize that noncompliance by the entity with laws and regulations may materially affect the financial statements as required by [International Standard on Auditing 250: Consideration of Laws and Regulations in an Audit of Financial Statements](#).
- c) The auditor should communicate audit matters of governance interest arising from the audit of financial statements to those charged with governance of an entity as required by [International Standard on Auditing 260: Communication of Audit Matters with those Charged with Governance](#).
- d) The auditor should communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements as required by [International Standard on Auditing 265: Communicating Deficiencies in Internal Control to Those Charged with Governance and Management](#).
- e) In order to reduce audit risk to an acceptably low level, the auditor should determine overall responses to assessed risks at the financial statement level, and should design and perform further audit procedures to respond to assessed risks at the assertion level as required by [International Standard on Auditing 330: The Auditor's Procedures in Response to Assessed Risks](#).
- f) In instances where certain aspects of an entity's operations are performed by a third party service provider, the auditor is expected to include an understanding and assessment of the internal control environment of the service provider during the audit process as required by [International Standard on Auditing 402: Audit Considerations Relating to an Entity Using a Service Organization](#).
- g) As part of the audit process, the auditor is expected to obtain written representations from management and, where appropriate, those charged with governance as required by [International Standard on Auditing 580: Written Representations](#).

In evidencing compliance with agreed project financing arrangements the auditor is expected to carry out tests to confirm that:

- a) External funds have been used in accordance with the conditions of the relevant general conditions, relevant financing agreements, with due attention to economy and efficiency, and only for the purposes for which the financing was provided. Relevant general conditions and financing agreements are **[CITE RELEVANT GENERAL CONDITIONS AND FINANCING AGREEMENTS]**;
- b) Counterpart funds have been provided and used in accordance with the relevant general conditions, relevant financing agreements, and only for the purposes for which they were provided;
- c) Goods and services financed have been procured in accordance with the relevant general conditions and relevant financing agreements<sup>46</sup>, including specific provisions of the [World Bank Procurement Guidelines](#)<sup>47</sup>;
- d) Necessary supporting documents, records, and accounts have been kept in respect of all Project ventures including expenditures reported via Summary Report or Statements of

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<sup>46</sup> Depending on the complexity of procurement activities, the auditor may consider involving technical experts during the audit engagement. In cases where such experts are involved, the auditor is expected to comply with provisions of [International Standard on Auditing 620: Using the Work of an Expert](#). Consideration to use of the work of experts should be brought to the early attention of the borrower and the World Bank for mutual agreement and appropriate guidance.

<sup>47</sup> See [Guidelines: Procurement Under IBRD Loans and IDA Credits, \(Revised May2010\)](#) and [Guidelines: Selection and Employment of Consultants by World Bank Borrowers, \(Revised May 2010\)](#).



Expenditures (SOEs) (or Interim Un-audited Financial Reports (IFRS)) if used as the basis of disbursement), or Designated Accounts (DAs). The auditor is expected to verify that respective reports issued during the period were in agreement with the underlying books of account;

- e) Where Designated Accounts have been used, they have been maintained in accordance with the provisions of the relevant general conditions and relevant financing agreements;
- f) Review the compliance on each of the financial covenants in the [STATE SPECIFIC SECTION OF LOAN/FINANCING AGREEMENT and list, as necessary].

### **Project Financial Statements**

The Project Financial Statements for part A shall include:

- Cash Receipts and Payments (including comparison of budget vs. actual)
- Reimbursement request
- Statement of disbursement
- Explanatory Notes.

Project financial statements for part B shall include:

- Cash Receipts and Payments (including comparison of budget vs. actual)
- Expenditures by activity
- Designated Account statement
- Explanatory Notes.

[The explanatory notes should include reconciliation between the amounts shown as "received by the project from the World Bank" and that disbursed by the Bank and a summary of movements on the project's Designated Account.]

### **Summary Reports or Statement of Expenditures**

(or IFRS if used as the basis of disbursement)

The auditor is required to audit all Summary Reports or SOEs and IFRS submitted to the World Bank in support of requests for periodic replenishment of the project designated account(s).

Expenditures should be examined for eligibility based on criteria defined in the terms of the financing agreement and detailed in the Project Appraisal Document. Where ineligible expenditures are identified as having been included in withdrawal applications and reimbursed, they should be separately reported.

The Project Financial Statements should include a schedule listing of individual Summary Reports or SOEs (or IFRS used as the basis of disbursement) withdrawal applications by specific reference number and amount.

The auditor should pay particular attention as to whether:

- a) the Summary Reports or SOEs (or IFRS) have been prepared in accordance with the provisions of the relevant financing agreement.
- b) expenditures have been made wholly and necessarily for the realization of project objectives.
- c) information and explanation necessary for the purpose of the audit have been obtained;
- d) supporting records and documents necessary for the purpose of the audit have been retained, and
- e) the Summary Reports or SOEs (or IFRS) can be relied upon to support the related withdrawal applications.



## Designated Accounts

During the audit of the project financial statements, the auditor is required to review the activities of the project's designated account(s). Activities to be examined will include deposits received, payments made, interest earned and reconciliation of period-end balances.

The auditor should pay particular attention as to the compliance with the Bank's procedures and the balances of the Designated Accounts at the end of the fiscal year [OR PERIOD] and the adequacy of internal controls for this type of disbursement mechanism.

## Audit Reports

The auditors will issue an audit opinion on the Project Financial Statements for part A and for part B.

In addition to the audit opinion, the auditor will prepare a "management letter," in which the auditor will:

- a) provide comments and observations on the accounting records, systems, and controls that were examined during the course of the audit;
- b) identify specific deficiencies and areas of weakness in systems and controls and make recommendation for their improvement;
- c) report on instances of non-compliance with the terms of the financial agreement(s);
- d) quantify and report expenditures that are considered to be ineligible and either paid out of the designated account(s) or which have been claimed from the World Bank;
- e) communicate matters that have come to their attention during the audit which might have a significant impact on the implementation of the project;
- f) bring to the borrower's attention any other matters that the auditor considers pertinent; and
- g) include management's comments in the final management letter.

The financial statements, including the audit opinion, and management letter should be received by the Project implementing agency, no later than six months after the end of the audited fiscal year. The Project's implementing agency should then promptly forward two copies of these to the World Bank.

In addition to issuing audit opinion on project financial statements, the auditors will provide their assessment on the functioning of the payroll system within entities whose salaries are financed under part A.

## Public Disclosure

In accordance with "The World Bank (the Bank) Policy on Access to Information" dated July 1, 2010 for Bank-financed operations for which the invitation to negotiate is issued on or after July 1, 2010, the Bank requires that the borrower makes the audited financial statements publically available in a timely fashion and manner acceptable to the Bank. **In addition**, following the Bank's formal receipt of these financial statements from the borrower, the Bank makes them available to the public in accordance with this policy.

Management Letters, special audits (i.e. whose nature is not financial), and unaudited financial statements (e.g. Interim Financial Reports) are not considered to be the a part of the definition of the audited financial statements for the purposes of disclosure.

Only in exceptional cases the Bank may agree—i.e., when the audited financial statements contain proprietary or commercially sensitive information—that the borrower or designated project entity may be exempted from disclosing the full set of audited financial statements, but is still required to disclose an abridged version of them in a form acceptable to the Bank. Exceptions are approved by World Bank management.





## General

The responsibility for the preparation of financial statements including adequate disclosure is that of the management of the [PROJECT IMPLEMENTING AGENCY]. As part of the audit process, the auditor will request from management written confirmation concerning representations made to the auditor in connection with the audit.

The auditor is entitled to unlimited access to all information and explanations considered necessary to facilitate the audit including legal documents, project preparation and supervision reports, reports of reviews and investigations, correspondences, and credit account information. The auditor may also seek written confirmation of amounts disbursed and outstanding in the Bank records.

The auditor is encouraged to meet and discuss audit related matters including input to the audit plan with the World Bank project task team.

It is highly desirable that the auditor become familiar with the relevant World Bank guidelines, which explain the Bank's financial reporting and auditing requirements. These guidelines include:

- Reference Material to the Financial Management Manual for World Bank-Financed Investment Operations (March 2010): *RM 3 - Financial Reporting and Auditing*;
- [Disbursement Handbook for World Bank Clients](#), dated May 2006 (available on Client Connection web site);
- [Disbursement Guidelines for Projects](#), dated May 2006 (available on Client Connection web site).
- [Guidelines: Procurement Under IBRD Loans and IDA Credits](#) (revised May 2010).
- [Guidelines: Selection and Employment of Consultants by World Bank Borrowers](#) (revised May 2010).

This term of engagement will remain effective for future fiscal years unless it is terminated, amended or superseded.

The auditor should understand that working papers under World Bank project can be subject to the review by Client's and/or World Bank designated staff.



# 9.ANNEX 9 – ELIGIBLE EXPENDITURE PROGRAMS FOR 2016

## Ministry of Economy EEPs for 2016

EPPs are related to the achievement of DLI 2, and contain salaries for the Ministry employees, which are defined in the following budget lines in Program Budget of the MoE for 2016:

SECTION	Heading	Program	Func.	Prog. Activity / Project	Econ. Class.	Description	Amount IN 1,000 RSD
20	20,0	1503	410	0001	411	Administration in the field of safety and quality of products on the market	21,660
20	20,0	1508	410	0001	411	Administration and supervision activities in the field of economy	28,103
20	20,0	1508	410	0002	411	Policies and measures of economic and regional development	56,598
20	20,0	1508	410	0003	411	Administration of the privatization and bankruptcy processes	77,373
20	20,0	1508	410	0004	411	General administration and management	47,681
Total:							231,415

DISCLAIMER: Figures in the tables are given for 2016. It is assumed that they will not be the same through the period 2016-2018. The amounts presented in the table include, besides values for listed budget lines in 2016 Budget Law, the amount attributed to each of these budget lines by Conclusion of the Government 05 no: 401-1573/2016 dated February 12, 2016 („Official Gazette of RoS“, no. 12/2016), relative to the funds previously foreseen for the functioning of the Privatization Agency which is now closed and its tasks passed into the competencies of the MoE.

## Ministry of Education, Science and Technological Development EEPs

EEP are related to the DLI 3 – DLI 5, and contain salaries of the researchers involved in the process of innovation commercialization and technology transfers, as well as in the activities related to the reform of the research sector. The figures in the following table are given for whole budget line that includes EEPs, while the salaries of researchers are separated, as follows:

As the EEPs of MoESTD are highest in value, each delay in their execution or execution that is lower than planned can significantly affect loan disbursement dynamics.



SECTION	Heading	Program	Func.	Prog. Activity / Project	Econ. Class.	Description	Amount IN 1,000 RSD
24	24,0	0201	140	0001	424	Support in the realization of the general interest in research and scientific activity	11,747
The amount allocated only for the net salaries of the researchers in total budget line:							
Work of the researchers under Basic Research Program							3.800.000
Work of researchers under Technological Development Program							2.350.000
Work of the researchers under Integral and Inter-Disciplinary Research Program							2.438.965
TOTAL:							8,588,965

DISCLAIMER: Figures in the tables are given for 2016. It is assumed that they will not be the same through the period 2016-2018.

### National Employment Service EEPs

EEPs connected to the Project A.4 component are related to the achievement of DLI 6-DLI 9, and they include salaries of administrative workers and case workers, whose task is to improve the efficiency of NES services.

Figures in the following table represent economic classification 411000 – salaries, allowances and remunerations of the NES employees defined with the NES Financial Plan:

Economic classification	Description	Amount, 000 RSD
411000	Salaries, allowances and remunerations	1.458.812
TOTAL:		1.458.812

DISCLAIMER: Figures in the tables are given for 2016. It is assumed that they will not be the same through the period 2016-2018.

