

Competitiveness and Jobs Project

IBRD RBM Landing Operation

Project ID: P152104

Project Progress Report

July – December 2017

Public Policy Secretariat, Republic of Serbia
for
Inter-Ministerial Working Body for
Competitiveness and Jobs Policy Planning,
Monitoring and Coordination

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Abbreviations

CIIP	Competitive Industries and Innovation (Trust Fund/Project)
DLI	Disbursement-Linked Indicator
IBRD	International Bank for Reconstruction and Development
IF	Innovation Fund
IMWB	Inter-Ministerial Working Body (for PPMC in competitiveness policy area)
KPI	Key Performance Indicator
MoE	Ministry of Economy
MoESTD	Ministry of Education, Science and Technological development
MoLEVSA	Ministry of Labor, Employment, Veteran and Social Affairs
NES	National Employment Service
PAD	Project Appraisal Document
PIU	Project Implementation Unit
POM	Project Operations Manual
PPMC	Policy Planning, Monitoring and Coordination
PPS	Public Policy Secretariat
RS	Republic of Serbia
WB	World Bank

Project Progress Report

This Project Progress Report for the period July - December 2017 is structured in two parts:

- I. Summary Progress report per subject of reporting (DLIs, EEPs, Procurement and Finance summary), and*
- II. Progress Report per Project components and subcomponents.*

I. Summary report

1. Project Overview

Republic of Serbia was granted a loan of the International Bank for Reconstruction and Development (hereinafter the Bank) to improve the competitiveness and employment for 100 million dollars (89.5 million euros), implemented through Competitiveness and Jobs project (hereinafter: the Project). The main goal of the Project is to improve the efficiency and coordination of selected public programs to alleviate constraints for competitiveness and job creation, including investment and export promotion, innovation, active labor market programs, employment mediation and activation of users of social assistance. The project is structured in two interconnected parts:

- 1) Part A - which uses a results-based financing modality. Results, or a part thereof, achieved in four thematic components: A.1. Policy planning, monitoring, and coordination; A.2. Investment and Export Promotion; A.3. Innovation; A.4. Labor, and the execution of the Eligible expenditure Programs (EEPs) are precondition for withdrawal of funds from the loan for Part A;
- 2) Part B - includes technical support in Project management and implementation, including the procurement of goods, consulting services, non-consultant services, Training and Operating costs. Part B consists of two components: B.1. Support to the Public Policy Secretariat (hereinafter PPS) in the name and on behalf of PPS, the Ministry of Economy (MoE) and Ministry of Education, Science and Technological Development (MoESTD), both at the level of individual institutions, and the level of the overall Project through Project Implementation Unit (PIU); B.2. Support to the Ministry of Labor, Employment, and Social Affairs (MoLEVSA) through engagement of appropriate experts for project implementation and management, and consulting services. The withdrawal of funds from the loan for Part B of the Project involves the submission of Statements of expenditure (SoE).

Part A consists of the following components:

A.1. - Policy planning, monitoring, and coordination (hereinafter: the PPMC) will support the implementation of the program of the Republic of Serbia for planning, monitoring and coordination of public policies, through developing and piloting an inter-ministerial PPMC system in support of competitiveness and jobs reforms;

A.2. - Investment and Export Promotion will support program of the Republic of Serbia for investment and export promotion through development and adopting of a strategic framework and overall action plan for investment and export promotion, including restructuring the MoE investment and export promotion agencies, and improving the Republic of Serbia investment and export promotion programs and services;

A.3. - Innovation will support program for innovation through support of the operations of the Innovation Fund (hereinafter: the IF) and it's Matching Grants Program (hereinafter: MGs program); support to the Technology Transfer Facility (hereinafter: TTF) service lines and operations at the IF; and undertaking strategic planning for the reform of the public research and development sector.

A.4. - Labor will support the implementation of the reform program in the field of labor through enhancing the effectiveness of the National Employment Service (hereinafter: the NES) labor intermediation services for employers and the unemployed; improving the effectiveness of the active labor market programs (hereinafter: the ALMPs); and facilitating the transition of social assistance beneficiaries into formal jobs.

The central institution responsible for coordination of the project is PPS with the assistance of PIU. PPS coordinates the gathering and processing of the results of monitoring, reporting, fiduciary functions and safeguard procedures in close cooperation with the institutions participating in the Project. PPS also acts as the technical secretariat of the Inter-Ministerial Working Body for policy planning, monitoring and coordination in competitiveness policy area (PPMC IMWB). Director of the PPS Chairs the PPMC IMWB.

2. Major Milestones

In the reporting period, after the establishment of project implementation infrastructure and institutional framework in 2016, meaning, engagement of experts who will support activities of the institutions, as well as other necessary elements for efficient operational management of the Project, beneficiaries started to implement project activities. In the course of implementation various issues and challenges arose, which led to rethinking of the Project. This intention was justified by the Mid-Term Review (MTR) mission that was held in December 2017. As a result, Project restructuring paper will be prepared in early 2018.

Key results within reporting period are:

- PPMC IMWB regularly had sessions during reporting period, in order to adopt due reports. No significant PPMC topics were discussed. Role of IMWB was revised and shifted towards decision making one.
- Due to changes in the Government in June 2017, the process of passing the **legal package** comprising of the Law on the planning system and respective by-laws on managing public policies and mid-term planning was further prolonged and **the draft Law passed the Government on 31.08.2017**.
- During reporting period no disbursement request related to Part A of the Loan has been submitted. Related to Part B, as advance EUR 233,056.94 was drawn to fund technical activities and operational expenses of the Project Executive summary

3. Executive summary

Component 1

- The draft **Planning System Law** was adopted by the Government on **31.08.2017**, and the proposal sent for adoption by the Parliament. Although it happened after the reporting period, it is important to note that the Law has been adopted by the National parliament in April 2018

and the by-laws are due until mid October 2018. The Law will decisively contribute to implementation of the Policy Planning, Monitoring and Coordination system in Republic of Serbia;

- Changes within the Government (29.06.2017) initiated the revision of the APIGP, so as to reflect the Government program of the new Prime Minister and her Cabinet. The new APIGP was adopted by the Government on 09.11.2017. APIGP, which is aligned with this Project, is being implemented without serious delays or obstacles. Function of coordination in the Project is being gradually transferred to APIGP structure in the process of harmonization and optimization of the two processes (top-to-down and bottom-up) in order to build coherent public policy coordination system.

Component 2

- Sectoral industrial policies (Value-chain analyses and Action Plans for selected sectors) – both sets of documents are finalized and accepted by the Ministry of Economy in March 2018. Although it happened after the reporting period, it is important to note, because it constitutes DLI 2.1: Development and adoption of the strategic framework and action plan for investment and export promotion with adequate content. This DLI was delayed since 2016. By fulfilling this DLI, conditions for disbursement of 4.475 million euro are met. Disbursement of this sum will be requested with the semi-annual progress report for 2018.

Component 3

- Within the period July-December 2017 the major breakthrough on the Project occurred on the Component 3. For the long period of time lagging process of drafting and adoption of Action Plan (AP) for Strategy of Scientific and Research Development for 2016-2020 and Infrastructure Road Map is re-launched and accelerated, and at the present the both documents are pending for adoption by the Government. Within the current draft of AP, a role of the C&J Project is precisely defined, taking into consideration significant potential for the improvement of the Project's relevance in this sector, and providing coherent ground for revision of the Component 3 towards increasing of its relevance and effectiveness. AP is developed and drafted in accordance with prepared Public Policy legal package, applying foreseen methodologies and evidence based policy-making approach.

Component 4

- In order to restart activities on the Component 4 implementation, which have been halted in the period June-October 2017 is undertaken a "troubleshooting" exercise, based on existing set of the C&J Project PAD and POM, but with shift from coordination towards more coherent and centralized Project Management. In that course, MoLEVSA and PPS agreed to transfer MoLEVSA PIU functions to the PPS PIU, while the MoLEVSA will keep implementation functions. This process includes revision of the whole Component, as a result of the Mid-Term Review (MTR) mission that was held in December 2017.

The overview of the Project progress toward defined indicators is summarized in following table:

Table 1: Overall project performance

I. Overall project progress								
Total Loan proceeds for achieved results:	85.00	EUR million						
	Baseline	Targets					Total	
	2015	2016 semi-annual	2016	2017 semi-annual	2017	2018 semi-annual		2018
Overall scoring of progress in achieving Project KPIs*:	n/a	n/a	n/a	n/a	n/a	n/a		
Overall scoring in fulfilling obligations (DLIs):	100.00%	50.46%	46.01%	59.64%	43.34%	0%	0%	49.81%
Value of executed EEPs*:	€ 84,586,824	€ 35,120,819	€ 81,081,172	€ 40,958,012	€ 84,320,112	€ 0	€ 0	€ 249,988,108
Executed EEPs against committed:	97%	84%	99%	97%	98%	0%	0%	98%
Estimated Loan disbursements for the period:	€ 5.37	€ 11.09	€ 26.85	€ 9.89	€ 25.96	€ 10.78	€ 26.85	€ 85.03
Actual Loan disbursement enabled:	5.37	€ 5.59	€ 12.36	€ 5.90	€ 11.25	€ 0.00	€ 0.00	€ 28.98
Undisbursed available Loan proceeds**:	€ 0.00	€ 5.49	€ 14.50	€ 3.99	€ 14.71	€ 10.78	€ 26.85	€ 56.05

* Note: Acceptable semi-annual values for KPIs and EEPs is set on 40% of their annual value.

** Note: The total amount of available Loan proceeds presented in the table regards only disbursements relative to results. The total amount available includes also eventual residue form Part B of the Project and contingencies, and is less than total Loan amount for the front-end fee value which is paid from Loan proceeds.

PDO and Intermediate indicators were defined by the Project documentation. This report will contain overview of the progress achieved toward those indicators. In cases where those indicators coincide with DLIs defined for the Project, such indicators will be a subject of specific chapters of this report.

Table 2: Project Development Objective Indicators*

Indicator Name	Baseline	2016			2017			2018
		Target	June 30 th	December 31 st	Target	June 30 th	December 31 st	Target
New investor leads generated by the reformed investment promotion agency (Number), annual	20	22	12	23	25	15	38	30
<i>Note: this indicator is the KPI defined for Component A.2</i>								
Participants in export promotion programs that engage in new export activities (Number), annual	85	90	71	188	95	77	350	100
<i>Note: this indicator is the KPI defined for Component A.2</i>								
New collaborations facilitated between research organizations and the private sector (Number)	3	8	N/A	14	31	N/A	N/A?	34
NES registered unemployment cases transitioning into formal job (Number), annual	232.280 (2014)	245.000	132.940	215.712	260.000	131629	241940	280.000

Note: this indicator is the DLI defined for Component A.4								
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* Description (indicators definition), frequency and responsibility for data collection is available in PAD (pages from 28 to 32)

Source: PAD and Participating institutions

Progress in fulfillment of obligations defined as Disbursement Linked Indicators (DLIs) has been measured comparing the amount of Loan proceeds which should be disbursed for results achieved and reported in this Performance review, and the amount which could be disbursed in the same period in case all the results, foreseen to be reached in the reporting period, are achieved. Average success rate for the period January 2015- December 2017 is 50%, while for this reporting period it is 43 %, which is assessed as broadly satisfactory, but significantly improved, compared with the previous year (which scored 46%). Some of the catching-ups, especially the one connected to DLI 3, forecasted in the last Progress report, did happen during 2017. That resulted in the above average progress in this period.

Eligible Expenditure Programs¹ (EEPs) execution rate in total is 98 % same as for the reporting period, comparing with the amount committed in the Budget of Republic of Serbia. PPMC IMWB considers the EEP execution as **satisfactory**. If the success of the Project implementation is monitored through comparison between execution of EEPs (97% in this reporting period) and level of fulfillment of obligations on the Project (43% for the reporting period) it can be considered that the execution of project activities by participating institutions is in delay, so execution of obligations is lagging behind execution of EEPs in the same period. Completion of some activities planned for 2017 is certain in 2018. (Related to DLI 2 and 8.

Based on progress in achievement of results and fulfillment of the obligations on the Project, the PPMC IMWB suggest submission of Disbursement request for the Part A of the Project in total amount of 5.33 million EUR, for results achieved under:

- DLI 1 – 0,671 million EUR,
- DLI 3 – 1.988 million EUR,
- DLI 6 – 0, 89 million EUR,
- DLI 7 – 1,785 million EUR.

PPMC IMWB considers the overall Project implementation as **partially satisfactory**. It is still evident that activities within and between participating institutions could have been performed and coordinated more efficient, but the initial lags are lessened, with a prospect of further decrease.

All activities are in progress with the exception of DLI 5. related to reform of public RDI sector, DLI 8, related to the effectiveness of ALMPs and DLI 9, related to transition of beneficiaries of social assistance into formal jobs.

It is necessary to intensify project activities in order to compensate the delays and overcome recorded constrains, which is, in fact, one of the major, if not the most important goal of the Project. Regarding DLI 3, necessary budget has been secured for 2017. so there are preconditions for conduct of planned

¹Eligible Expenditure Programs, as defined in the Loan Agreement, represent the salary costs that Republic of Serbia has for MoE employees, research and development institutes (within the budget of MoESTD) and NES staff. EEPs are considered the cost of Republic of Serbia for the implementation of the reforms in the subject of this Project.

activities. It is yet to be decided, in mutual agreement with the Bank, what will happen with the undisbursed amount reserved for 2016. As for delayed activities in other DLIs, restructuring of the Project seems to be necessary.

Detailed information on progress in each component is presented in following chapters of the report.

4. Summary report on DLI achievement (fulfillment of obligations on the Project)

III. Fulfilment of obligations - DLI values and possible disbursements per year:								
	2015 total	2016 partial payment	2016 total	2017 partial payment	2017 total	2018 partial payment	2018 total	Total
Component 1: Policy planning, monitoring and coordination								
DLI 1 value:	3.58							
DLI 1: Policy planning, monitoring, and coordination system piloted (in support of competitiveness and jobs reforms)	0.90	0.22	0.90	0.22	0.90	0.22	0.90	3.58
<i>Disbursements conditions met - disbursement expected:</i>	0.90	0.22	0.90	0.22	0.90			3.14
Component 2: Investment and export promotion								
DLI 2 value:	19.69							
DLI 2: MoE investment and export promotion programs restructured		2.69	7.16		6.27		6.27	19.69
<i>Disbursements conditions met - disbursement expected:</i>		2.69	2.69		0.00			5.38
Component 3: Innovation								
DLI 3 value:	10.74							
DLI 3: Enterprise innovation supported via the Innovation Fund Matching Grants Program		1.19	3.58	1.59	3.58	1.59	3.58	10.74
<i>Disbursements conditions met - disbursement expected:</i>		0.00	0.00	1.19	3.18			4.37
DLI 4 value:	8.95							
DLI 4: Technology transfer and commercialization facilitated via the Innovation Fund Technology Transfer Facility		0.90	2.69	2.69	2.69	3.58	3.58	8.95
<i>Disbursements conditions met - disbursement expected:</i>		2.69	2.69	2.69	2.69			10.75
DLI 5 value:	11.64							
DLI 5: Public research sector reforms designed and adopted	2.69	2.69	2.69	1.79	3.58	2.69	2.69	11.64
<i>Disbursements conditions met - disbursement expected:</i>	2.69	0.00	0.00	0.00	0.00			2.69
Component 4: Employment								
DLI 6 value:	7.16							
DLI 6: Effectiveness of NES labor intermediation services delivered to clients (employers and unemployed) improved		0.90	2.69	0.90	1.79	0.90	2.69	7.16
<i>Disbursements conditions met - disbursement expected:</i>		0.00	2.69	0.90	1.79			5.38
DLI 7 value:	8.95							
DLI 7: Case load management in NES branch offices improved	0.90	0.90	2.69	0.90	2.69	0.90	2.69	8.95
<i>Disbursements conditions met - disbursement expected:</i>	0.90	0.00	2.69	0.90	2.69			7.18
DLI 8 value:	8.95							
DLI 8: Effectiveness of ALMPs improved through statistical evidence	0.90	0.90	2.69	0.90	2.69	0.90	2.69	8.95
<i>Disbursements conditions met - disbursement expected:</i>	0.90	0.00	0.00	0.00	0.00			0.90
DLI 9 value:	5.37							
DLI 9: Transition of social assistance beneficiaries into formal jobs facilitated		0.70	1.79	0.90	1.79		1.79	5.37
<i>Disbursements conditions met - disbursement expected:</i>		0.00	0.70	0.00	0.00			0.70
Possible total disbursements per reporting period:	€ 5.37	€ 11.09	€ 26.85	€ 9.89	€ 25.96	€ 10.78	€ 26.85	€ 85.03
Disbursements conditions met - disbursement expected:	€ 5.37	€ 5.59	€ 12.36	€ 5.90	€ 11.25	€ 0.00	€ 0.00	€ 28.98
Total possible disbursements per reporting period against total loan proceeds:	6.32%	13.04%	31.58%	11.63%	30.52%	12.68%	31.58%	100%
Overall scoring in fulfilling obligations (DLIs) per reporting period:	100.00%	50.46%	46.01%	59.64%	43.34%	0.00%	0.00%	49.81%

Note: Partial payment at mid-year does not effect total available annual amount per DLI. In case partial disbursement is made at mid-year, the annual amount is reduced for such payment. In case annual DLI is not met, its value is attributed to the next semester.

Overall progress toward fulfillment of Project obligations – achievement of defined results in the reporting period can be assessed as **partially satisfactory**.

Only DLI 4 has been fully achieved before the reporting period, as it was the case in 2016.

DLI 1, due to the fact that report has to be written after the reporting period is expected to be fulfilled and included in disbursement request, as it was the practice established with previous reports.

DLI 2, delayed since the end of 2016, was achieved after the end of 2017. That means the conditions for disbursement of 4.475 million EUR will be met. Additionally, DLI 2.3, which refers to increased

number of documented investors interests is achieved on the end of a year, but formal verification was not yet received.

DLI 3. That had the greatest underperformance in the last year, is achieved as planned in this year. There are no indications that there will be considerable obstacles for its fulfillment, except the evaluation of matching grants, because there were no grants to be evaluated yet.

DLI 5. is in serious delay. It is obvious that it will not be achieved in planned deadlines, not even on the level foreseen for 2016. The only feasible solution of this problem seems to be restructuring of the project.

DLI 6 and DLI 7 are considered achieved

DLI 8 and DLI 9 are in serious delay. It is obvious that it will not be achieved in planned deadlines. The only feasible solution of this problem seems to be restructuring of the project.

The main deviation from the plan is still related to Component 3 – Innovation, but Component 4 is also highly problematic.

5. Summary report on EEPs execution

Table 4: Performance against Eligible Expenditures

	IV. Performance against Eligible Expenditures							Total
	Eligible Expenditure Programs (EEP)*							
	2015	2016 semi-annual	2016	2017 semi-annual	2017	2018 semi-annual	2018	
EEP committed:	€ 87,094,401.85	€ 41,813,923.17	€ 82,201,947.17	€ 42,351,327.59	€ 86,062,748.19			€ 255,359,097.22
MoE	€ 1,300,831.26	€ 941,355.02	€ 1,879,871.49	€ 803,683.94	€ 1,632,994.98			€ 4,813,697.73
MoESTD	€ 72,515,505.31	€ 34,938,380.63	€ 68,471,594.58	€ 35,627,894.54	€ 72,428,372.68			€ 213,415,472.57
NES	€ 13,278,065.28	€ 5,934,187.52	€ 11,850,481.11	€ 5,919,749.11	€ 12,001,380.53			€ 37,129,926.92
EEP executed:	€ 84,586,824.14	€ 35,120,818.83	€ 81,081,172.00	€ 40,958,012.09	€ 84,320,111.97			€ 249,988,108.11
MoE	€ 1,230,461.78	€ 759,305.63	€ 1,526,753.01	€ 756,878.01	€ 1,542,898.64			€ 4,300,113.43
MoESTD	€ 71,065,806.50	€ 29,232,538.42	€ 68,254,552.15	€ 35,051,244.23	€ 71,229,873.05			€ 210,550,231.71
NES	€ 12,290,555.86	€ 5,128,974.78	€ 11,299,866.83	€ 5,149,889.85	€ 11,547,340.28			€ 35,137,762.97
Executed EEPs against committed:	97.12%	83.99%	98.64%	96.71%	97.98%			97.90%
KPI performance against executed EEPs:	n/a	n/a	n/a	n/a	n/a			n/a
DLI performance against executed EEPs:	102.96%	60.07%	46.65%	61.67%	44.24%			50.88%

Note: EEPs - Eligible Expenditure Programs have been defined only for MoE, MoESTD and NES.

Executed EEPs in amount of EUR 42,7 million are higher than total potential Disbursement Request for the period of EUR 16,06 million (EUR 5, 33 million are expected to be requested based on this Progress report at mid-year). It satisfies established rule, defined, among other documents, in POM under section 8.9 Loan Withdrawal, that total amount of EEPs executed by all institutions in the period January – December 2017 is higher than total amount of requested withdrawal, across all DLIs, for which payment is requested.

6. Procurement

During reporting period procurements for the Project has been executed based on Procurement Plan defined during negotiation of the Project and revised during April 2016 and January 2017.

First post review on the Project has been conducted by the World Bank in November 2016. PPS has received the post review report from the World Bank, in which no irregularities were found. The World Bank conducted its second post review in November 2017. Second post review report has not been provided by the World Bank in the reporting period.

Certain delays that were recorded in procurement of technical assistance during 2016 were partially caught up in the reporting period. Level of execution based on number of procurements conducted under Part B1 and Part B2 is presented in following table:

Table 5: Realized procurements in 2016 and 2017.

	procurements in 2016			procurements in 2017*		
	Planned	Realized	%	Planned	Realized	%
Total number of procurements	34	24	70%	40	33	82.5%
Part B1						
TA for Component A1	6	5	83%	10	9	90%
TA for Component A2	9	9	100%	9	9	100%
TA for Component A3	4	1	25%	6	1	16.67%
implementation support	9	6	67%	9	9	100%
Part B2						
TA for Component A4	6	4	67%	6	5	83%

*Presented procurements in 2017 are cumulative including data until December 31, 2017

PART B1

TA Component 1 – total number of procuring packages as of December 31, 2017 is 10. However, for 2 procurements the rebid process has been conducted:

The contract for the position 1A.1.3. Lead impact evaluation expert with the originally contracted consultant has been terminated and the consultant has been contracted for the position B.1.1.-rebid PIU Head. The rebid process for the position 1A.1.3. Lead impact evaluation expert has been initiated in May 2017 and the selected consultant has been contracted in June 2017.

The contract with the consultant for the position 1A.1.5. Impact evaluation specialist (a) has been mutually terminated in January 2017. So far, under the TA Component 1 for following two positions the selection process is not initiated: 1A.1.5. – rebid Impact evaluation specialist (a) and 1A.1.5. Impact evaluation specialist (b). 1A.1.5.-rebid and 1A.1.6 will be realized in the beginning of 2018.

In the revised procurement plan which was approved by the World bank on February 6, 2017, following new procurement packages were included:

1A.1.7. – Team Lead for innovation Based Entrepreneurship

1A.1.8. – Expert for Innovation Based Entrepreneurship

1A.1.9. – Research Assistant for Innovation Based Entrepreneurship

1A.1.10. - Analytics and Data Specialist for Monitoring and Evaluation – 4 positions

TA Component 2 – All procurement packages has been conducted and contracted in 2016.

TA Component 3 - Out of 7 procurement packages in total, so far only one procurement package has been finalized and contracted in 2016: 3A.3.6. Component 3 Implementation Officer. Only one selection process has been initiated in 2017 for the position 3A.3.1. – Design and supervision of RDI self-assessment methodology. The EOIs received for subject assignment were under the evaluation.

Implementation support – All procurement packages has been finalized and contracted. The PIU faced with the changes of staff. Namely, the originally contracted PIU Head (position B.1.1) and the PPS mutually agreed to terminate the contract as of February 01, 2017. The Single Source Selection has been conducted for new PIU Head (position B.1.1-rebid) and the contract has been signed on February 28, 2017. (see text above for TA Component 1). In addition, originally contracted consultant for the position B.1.4. Finance Specialist and the PPS mutually agreed with to terminate the contract starting from July 10, 2017. The rebid process for the position B.1.4-rebid Finance Specialist has been initiated in May 2017 and the Finance Specialist has been contracted in July 2017.

PART B2

TA Component 4- The selection process for the position 4A.4.3.-rebid Evidence based program design of ALMPs is not finalized in the reporting period. The contract with the consultant for the position 4A.4.4 Improving work incentives of social assistance beneficiaries, has been signed in the reporting period.

7. Finance

Financial report of the Project for 2017 has been prepared and presented with the report as Annex 3.

During reporting period no disbursement request related to Part A of the Loan has been submitted. In addition, related to Part B, as advance EUR 233,056.94 was drawn to fund technical activities and operational expenses of the Project.

All regulatory reporting to Ministry of Finance, Treasury, Public Debt Administration and National Bank of Serbia has been timely and correctly done.

II. Progress report per Project Component

8. Component A.1: Policy planning, monitoring, and coordination

This Project component supports the implementation of the program of the Republic of Serbia for improvement of PPMC system, and directly addresses the two main challenges in the policy development process in the RS: 1) weak strategic evidence-based planning, and 2) policy coordination. It is implemented through development and piloting of inter-ministerial system for planning, monitoring and coordination of policies in area of competitiveness and jobs, through establishment and functioning of PPMC IMWB.

During reporting period PPS actively worked on reform of Policy Planning, Monitoring and Coordination system and coordination of Project activities. Most important activities were:

- In order to establish an efficient, effective, transparent, and realistic policy planning and coordination system on the national and local level the PPS developed a **new regulation package**. It covers all key aspects of sustainable growth, socio-economic development policy, regional and spatial development and EU accession process, thereby ensuring budget optimization. The package comprises of the **Planning System Law**, the **Regulation on Public Policy Management** including Policy and Regulatory Impact Assessment, and the **Regulation on Mid-Term Planning**, creating thus the full legal framework for introducing the RBM and PPMC System. It also closes the gap by providing the methodology, content, and quality assurance, hence exactly those particular aspects which are not addressed in the existent regulation. This is one of major reasons why the effectiveness of planning, monitoring, coordination and implementation of desired policies was rather weak until now, hampering the development of the PPMC System elements, including the policy and institutional framework, functions, instruments and capacities. Therefore, even if not initially foreseen as Project's activity, during the reporting period, considerable effort was invested into the finalization of the mentioned regulation package (Law on Planning System, Regulation on Public Policy Management, Policy and Regulatory Impact Assessment, and Regulation on Mid-Term Planning). Both project capacities (PPS in-house capacities strengthened through the Project and expertise outsourced under PPMC component), lessons learned and solutions tested through the PPMC System building up to date have been utilized in a this process.
- In November 2016, after election of the previous Government, in cooperation with the World Bank which provided methodological support APIGP (Action Plan for Implementation of Government Program) was adopted. APIGP is an instrument meant to achieve the same goals as the Project, by using the same RBM methodology. Practically, it is a spillover of the Project on the rest of the public administration. It had crucial influence on the Project. New changes within the Government (29.06.2017) initiated the revision of the APIGP, so as to reflect the Government program of the new Prime Minister and her Cabinet. The new APIGP was adopted by the Government on 09.11.2017. There is an evident continuation in terms of priorities and the new APIGP builds upon the former, adhering to four major priority groups mentioned above, and following a basic coherent and implementable policy framework, provided with an agreed M&E Framework (with defined indicators, base and target values, and annual intermediary targets). As compared to the first APIGP with 32, the new is more focused with 22 priority objectives. Already the first APIGP was aligned with the Project objectives and actions, since they were built into the APIGP priorities. So is the new one, given that the Project's policy framework is reflected in several priority objectives:

- 2.2. Export growth, with one of outcomes focusing upon the increased competitiveness and export capacity of four industrial sectors, namely machines and equipment, food industry, rubber and plastics and wood industry;
- 2.3. Employment growth in the sector of SMEs, with outcomes targeting increase of the overall jobs, but also specifically of the young people;
- 2.5. Science and Innovation, aimed at establishing a new combined and competitive model of project and institutional financing of R&D, the Roadmap for research infrastructure etc. with indicators matching related Project's KPIs;
- By that, the Project's policy framework, as well as its PPMC System, are largely merged into that of the APIGP, i.e. the Government priority policy framework. The complementarity between the two PPMC system structures, the Project's and APIGP's, was obvious from the start, with the C&J PPMC system being based on the bottom-up and APIGP's on top-down modeling. Initially, this caused some overlapping of the established PPMC organization structures and their activities, and influenced the IMWB functionality (delays in the implementation of the Thematic Sessions Plan). However, developments during the recent reporting period were showing a trend of a "natural" division of the functions between the Project's and APIGP's PPMC structures (especially between the IMWB and Implementation Groups 2 and 3). Having in mind that both processes are already aligned, coordinated by same institution, and supported by the WB, it was reasonable to put additional effort in their full harmonization, in order to optimize the coordination structure and increase overall efficiency. Based on lessons learned from the last year's process, the opportunity was seized to improve both the APIGP revision/preparation process and the Plan itself, making it more focused and more results oriented, hence also easier to monitor and report upon the progress. For that purpose, the PPS developed and disseminated the Guidelines for the preparation and revision of the APIGP. These include the description of the management mechanism for the coordination, APIGP preparation, monitoring of implementation and reporting on achieved results. They also set out procedures for its preparation.

The management mechanism changed in as much as it now includes, beside Ministerial and Implementation groups also one top level forum called the G6 – Group 6 composed of the Prime Minister, Minister of Finance, PPS Director and four ministers in charge of leading the four Ministerial Groups, each covering one of the priority areas. This top-level group is important as it demonstrates the political will to support the RBM approach and PPMC system, and will hopefully make strong use of it. Since the enactment of the new government, and the endorsement of the Coordination body for the APIGP preparation and the implementation monitoring (Government Decision, 28. 09. 2017) in form of the G6, Ministerial Groups -MGs and Implementation Groups - IGs, those fora met several times to respectively discuss the preparation of the APIGP, endorse priority objectives, solve problems or define targets. The IGs are in charge to translate the priority objectives into phased and measurable results linked to concrete measures. They are also in charge for regular monitoring and reporting on the results to the PPS, which than prepares joint reports for MGs and G6. Therefore, the PPS staff was specifically dedicated to working with Implementation Group representatives helping them to better understand the RBM approach and plan accordingly. To meet this end, both cycles of APIGP development, as well as the implementation monitoring and reporting of both APIGP were supported by the Project capacities – PPS in-house capacities that the Project helped develop under the PPMC component (including through a related CIIP grant) and outsourced capacities related to the Project's PPMC component.

The C&J Project' policy framework is now harmonized with the APIGP in a more targeted way at the level of sub-components (targets and DLIs).

- PPS and Ministry of Finance coordinated all ministries and National Bank of Serbia in formulation and implementation of Economic Reforms Program for period 2017 – 2019. which Government has adopted on April 3rd 2017. Formulation was done in consultations (January 2017) with other relevant entities. It is important to mention that all reforms are aligned with APSPV and this Project as well, so that these three documents represent a coherent set founded on result based management principles. In May 2017 series of meetings was held in Brussels, with representatives of EPC and ECOFIN, regarding the recommendations for the next cycle of ERP development. Monitoring of the ERP was in place in the reporting period.
- Process of development of Smart specialization strategy on national level is being conducted in close cooperation of MoESTD and PPS. This strategic document, when adopted, will further strengthen connections between research and innovation institutions and national economy. It will help inclusion of Serbian research and innovation sector into European and global research trends and financing programs. Other important feature of this Strategy is that it implies very broad scope of consultations with all stakeholders in order to discover regional comparative advantages and focus resources on areas with greatest innovative potential. Inter-ministerial working body tasked with development of this document was formed in November 2016. PPS, MoESTD, MoLEVSA and MoE are members of this body. Being that this process is complementary to the Project, and that it includes same participants (among many others) it can be seen as additional instrument of introduction of PPMC in the public sector. In the reporting period, PPS provided expert support to the Working body.
- PPS also prepared, with support from the World Bank, The Competitiveness Monitor, report on competitiveness and economic development of the Republic of Serbia. Purpose of this report is to provide to policy makers the insight regarding achieved results and to show the opportunities and necessary actions for further economic growth and development. Content of this report is based on presumption that economic growth and development is determined by: 1) global competitiveness of national economy, and 2) Market and price parameters as well as national development policy. First edition of the Report was distributed to governmental institutions in December 2016. Second edition is in preparatory phase. The Report will be published on semi-annual basis. Analyses in this report present a base for evidence based policy making and also give insight into effects of the interventions implemented within the Project.
- All of the activities listed above, most of all APGIP, directly contribute to incorporation of result based management in public policy system, so the planning and coordination could be based on continuous monitoring of set of data, representing transitional results during achievement of priorities defined in planning documents.

In performing its coordinating role in the Project, PPS managed the Project through coordination of the activities:

- Two sessions of IMWB has been held to discuss operational activities and make decisions from IMWB area of responsibility;
- Organization, execution and supervision over public procurements related to the Project;
- Organization of financial management and payments for the Project;
- Reporting to the World Bank, Ministry of Finance and all other recipients about Project progress and achievements;

Besides developing and implementing reforms in PPMC system – embedded in the Component 1 of the Project, PPS is also in charge for overall project technical aspects through Component B of the Project.

Based on undertaken activities, and with the PIU established to provide support to participating institutions, it could be concluded that results expected under Component 1 were mostly achieved in the reporting period, so progress toward Project objectives is **satisfactory**.

Table 7: Component A.1 - Intermediate Result

**Component 1: Policy Planning,
Monitoring and Coordination**

**Intermediate Results Indicators
defined in Project Appraisal
Document***

Indicator Name	Baseline	2017		
		Target	June 30 th	December 31 st
Annual performance reviews of pilot policy planning, monitoring, and coordination system (to support competitiveness and jobs reforms) <i>Note: this indicator is the DLI defined for Component A.1</i>	0	2	1	1

Source: PAD and Participating institutions

Component A.1 – DLI achievement report:

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

This DLI, when expected results for 2017 are concerned (as well in the following years of the Project), includes:

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.

Note: Performance Review is not yet formally accepted by the Bank, thus DLI is still considered partially achieved. Reimbursement request for achievement of partial DLI will be submitted after Bank’s confirmation that annual report is accepted.

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
DLI 1.2 statement: 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.	1.1 DLI 1.2. is ACHIEVED. 1.2 Verification protocol 2.3 could not be applied as defined, since this report could not be published within the period on which it refers, but fulfillment	Attachments to this report: 1. <i>Print Screen from PPS web site on which Progress Report for January – June 2017 has been published</i>

<p>Verification protocol for DLI 1.2 :</p> <p>1. Adequate content of the annual Performance review for each institution contains:</p> <p>1.1. Discuss performance problems in each KPI;</p> <p>1.2. Budget adequacy, and performance improvement measures (both planned and taken);</p> <p>1.3. Publicly available – published on the PPS website.</p>	<p>is expected in one month period after adoption by PPMC IMWB.</p>	<p>This report will be published upon acceptance of the WB.</p>
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9. Component A.2: Investment and Export Promotion

This Project component supports reforms lead by the MoE regarding restructuring and improvement of the functioning of institutional framework and programs and services for investment and export promotion. Through this reform 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.

Key activities performed within Component 2 - Investment and export promotion:

- In spite of the fact that that Strategic Framework and overall action plan for investment and export promotion was timely adopted in December 2016, verification protocol for this DLI 2.1. was not fulfilled completely, because this document did not contain Sector policies. Development of Sector Policies and Strategies for Selected Manufacturing Sectors was finalized and both sets of documents were accepted by the Ministry of Economy, after this reporting period, in March 2018. This activity, planned for 2016, was delayed from the start, due to prolonged procurement process. When the experts were finally hired, there was a methodical request to finish value chain analysis as a precondition for approval of sector policies. This fact additionally postponed completion of the activity. At the moment of completion of this report, conditions for disbursement of 4. 475 million euro are met, but the request will be submitted to the Bank with the next semi-annual report, due to the fact that it happened after this reporting period.
- DLI 2.2. for 2017, Strategic Framework and overall action plan is being implemented, monitored and updated is achieved. Annual report on the work of RAS, which is the source of verification for this DLI, has not been completed yet. Therefore, request for reimbursement under this DLI will be submitted to the Bank with the next semi-annual report.
- DLI 2.3. for 2017, Number of investment leads generated increased by at least 10 percent from previous year, is achieved. According to data provided by RAS, that number is 89, which exceeds the originally planned 74. Annual report on the work of RAS, which is the official source of verification for this DLI, has not been completed yet. Therefore, request for reimbursement under this DLI will be submitted to the Bank with the next semi-annual report.

Major part of activities has been implemented in line with the Operational Plan developed by the Ministry of Economy, with timely completion of activities and development of relevant documents/deliverables. The exception are activities related to sector policy development and analysis of sector performance and value chains for the selected manufacturing sectors, which were prolonged till the March of 2018, as well as activities related to establishment of RBM and monitoring and evaluation system within the MoE and its agencies, which are in delay so significant that their continuation is under reconsideration. Contracts of specialists for foreign direct investments attraction and increasing export and positioning on foreign markets expired in September. All their tasks were fulfilled completely and timely.

Progress is in general **satisfactory**. Although full achievement of DLI 2 result for 2016 was in serious delay, it was finally accomplished in March 2018. Having in mind all activities undertaken by institution and remaining activities till the end of the Project, it could be expected that planned achievements will be reached within original duration of the Project.

Table 9: Component A.2 Intermediate Result and Key Performance Indicators²

Intermediate Results Indicators defined in Project Appraisal Document

Indicator Name	Baseline	2017		
		Target	June 30 th	December 31 st
MoE investment and export promotion programs restructured <i>Note: this indicator is the DLI defined for Component A.2</i>			Not achieved	Not achieved
Number of documented interests by investors (Number), annual <i>Note: this indicator is the DLI defined for Component A.2</i>	61	74	47	89*

Source: PAD and Participating institution
*yet to be verified through Annual report on the work of RAS

Component A.2 – DLI achievement report:

² KPIs will be addressed separately in the performance review

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

This DLI, when expected results in 2017 are concerned, includes:

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

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
<p>DLI 2.1 statement: Strategic framework and overall action plan for investment and export promotion (“Action Plan”) prepared and adopted by the MoE.</p> <p>Sectorial policies and sector-specific implementation plans adopted for target sectors identified in the strategic framework.</p> <p>Verification protocol for Partial DLI 2.1:</p> <ol style="list-style-type: none"> 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; 2. Action plan is time bound, with costs and stages defined; 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), 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: <ol style="list-style-type: none"> 7.1. Policies for investment and export promotion and value chain strengthening in the identified targeted sectors; 7.2. Performance targets and monitoring mechanisms; 	<p>DLI 2.1 is ACHIEVED, but after the reporting period, so the disbursement will be requested with the next progress report.</p>	<p>Attachments to this report: Annex : Official endorsement in the letter signed by the minister of economy</p>

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.

DLI 2.2: Implementation, monitoring and update of the Action Plan (2017 – 2018)

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
<p>DLI 2.2 statement: Action Plan for year 2017 implemented, monitored, and updated.</p> <p>Verification protocol for DLI 2.2:</p> <ol style="list-style-type: none"> 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). 	<p>DLI 2.2. is ACHIEVED, but Annual report on the work of RAS, which is the source of verification for this DLI, has not been completed yet. Therefore, request for reimbursement under this DLI will be submitted to the Bank with the next semi-annual report.</p>	

DLI 2. 3: Increase in the number of documented interests by investors for at least 10% per year in comparison to the previous year (2017 – 2018)

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
<p>DLI 2.3 statement Number of investment leads generated increased by at least 10 percent from previous year.</p> <p>Verification protocol for DLI 2.3:</p> <ol style="list-style-type: none"> 1. Increase of number of documented interests 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, 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. 	<p>DLI 2.3. is ACHIEVED , but Annual report on the work of RAS, which is the source of verification for this DLI, has not been completed yet. Therefore, request for reimbursement under this DLI will be submitted to the Bank with the next semi-annual report</p>	

10.Component A.3: Innovation

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 is 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.

Within sub-component 3.1 required funds of financing MG program and operating budget of the IF in 2017 were included in the budget for 2017, so DLI 3.1 is achieved, as it was already reported in the semi-annual progress report for 2017.

DLI 3.2 At least 80% of 2017 IF MGP budget committed using IF's international peer review and investment committee selection process, is achieved. IF distributed 2.45 out of allocated 2.7 million euros, using international peer review and investment committee selection process. 25 projects were financed, 5 out of which are matching grants, and the rest are mini grants.

DLI 3.3 MGP implementation evaluation conducted is not achieved due to the fact that there were no matching grants in 2016 to be evaluated

Activities included in Subcomponent A.3.2: Facilitate technology transfer and commercialization activities are ahead of the plan and by the mid-year annual plan to initiate at least 3 technology transfer transactions has been achieved, as already reported in the semi-annual progress report.

However, there are major restrictions in achieving results in subcomponent 3.3- Design and adoption of public research sector reforms due to delay in adoption of documents that have to follow Strategy in order to successfully implement reforms of research sector. Process of drafting and adoption of Action Plan (AP) for Strategy of Scientific and Research Development for 2016-2020 and Infrastructure Road Map is re-launched in the second half of 2017 and accelerated, and at the present the both documents are pending for adoption by the Government

Although, the activities on design of Action Plan for implementation of Strategy and Infrastructure Road Map were are intensified, as well as execution of the Procurement Plan and procurement of consulting services which should have supported the defined reform, no significant results could be reported. No procurement procedures have been executed In the reporting period. Engagement of external consultants to support development of methodology for RDIs self-assessment and for data gathering and analysis, and RDI performance audit practically did not start within reporting period.

Having in mind that DLI 4 has been achieved in full on mid-year, and that DLI 3 was achieved to the largest possible extent, this component has improved significantly compared to 2016. However, the progress in other required elements of this Project Component, namely DLI 5 indicates that annual results will be achieved with significant delay, therefore, overall progress is **not satisfactory**.

Table 11: Component A.3 Intermediate Result and Key Performance Indicators³

Component 3: Innovation

Intermediate Results Indicators defined in Project Appraisal Document*

Indicator Name	Baseline	2017		
		Target	June 30 th	December 31 st
Private financing catalyzed through IF support programs (Amount USD)	(2014) 0.3 m	1.4 m	0	1.46 m
Enterprises and startups financed through matching grants (Number)	(2014) 11	30	0	40

³ KPIs will be addressed separately in the performance review

Enterprises and startups financed with female owner (Number - Sub-Type: Breakdown)	(2014) 1	4	0	5
Innovative products or services developed by MG beneficiary firms (Number)	(2014) 16	17	0	0
Innovative products or services launched by MG beneficiary firms (Number)	(2014) 3	3	0	0
Technology transfer: IF TTF service lines deployed (Number)	0	5	7	?
Technology transfer: transactions initiated (Number)	0	3	5	26
R&I strategy and action plan and public research sector reforms designed and adopted <i>Note: this indicator is the DLI defined for Component A.3</i>			DLI was not achieved	
Citizen engagement: Innovation matching grant beneficiary annual survey (Number of surveys)	0	1	0	0

* Description (indicators definition), frequency and responsibility for data collection is available in PAD (pages from 28 to 32)

Source: PAD and Participating institutions

Subcomponent A.3.1: Support enterprise innovation

The focus of this component is the support to the implementation of the Matching Grants (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 Innovation Fund (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.

This subcomponent encompasses **DLI 3 – Enterprise innovation supported via the Innovation Fund Matching Grants Program** which, when expected results for 2017 are concerned, 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 3.1 is annual, but it is possible to request partial payments in case of achievement on mid-year, which did happen. Adequate budget funds were allocated for the IF.

DLI 3.1: Allocating in the Budget of Republic of Serbia 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

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
<p>DLI 3.1 statement: <i>At least Euro 0.72 million allocated for IF’s 2017 operational budget.</i> At least Euro 2.7 million allocated to MGP in the Borrower’s 2017 budget for IF. Verification protocol: <i>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:</i> 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.</p>	<p>DLI 3.1 is ACHIEVED as reported in the semi-annual Progress report</p>	<p>Attachments to this report: Statement of the IF director that the allocated amount was transferred to the IF account</p>

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

Expected result with	Status/description of achievement:	Source of verification:
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Verification Protocol:

DLI 3.2 statement:

At least 80% of 2017 IF MGP budget committed using IF's international peer review and investment committee selection process.

Verification protocol:

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, 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:

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.

DLI 3.2 is ACHIEVED

IF distributed 2.45 out of allocated 2.7 million euros, using international peer review and investment committee selection process. 25 projects were financed, 5 out of which are matching grants, and the rest are mini grants.

Attachments to this report:

1. Annex... Mini and matching grants eligibility table
2. Evaluation of eligible projects
3. Committee decision on shortlisted projects
4. Shortlisted projects evaluation table
5. Committee decision on financing
6. WB no objection on the first three projects

Environmental (and Social) Compliance

Contracted Environmental and Social Management Specialist (ESMS) followed POM⁴ procedure and applied⁵ the Environmental and Social Management Framework (“ESMF”)⁶.

Environmental and Social Management Specialist, responsible for ensuring that all outputs of the technical assistance on the Project are consistent with the Bank’s safeguards, performed environmental and social screening of projects that were short-listed for the latest round of Mini and Matching Grants programs (32 projects were screened in total – 23 Mini Grants and 9 Matching Grants). It should be noted that in addition to reviewing ESQ submitted by the applicants, ESMS reviewed the applicant’s Business Plan to ensure the project activities conform to environment and social status. In some cases, additional explanation and clarification were required and consequently requested by the ESMS.

The list of environmental and social screened projects is given bellow, with project Category assignment, and notes, if any.

Mini Grants: 23 projects

No	Project ID	Project Name	Applicant	Category assigned after Environmental and Social Screening	Notes
1	679	Immersive4Learning	Immersive4	C	Additional clarification requested; Applicant provided statement that testing will be performed with consent of school and cement factory (social aspect)
2	703	Motivate to Move (MOTIMOVE)	3F-Fit Fabricando Faber doo	C	
3	722	Sava Event Management Platform	SpiceFactory doo	C	
4	753	CreditHub: cloud-based platform for POS consumer financing	Partner Finance DOO	C	Additional clarification requested

⁴ Section 7.8.1 of the POM

⁵ as requested by Section I.A.3 of Schedule 2 of the Loan Agreement

⁶ Environmental and Social Management Framework (ESMF) draft was disclosed in English and Serbian via the Public Policy Secretariat (PPS) website (<http://www.rsjp.gov.rs/okvirni-plan-zaupravljanje-zivotnom-sredinom-i-socijalnim-pitanjima/t>) and at the World Bank Infoshop on April 3, 2015. A public consultation meeting was held in accordance with the requirements of the World Bank on April 21, 2015. The final ESMF document was re-disclosed locally and at the World Bank Infoshop on May 11, 2015.

5	760	Embedded Mobile Application Platform	Pygmy Titan d.o.o.	C	
6	764	STAS chair desk	STAS Furniture	B	EMP requested and approved
7	785	Couch Coach	CCS Solutions	C	
8	794	SMART DIAGNOSTICS OF MITRAL VALVE PROLAPSE	Flipping FRP doo	C	Additional clarification requested
9	808	SwiftBuild	Swiftty DOO	C	
10	809	Mainflux IIoT System	MAINFLUX TECH D.O.O.	C	Additional clarification requested
11	836	Publitio API	Publitio	C	
12	865	< DEVELOPMENT OF NEW MATERIALS FOR PREFABRICATED CONCRETE ELEMENTS FOR BUILDING CONSTRUCTION IN TROPICAL CLIMATIC CONDITIONS	Ultimo Gradjevinska Hemija d.o.o.	B	EMP requested and approved
13	871	IMPLEMENTATION OF COMPUTATIONAL INTELLIGENCE IN FOUNDRIES IN SERBIA - ICIFS	RALBING DOO	C	Additional clarification requested
14	875	Derail Valley	Altfuture DOO	C	
15	880	Development of disposable EPS products multifunctional handling unit as EPS molding machine extension	Airpop doo	B	EMP requested and approved
16	884	INNOVATIVE PLUSH TOYS WITH NATURAL BEESWAX	Bizbaz d.o.o.	B	EMP requested and approved
17	912	Hyperwelder	Hyperwelder d.o.o.	C	
18	920	New forged-quality Al/Cu bimetallic electrical connectors	VEMID DOO	B	EMP requested and approved
19	936	ARXITEKT	Future Reality Systems DOO	C	
20	938	SmartBlot	SmartResearch	B	EMP requested and approved (pending public consultation outcome;

					approved before the final decision by the Investment Committee)
21	954	Solagro Smart Recycler 2.0	Solagro Smart Recycling doo	C	
22	960	Tino Space	Tino Space, LLC	C	Additional clarification requested
23	966	Surveillance and Communication System "Kvazar"	Tehnologije Budućnosti doo	C	

Matching Grants: 9 projects

No	Project ID	Project Name	Applicant	Category assigned after Environmental and Social Screening	Note
1	662	Slow food for the modern times	EKOFUNGI doo	B	EMP requested and approved
2	781	NEW SYSTEM FOR ELECTRO-OPTICAL CAMERA STABILIZATION	VLATACOM INSTITUT DOO BEOGRAD	C	
3	784	CarboLastic - anti-abrasive alloy	BSK DOO OBRENOVAC	B	EMP requested and approved
4	838	FamilyPay	INGSOFTWARE DOO	C	
5	847	Intensified day/night digital camera with image enhancement	HARDER DIGITAL SOVA D.O.O NIS	C	
6	881	PRUNO - fraud detection tool	LimundoGrad doo	C	
7	887	Development of a three-dimensional visualization tool for GAME of BALANCE disorders, diagnostic and therapy	Research and development center for bioengineering	C	
8	910	Development of active pharmaceutical packaging	Uniplast DOO	B	EMP requested and approved

9	933	Cloud-based digital citizen Identity	Netset Global Solutions doo	C	
No	Project ID	Project Name	Applicant	Category assigned after Environmental and Social Screening	Notes
1	662	Slow food for the modern times	EKOFUNGI doo	B	EMP requested and approved
2	781	NEW SYSTEM FOR ELECTRO-OPTICAL CAMERA STABILIZATION	VLATACOM INSTITUT DOO	C	
3	784	CarboLastic - anti-abrasive alloy	BSK DOO	B	EMP requested and approved
4	838	FamilyPay	INGSOFTWARE DOO	C	
5	847	Intensified day/night digital camera with image enhancement	HARDER DIGITAL SOVA D.O.O	C	
6	881	PRUNO - fraud detection tool	LimundoGrad doo	C	
7	887	Development of a three-dimensional visualization tool for GAME of BALANCE disorders, diagnostic and therapy	Research and development center for bioengineering	C	
8	910	Development of active pharmaceutical packaging	Uniplast DOO	B	EMP requested and approved
9	933	Cloud-based digital citizen Identity	Netset Global Solutions doo	C	

Out of the 32 short listed projects reviewed and screened:

- Category C projects totaled 23;
- 9 projects were designated as Category B projects and additional documentation in the form of Environmentally Monitoring Plan (EMP) was requested and approved by the ESMS before the final decision of the Investment Committee;
- No short listed projects were designated Category A (subject of rejection due significant environmental and social impacts).

Contracted Environmental and Social Management Specialist will continue to supervise (through EMPs implementation) 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.

Subcomponent A.3.2: Facilitate technology transfer and commercialization 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;
- (c) Evaluation of the TTF program;
- (d) Preparation of a Government or donor proposal for scaling-up technology transfer activities.

This subcomponent encompasses **DLI 4 – Technology transfer and commercialization** facilitated via the IF TTF. This is the only DLI that was achieved fully on mid-year. In addition to conditions from verification protocol, total of 7 service lines were deployed since 2016. In the reporting period, the following service lines were deployed: Funding the proof of commercial readiness, Providing commercialization strategy and tactics, Executing the commercialization strategy and Identifying potential commercial partners.

DLI 4 for 2017 includes:

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

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
<p>DLI 4.2 statement: At least Euro 0.9 million allocated in the Borrower’s 2017 budget to TTF operations and services</p> <p>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.</p>	<p>DLI 4.2 is ACHIEVED at mid-year as reported in the semi-annual Progress report</p>	<p>Attachments to this report:</p> <ol style="list-style-type: none"> 1. Statement of the IF director that the allocated amount was transferred to the IF account

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);

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
<p>DLI 4.3 statement: at least 3 technology transfer transactions initiated.</p> <p>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.</p>	<p>DLI 4.3 is ACHIEVED at mid-year as reported in the semi-annual Progress report</p>	<p>Attachments to this report: TTF 7th quarterly report TTF 8th quarterly report</p>

Subcomponent A.3.3: Design and adopt public research sector reforms

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.

The DLIs planned for 2016 that were not achieved yet (5.2, 5.3 and 5.4.) were the preconditions for achievement of DLIs for 2017. Restructuring of the project regarding this subcomponent seems to be inevitable.

This sub-component regards **DLI 5 – Public research sector reforms designed and adopted** which, when expected results in 2017 are concerned, includes:

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

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
<p>DLI 5.5 statement: Performance audits of at least 20 RDIs carried out by international experts.</p>	<p>DLI 5.5 is NOT ACHIEVED Activities within reporting period:</p>	

Verification protocol:

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

Since the procurement of external consultants has not been finished yet, no audits were carried out. Procurement procedure is being conducted by the MoESTD

DLI 5.6 - Designing and adopting RDI sector reform program, including performance based financing schemes, and their deployment timeline

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
<p>DLI 5.6 statement: RDI sector reform program adopted by the Borrower, including performance based financing schemes, and deployment timeline.</p> <p>Verification protocol: Conditions for recognition of achievement of this DLI is that the MoESTD submits the RDI sector reform program which:</p> <ol style="list-style-type: none">1. Contains financing schemes based on performance on individual and institutional level;2. Contains a timeframe for operationalization of the financing schemes.	<p>DLI 5.6 is NOT ACHIEVED</p>	

11.Component A.4 Labor

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.

This component is implemented through three sub-components:

- (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.

MOLEVSA did not submit any information on this Project at the end of 2017, so this report is based solely on the data received from NES.

Based on report presented, because of the fact that execution of two DLIs within reporting period is in delay, progress could be assessed as **not satisfactory**.

Table 13: Intermediate Result and Key Performance Indicators⁷

Component 4 Labor

Intermediate Results Indicators defined in Project Appraisal Document*

	Indicator Name	Baseline	2017		
			Target	June 30 th	December 31 st
1	Share of total NES staff that is operating as certified case worker (Percentage)	0 (2014) 0 (2015)	0	42,44%	85,03%
	<i>Note: this indicator is the DLI defined for Component A.4</i>				
2	Number of employers contacted per year by the NES (Number)	15.927 (2014) 19.093 (2015)	20.000	12860	22838
	<i>Note: this indicator is the DLI defined for Component A.4</i>				
4	NES registered female unemployment cases transitioning into formal job (Number), annual	122,491 (2014)	130	N/A	N/A
	<i>Note: this indicator is incorporated in the DLI defined for Component A.4</i>				
6	Standard Deviation of mean case load per branch office over all branch offices	381 (2014)	350	295	287
	<i>Note: this indicator is the DLI defined for Component A.4</i>	489 (2015)			
9.1	Net placement rate of NES start-up support program for self-employment 6 months	37 (2013)	37	N/A	N/A

⁷ KPIs will be addressed separately in the performance review

	from completion (Percentage)				
9.2	Net placement rate of NES hiring subsidy program for new employment 6 months from completion (Percentage)	41 (2013)	41	N/A	N/A
	Number of new or re- designed ALMPs in the NES	0	0	N/A	N/A
	<i>Note: this indicator is the DLI defined for Component A.4</i>				
	Average effective tax rate for social assistance beneficiary with two children and nonworking spouse transitioning to a half- time minimum wage job	100%		N/A	N/A
	<i>Note: this indicator is the DLI defined for Component A.4</i>				
	Citizen engagement: Number of employers reached by client satisfaction and needs survey	0	1.000	N/A	N/A

Subcomponent A.4.1: Enhancing the effectiveness of the NES labor intermediation services for employers and the unemployed

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 per caseworker across NES branch offices and focus caseworkers on active jobseekers.

Subcomponent A.4.1 consist of DLI 6 and DLI 7 which determine following expected results for 2016:

DLI 6 - Effectiveness of NES labor intermediation services delivered to clients (employers and unemployed) improved

DLI 6.2: Certification of at least 85% of NES caseworkers (2017) with **Partial DLI 6.2.1:** Certification of at least 40% of NES caseworkers

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
<p>DLI 6.2 statement: 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>Verification protocol for DLI 6.2: In 2017 at least 85% of caseworkers (in all branches, including temporarily employed) are certified. Certification percentage is verified through periodic reports of monitoring unit. 31 December 2017 is a cut-off date for calculation of overall number of case workers. Certification system, acceptable for the Bank, is focused on compliance with regulations and skills needed for work with clients. Newly employed case workers are certified in the first 12 month after employment.</p>	<p>DLI 6.2. is ACHIEVED In the reporting period 42% of NES caseworkers were certified at mid- year and 85,03% at the end of 2017.</p> <p>Verification:</p> <ol style="list-style-type: none"> In line with the NES Action plan, adopted on 30.11.2016. Program of vocational training and education that includes training Working with employers was adopted. The Rule Book on vocational training and education and inclusion of employees of the National employment service into the job was amended in February 2017 in order to proscribe internal certification of case workers Minimal standards for certification, as well as certification questionnaire were defined. 534 case workers were certified in line with the Rule Book, which is 85,03% 	<p>Attachments to this report:</p> <ol style="list-style-type: none"> NES report on activities in realization of Competitiveness and Jobs project Table of certified case workers per branch offices.

DLI 7 – Caseload management in NES branch offices improved

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 with **Partial DLI 7.3.1** Decrease of standard deviation of mean case load per branch office to 350 in 2017

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
<p>DLI 7.3 statement: Standard deviation of mean case load per branch office is 300 or less.</p> <p>Verification protocol: The conditions for recognition of achievement of this DLI by the Bank are:</p> <ol style="list-style-type: none"> Mean case load per branch office is computed as active jobseekers (to be defined in DLI 8) per case worker in each branch office; 	<p>DLI 7.3 is ACHIEVED</p> <ol style="list-style-type: none"> The standard deviation of mean case load is 287, according to the report received from NES <p>Verification:</p> <ol style="list-style-type: none"> Mean case load per branch office is computed as active jobseekers, (according to 	<p>Attachments to this report:</p> <ol style="list-style-type: none"> NES report on activities in realization of Competitiveness and Jobs project Table of mean case load per branch offices.

<p>2. The standard deviation of mean case load is computed across the mean of all branch offices;</p> <p>3. Report on standard deviation is verified through periodic reports of the NES monitoring unit;</p> <p>4. Value of standard deviation achieved in 2017 is 300 or less, and 250 or less in 2018.</p>	<p>present methodology, having in mind that activities from DLI 8 have not been conducted yet) per case worker in each branch office</p> <p>2. All branch offices were included into calculation</p> <p>3. Data on standard deviation is received through official report, signed by the director of NES</p> <p>4. Value of standard deviation achieved in December 2017 is 287, as calculated in the report.</p>
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Subcomponent A.4.2: Improving the effectiveness of the Borrower’s active labor market programs

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.

Subcomponent A.4.2 relates to DLI 8 - Effectiveness of ALMPs improved through statistical evidence

DLI 8 encompasses following expected results in 2017:

DLI 8.3: : Implementation of profiling of unemployed according to the long-term unemployment risk (2017) with partial **DLI 8.3.1:** Risk profiles determined for at least 25% of unemployed as of June 30, 2017

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
<p>DLI 8.3 statement: <i>50% of unemployed individuals registered in NES as of December 31, 2017 have a risk profile according to the new methodology.</i></p> <p>Verification protocol for DLI 8.3:</p> <ol style="list-style-type: none"> 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. 	<p>DLI 8.3 is NOT ACHIEVED</p>	

3. Report is based on the periodic reports of the NES monitoring unit.

Subcomponent A.4.3: Facilitating the transition of social assistance beneficiaries into formal jobs

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

This DLI includes following expected results for 2017:

DLI 9.2: 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) with **Partial DLI 9.2.1:** Development of the description of the pilot program design.

Expected result with Verification Protocol:	Status/description of achievement:	Source of verification:
<p>DLI 9.2 statement: <i>Implementation of the pilot program to support formal employment of a select group of beneficiaries of social assistance and/or child allowance</i></p> <p>Partial DLI 9.2.1 statement: <i>Development of the description of the pilot program design</i></p> <p>Verification protocol:</p> <ol style="list-style-type: none"> 1. The pilot program is based upon the findings of the prior study (see DLI 9.1); 2. The pilot program is established by adequate regulations, adopted by competent body 	<p>DLI 9.1 is NOT ACHIEVED.</p>	

III. Other PPMC related issues

The current Policy Planning, Monitoring and Coordination System model consists of following elements defined within the C&J Project framework:

- Institutions that participate in the Project implementation;
- Expected results and performance indicators (DLIs and KPIs);

- Procedures for defining, monitoring and reporting on the results (methodology and reporting templates, defined in the POM), and
- Project communication lines.

Beside the Result Chain and M&E Framework (KPI and DLI), which are instruments developed solely for the Project purposes, there are two main instruments that are part of overall system:

- Government Planning Framework (Program of GoS, Action Plan for the Implementation of the Program of GoS, and the Annual Working Plan of GoS)
- Programmatic Budget.

An additional instrument that was foreseen as a key PPMC System tool and the only one planned to be built by the Project not solely for the Project PPMC purposes, but for the system in whole, is the Informational System for the policy coordination. The Informational System is planned as a sole e-tool for policy making, implementation, monitoring and reporting on the Government level, and as such is already defined by the regulation package. The IT system is supposed to become fully functional as from mid 2019. The planned RBM based functions/purposes of the Informational System are:

- Data Base of the overall policy framework;
- M&E platform, based on both DLIs and KPIs, that enables continuous monitoring of the process;
- Platform for monitoring of the policy implementation budget indicators, dynamic, achievement of the results, qualitative and quantitative indicators;
- Advanced functions for the monitoring, reporting (with different options for the report generating), and mapping along the PPMC process.

Together with the on-going APIGP process and the regulation package, the Informational System represents one of the main pillars of the developing PPMC System that will enable efficient and effective policy coordination. At the present, within the Government there are several independent informational systems in the field of the planning, M&E and budget system. Linking and further improving them is a key prerequisite for the intrinsic relations between the content of the policy with mid-term and financial planning processes, including monitoring of the achieved results against defined indicators. Having that in mind, the PPS coordinated the development of the Informational System concept, the specification and tender preparation with General Secretariat of the GoS, in order to adjust developing IS solution to the existing hardware and software capacities on the Governmental level.

Within reporting period, two sessions of PPMC IMWB have been held. PPMC IMWB discussed Project related matters within the scope of its responsibilities and made conclusions, recommendations and decisions, as defined in its Rules of Procedures.

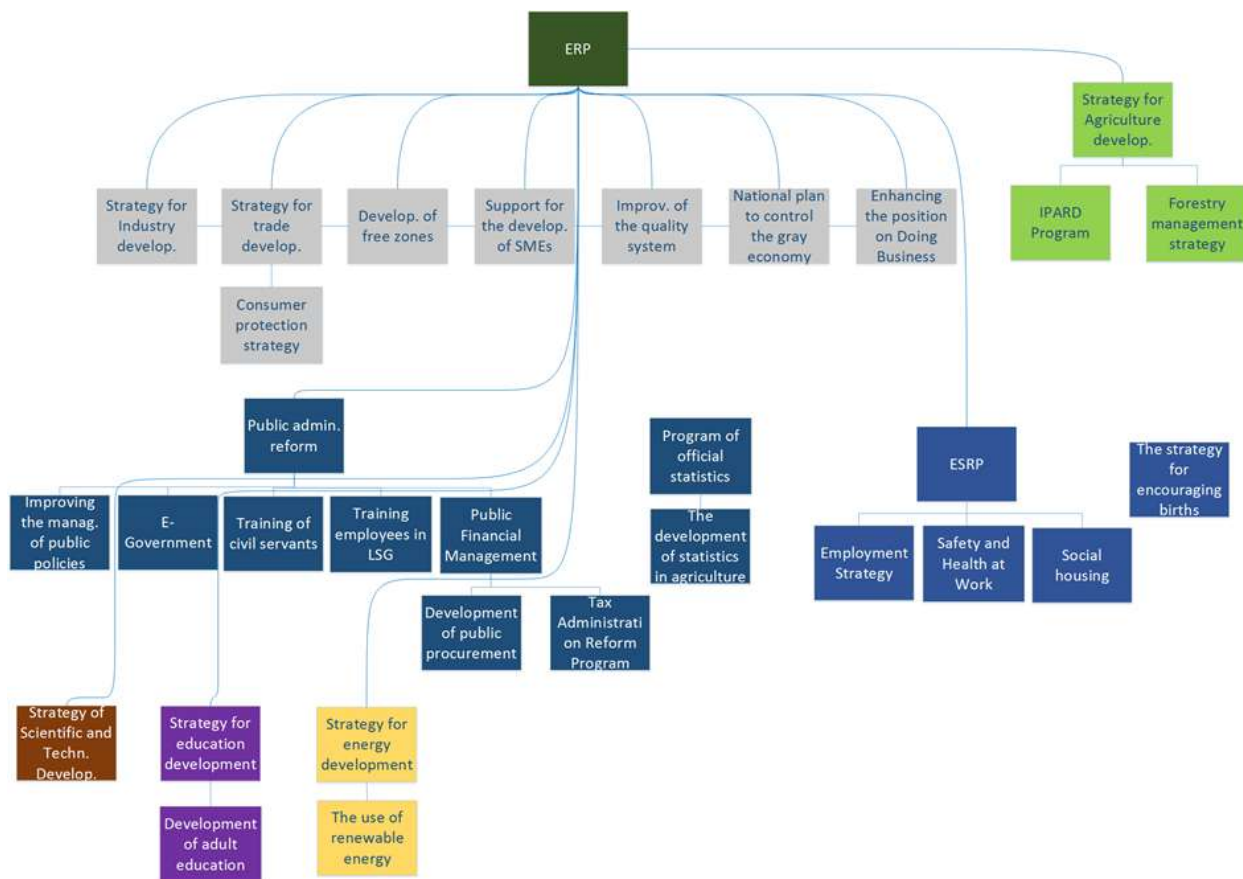
The **Sector policy framework** of the Project is presented in Figure 1, with 3 main policy papers defining sectoral priorities:

- Program of economic reforms for the period from 2016 to 2018 (currently 2017-2019) (ERP)
- The reform of employment policy and social policy (Employment and Social Reform Program - ESRP)
- Strategy for Public Administration Reform (with Action Plan adopted for the period 2015-2017, the revision to cover the period until 2020 is underway)

The Overview and assessment of the policy framework were presented in the 2016 Semi-Annual Progress Report on the Performance of the PPMC System. Some of the main findings considering the general policy framework, and to a certain degree that of the competitiveness sector, are still valid:

- Lack of the clearly defined hierarchy among the strategic documents and policies and clearly defined priorities in their implementation - only nominal links are determined between public policy documents, by simply referring to principal compliance with other documents and policies. This is a clear indication that further focus should be put on a more **coherent policy framework**.
- Due to the lack of the **uniformity** in the content, taxonomy or level of relevance, it is difficult to make cross-references between policy documents, establish synergies and compare systematically the achievement of results and the overall performance.
- Current **number** of policy documents is slowly decreasing, but it is still too high for an efficient policy management system, due to many overlapping activities, and organizational and coordination constrains that arise from too many institutions being responsible for their implementation.

Figure 1 Hierarchy of the currently valid strategic documents within the competitiveness sector



• Hierarchical link between the planning documents were established by performing logical conclusions based on comparisons of their content

Source: Public Policy Secretariat of the Republic of Serbia

The **legal framework for an effective PPMC system** is established through the recently adopted Law on the planning system, which stipulates:

- Establishment of the RBM based PPMC System, built on the principles of the evidence based policy making and implementation, through provisions of the Law and methodological regulations, concerning all steps of the policy making, implementation, monitoring and evaluation process at all levels;
 - Participatory approach in policy making, through provisions of Law and methodological regulation concerning obligatory public consultations and hearings during the policy making process;
 - Transparency of the PPMC process, through provision concerning reporting and accessibility of the policy and implementation documents;
 - Accountability of the process participants, by the provisions concerning clear division of the responsibility between all participants of the policy making, implementation, monitoring and evaluation process;
 - Methodological framework for policy making, implementation, monitoring and evaluation, through basic Law provisions, and both methodological regulations;
 - Uniformity and Coherence of the Policy framework, through regulations provisions concerning both policy paper content, as well as PIA methodology and procedures;
 - Quality control mechanism, through procedural provisions of the Law and regulations concerning coordinative and quality control role of the PPS;
 - Clear lines of coordination, horizontal and vertical, and between central and local level, through procedural provisions in the Law and both regulations;
 - Responsibilities of policy making and implementation process participants;
 - Coherence between policy making and budget programming and implementation processes, through the Law and regulation provisions that are connecting both processes into the one System.
- Formally, the institutional framework didn't change, yet some developments open the space for adjustments in order to enhance the efficiency of the Project (including particular ministries, cabinets of ministers without portfolio).

In addition to the institutions participating in the project (PPS, MoE, MoESTD, MoLEVSA) other bodies, i.e. units, are formed as a part of the **PPMC institutional framework**, and they are responsible for the coordination, reforms implementation, reporting and monitoring (component A.1) on the reforms supported by the Project. Those bodies are:

- Inter-ministerial Working Body for Policy Planning, Monitoring and Coordination under Competitiveness and Jobs Policy Area;
- Project Implementation Unit (PIU);
- Internal units at the level of institutions (hereinafter: Internal units).

The primary purpose of the IMWB, besides decision making, was to direct activities of the participating institutions in order to successfully implement the Project and achieve expected results. This was the forum for suggestions, opinions and expert explanations, also related to a more successful implementation and functioning of the PPMC in the competitiveness and jobs sector. Generally, IMWB was established to direct and compile results of the participating institutions (Project beneficiaries), to monitor Project implementation, suggest solutions to the problems identified by the participating institutions, support monitoring and evaluation, cost benefit analysis, gap analysis, and to serve as the forum for the knowledge exchange, evaluations and adjustments of the planning system, policy monitoring and coordination.

Figure 2. Institutional Framework

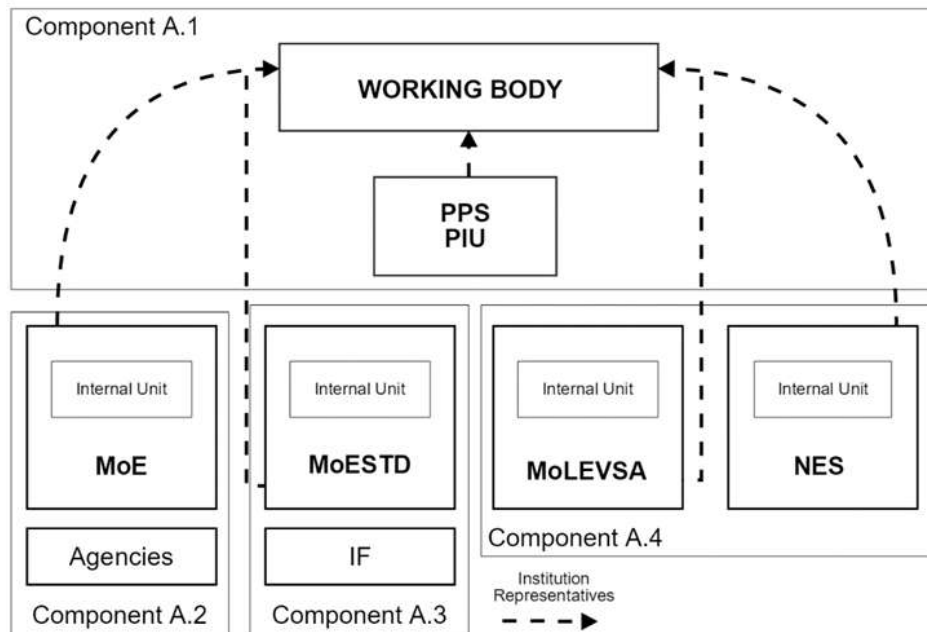
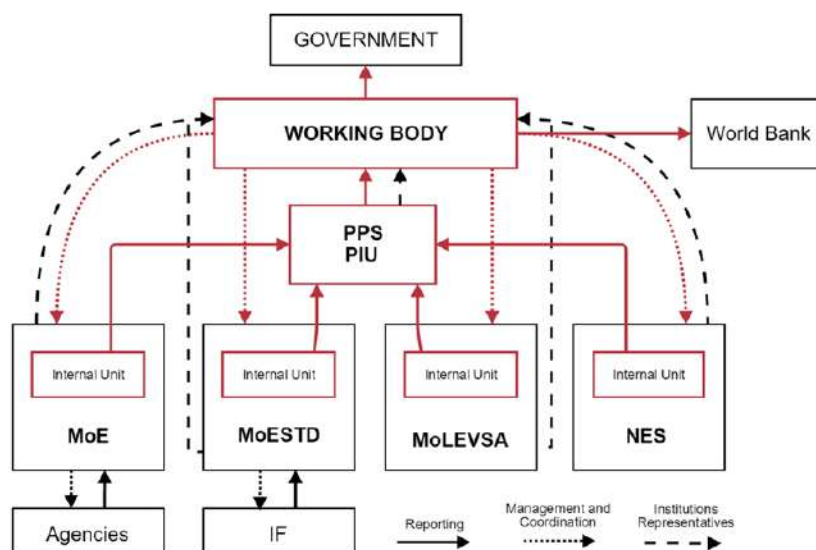


Figure 3. Institutional framework - Component A.1



Some newly introduced practices within the Project’s PPMC yielded lessons learned and will feed into the revision/adjustments of functions and procedures:

- IMWB focused on decision making, whereas thematic sessions evolved into ad-hoc thematic panels with a broader range of relevant stakeholders, which helped streamline particular processes and added to their efficiency and relevance (as demonstrated with competitiveness and industrial policies)
- In course of the troubleshooting process, the central PIU moved from coordination to stronger and more structured management, which also added to efficiency (Science and Labor)

- APIGP management structure gradually took over the coordination of policies content thus influencing the relevance (DLI9 - Labor dropped, The Action Plan and Industrial sectors development measures gained stronger focus)

The initial PPMC System model, providing for the implementation framework for the C&J Project, was built on the existing procedural/functional framework of the GoS (Rules of Procedures), on which was added the Project Operation Manual POM and other necessary rules of procedures, such as those of IMWB. Further building of the PPMC System procedural model will be enabled by the implementation of the regulation package, which stipulates methodologies, procedures and functions within the GoS policy planning, programming and implementation system.

Analysis of influence of previously elaborated contextual developments on the Project's effectiveness and efficiency, as well as on the effectiveness and efficiency of the developing PPMC System, leads to following conclusion:

- RBM based Project operational structure and applied PPMC System model enabled responsiveness and adjustability of the Project to the occurred environmental/contextual changes and maintaining of satisfactory level of Project effectiveness;
- There is a room for further improvements and therefore it is recommendable to revisit and eventually adjust initial principles/approaches of the PPMC System development, in order to maintain or even increase Project's and PPMC System efficiency and effectiveness.

Comparing with the results and conclusions from the previous reporting period, elements of the developing PPMC System model, as well as the model in whole, are changed/improved as follows:

- Participation in the APIGP was successfully utilized for improvement of horizontal coordination and general coordination within the Project, with the room for further improvements;
- Feed-back functions and interconnections within PPMC System are strengthen, and new functions and instruments tested, in order to ensure M&E results feeding to evidence based policy making process, and in advance aligned with the mechanism defined within the new regulation package;
- Regular monitoring and analysis of the overall system gaps and needs (policy, legal, institutional, functional, capacities and instruments) in order to enable timely interventions and ensure sustainability of built PPMC System model still could be improved, especially by utilization of the mechanism built through the APIGP process, but for that purposes it is necessary to improve alignment between two processes;
- Although the APIGP process and the Project's PPMC process alignment with it significantly improved participants' awareness on importance and role of the policy coordination for overall Governance, capacities within participating institutions are still unevenly developed, which implies that further capacity building actions should be planned partially as joint, for all participants, and partially tailor-made in accordance with findings from on-going processes, while most of the feed-back within the modeling process could remain based on capacities already developed through PPMC System development under the Project;
- Quality of the present M&E framework elements, especially KPIs remains less satisfactory. This is due to initial lack of capacities and instruments necessary for their proper defining, but with significant room for improvement through their incorporation into the overall M&E Framework, developing within the on-going APIGP, as well as through introduction of the new regulations and establishment of the planned Informational System.

When it comes to PPMC capacities, the process of the revision/preparing the newly adopted APIGP based on the RBM principles that are reflected upon the overall PPMC system shows a differentiated picture:

- They are not sufficient to support full efficiency and effectiveness of the PPMC system, neither in terms of knowledge, nor in terms of availability (numbers);
- They are not stable and are susceptible to government changes, thus endangering the sustainability of the PPMC system;
- During the reporting period, an extensive and tailor-made training was conducted in line with the capacity assessment during the APIGP and PPMC process. It is worthwhile monitoring as to which extent the strengthened capacities will be sustainable and proactive in disseminating the knowledge within their work surroundings;
- Both, the APIGP and PPMC process are both still relying upon outsourced capacities, yet few institutions are devoted to the improvement of in-house capacities for PPMC in a systematic manner;
- The PPS is the leading institution not only in terms of capacity concentration, but also in terms of disseminating knowledge and good practices for policy planning, monitoring and evaluation.

Development and implementation of the PPMC System model is largely based on existing capacities of the participating institutions, supported with some outsourced expertise. The provided external expertise will gradually decrease along the process, leaving the PPMC System model to the trained and experienced in-house capacities, capable to develop and adapt it in a sustainable manner.

Austerity measures included in the fiscal consolidation process, such as planned rationalization at the annual rate of 5%, stipulated with the Stand-by Arrangement with IMF, and measure that prohibits additional employment within the public administration (prolonged by the last Law on Budget System for next three years), additionally limit the available institutional capacities, eligible to be engaged on the PPMC System development. This impacts both the capacities quantity and but also quality.

Development and implementation of the PPMC system model requires a set of advanced knowledge and skills, and could be hampered if it's not foreseen as comprehensive activity along the overall process. This should be based on the training/coaching/mentoring process of the peer learning from the consultants engaged on the PPMC System development, additional outsourced trainers and pre-trained PPS staff. For advanced PPS staff other formats such as Policy Lab workshops or other innovative approaches in policy making would be suitable.

Given the above elaborated developments and findings, in accordance with RBM principles and lessons learned from implementation of the C&J Project up to date, with stronger focus on the **relevance** and **efficiency and effectiveness** it is highly recommendable to revise the Project on the Component (DLI) level towards improvements in the areas of:

- **Relevance**

Component 1 - divide cycles of building of the PPMC System between APIGP and C&J interventions, where APIGP assumes a leading role in a process of modeling system in whole, while C&J Project shifting focus on implementation and M&E/testing developed model on a more detailed model on the Project/sectoral level, providing feedback for further iteration. It means revision of DLI1 towards formulation focused on monitoring and providing evidence within the modeling process.

Component 2 - revision of the activities on the implementation of developed sectoral industrial policies, with focusing on feasible sectoral measures within analyzed value-chains and dissemination/coordination of horizontal measures between components.

Component 3 - Revision of the activities on implementation of the Action Plan for Strategy of Research and Science Development 2016-2020 in accordance with adopted AP.

Component 4 – Exclusion/revision of the DLI9, with refocusing on and strengthening of the active labor measures sub-component in accordance with results from the Component 2

- **Efficiency and effectiveness**

Project coordination – shift coordination towards stronger centralized management (lessons learned from Component 2, 3 i 4 troubleshooting exercises) based on RBM principles. It includes management structure with one central PIU, exclusively decision making IMWB, introduction of instrument of the ad-hoc thematic panel instead of thematic session of the IMWB, and consequent revision of the POM and other implementation documents and RoPs;

Revision of the overall TA per Component - strengthening RBM and M&E TA in Component 1, export TA in Component 2, TA supporting implementation of AP in Component 3, reshaping TA in Component 4 in accordance with changes in subcomponents and management. It includes consequent revision of the Procurement Plan;

Time extension – having in mind just a number of elections affected Project’s implementation (up to date and in immediate future) that caused uneven dynamic of targets achievement, it is necessary to reconsider time-line of the Project, and eventually agree over time-extension of at least two years.

Having in mind above elaborated developments and findings, in accordance with RBM principles and lessons learned from implementation of the C&J Project up to date Mid-Term Review (MTR) mission that was held in December 2017 concluded that restructuring of the Project is necessary.

IV Annexes

Annex 1:	Annex 1 – Progress Report and forms fulfilled and submitted by Internal Units of participating institutions
Annex 2:	Official endorsement in the letter signed by the Minister of Economy
Annex 3:	Statement of the Director
Annex 4:	Matching grants eligibility table
Annex 5:	Mini grants eligibility table
Annex 6:	Evaluation of eligible Matching
Annex 7:	Evaluation of eligible Mini
Annex 8:	Committee decision on shortlisted projects Mini
Annex 9:	Committee decision on shortlisted projects Matching
Annex 10:	Shortlisted projects evaluation table Matching

- Annex 11: Shortlisted projects evaluation table Mini
- Annex 12: Committee decision of financing Matching
- Annex 13: Committee decision of financing Mini
- Annex 14: WB non objection on the first three projects
- Annex 15: Statement on the IF director that the allocated amount was transferred to the IF account
- Annex 16: TTF 7th quarterly report
- Annex 17: TTF 8th quarterly report
- Annex 18: NES report on activities in realization of Competitiveness and Jobs Project
- Annex: 19: Table of certified case workers per branch offices
- Annex 20: NES report on activities in realization of Competitiveness and Jobs project
- Annex 21: Table of mean case load per branch offices