REPORT NO.: RES41094

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

SERBIA COMPETITIVENESS AND JOBS

APPROVED ON SEPTEMBER 16, 2015

TO

REPUBLIC OF SERBIA

FINANCE, COMPETITIVENESS AND INNOVATION

EUROPE AND CENTRAL ASIA

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I. BASIC DATA

Product Information

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
</tr>
</thead>
<tbody>
<tr>
<td>P152104</td>
<td>Investment Project Financing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Original EA Category</th>
<th>Current EA Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Partial Assessment (B)</td>
<td>Partial Assessment (B)</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Approval Date</th>
<th>Current Closing Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>16-Sep-2015</td>
<td>30-Jun-2021</td>
</tr>
</tbody>
</table>

Organizations

Borrower: Republic of Serbia

Responsible Agency: Public Policy Secretariat, Ministry of Economy, Ministry of Education Science and Technological Development, Ministry of Labor, Employment, Veteran and Social Affairs

Project Development Objective (PDO)

Original PDO

The PDO is to improve the effectiveness and coordination of selected public programs to alleviate constraints to competitiveness and job creation, including investment and export promotion, innovation, active labor market programs, labor intermediation, and activation of social assistance beneficiaries.

Current PDO

The PDO is to improve the effectiveness and coordination of selected public programs to alleviate constraints to competitiveness and job creation, including investment and export promotion, innovation, active labor market programs and labor intermediation.

Summary Status of Financing

<table>
<thead>
<tr>
<th>Ln/Cr/Tf</th>
<th>Approval</th>
<th>Signing</th>
<th>Effectiveness</th>
<th>Closing</th>
<th>Commitment</th>
<th>Net Disbursed</th>
<th>Net Undisbursed</th>
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<tbody>
<tr>
<td>IBRD-85280</td>
<td>16-Sep-2015</td>
<td>07-Oct-2015</td>
<td>31-Mar-2016</td>
<td>30-Jun-2021</td>
<td>100.00</td>
<td>59.57</td>
<td>40.76</td>
</tr>
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</table>
Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES

The project implementation started in March 2016, and the Project was restructured in mid-2018 following the Mid-Term Review. The restructuring involved: (i) amendment to the Project Development Objective (PDO), (ii) revision to the project Disbursement Linked Indicators (DLIs), (iii) reallocation of proceeds between components and disbursement categories, (iv) revision to the results indicators, (v) adjustment to project implementation arrangements, (vi) an extension of the Project closing date from June 30, 2019 to June 30, 2021.

At the time of the restructuring, Project was in Moderately Unsatisfactory status. Since then this has been improved to Moderately Satisfactory status. As of March 2020, USD 59.6 million has been disbursed, with another disbursement of approximately USD 5 million expected in the next couple of weeks.

As of the latest ISR (December 2019) project implementation ratings for progress towards the Project Development Objective (PDO) and implementation progress (IP) are both Moderately Satisfactory. Implementation of supported reforms is progressing well, with few exceptions (as discussed in the ISR there are some delays related to parts of DLI 5 on an external assessment of research institutes and DLI 8 on an evaluation of Active Labor Market Policies). There is generally good progress over most project results indicators and most of them remain on track. The current COVID-19 crisis, however, is likely to present challenges to timely achievement of some of the results and the team and the PIU will continue monitoring closely and working on mitigation measures.

The purpose of the proposed restructuring is to introduce a contractual waiver to provision B.2(b)(ii) of Section IV to Schedule 2 to the Loan Agreement. This provision says that no withdrawals shall be done unless the Disbursement Linked Indicators (DLIs) have been complied with. The introduction of the waiver will allow for disbursement of the part of the Loan funds before the DLIs have been completed. (Note that under the latest guidelines on results-based IPFs, DLIs are now being called Performance-Based Conditions (PBCs). However, since in the Loan Agreement the old term DLIs is used we use it here as well.)

This is in line with the new Guidance on IPF with Performance Based Conditions (former DLIs), which allow the Bank to disburse before the PBCs are complied with, up to certain amount, if the Borrower needs bridge financing to achieve the PBCs. In line with this principle, the disbursement of funds before achieving DLIs (subject to the waiver proposed with this restructuring) is to help finance activities needed to achieve the results for several DLIs. The COVID-19 crisis has forced the government to severely restrict the use of funds already appropriated in the national budget which will impact activities needed to achieve DLIs, thus necessitating advance disbursements to support those activities. In order to allow disbursements before compliance of DLIs, it is necessary to process a contractual waiver, which is being proposed by this restructuring.

The current undisbursed amount under the Loan is approximately EUR 36.8 million, of which EUR 34.7 million is under Category 1 which covers EEPs and for which the waiver is being asked. There is, however, a risk that some DLIs will not be met by the Closing Date (especially in light of the current COVID-19 crisis), in which case a refund to the Bank will
be required. To mitigate the risk of some DLIs not being met and thus necessitate refunds, the team proposes that the waiver applies only to the DLIs that are highly likely to be achieved (instead of applying it to the entire remaining balance).

In that sense, the team proposes that the waiver is applicable to the maximum amount of EUR 13,284,000. This is based on the list of DLIs presented below which are not yet met but are highly likely to be achieved by the Project closure.

DLI 2.2 Serbia Development Agency’s Action Plan for year 2020 reflects sector-specific implementation plans and improved programs for enterprise development, and is implemented, monitored, and updated. - EUR 3,580,000
DLI 3.3 MGP implementation evaluation conducted (2018) - EUR 895,000
DLI 3.4 Proposal for scaling-up MGP submitted by MoESTD to the Borrower or development partner donor institutions (2019) - EUR 895,000
DLI 4.3 TTF program evaluation conducted and proposal for scaling-up technology transfer activities submitted by MoESTD to the Borrower or development partner donor institutions. - EUR 895,000
DLI 5.3 At least 50 RDI self-assessments completed. - EUR 716,000
DLI 5.4 Complete Feasibility Study to (i) assess the current system of public research financing and the network of RDIs and (ii) recommend institutional setup for introduction of Science Fund or similar institution and performance based financing schemes. - EUR 1,074,000
DLI 5.5 Institutional setup recommended by the Feasibility Study implemented, including establishing the new Science Fund or similar institution as recommended by the Feasibility Study. - EUR 2,685,000
DLI 5.7 Competitive performance based call for public research financing launched by the Science Fund. At least 80% of the funds budgeted for the call are committed. - EUR 1,908,000
DLI 5.8 Public RDI sector reform program adopted by the Borrower. - EUR 636,000
Total: EUR 13,284,000

The Bank will receive evidence of Eligible Expenditure Programs (EEP) before any disbursements are done under the EEP Category. The contractual waiver will apply only to the Borrower’s requirement to achieve the respective DLI before any disbursements are done under the EEP Category. The DLIs will be complied with before the Closing Date and the documentation of the expenditures and evidence of compliance of DLIs will be submitted before the end of the Disbursement Deadline Period (DDP). If the DLIs against which payments have been made are not achieved (i.e., if by the DDP the Bank has not received evidence satisfactory to the Bank that the DLIs related to the EEP Category have been fully met), the Borrower shall, upon notice from the Bank, promptly refund to the Bank the Withdrawn Loan Balance related to such Category, in an amount equivalent to the amount disbursed under each respective DLI. Except as the Bank may otherwise determine, the Bank shall cancel all amounts refunded.

The rest of the Loan balance accounts for DLIs which will be reimbursed using regular reporting procedure (i.e. on semi-annual basis, as they are met) and Technical Assistance resources. That said, the evolving COVID-19 crisis presents a potential risk to meeting some of the remaining DLIs. The team and the counterparts are closely monitoring and will take the needed steps to manage and mitigate these risks.

II. DETAILED CHANGES