



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 17-Oct-2019 | Report No: PIDA27488



BASIC INFORMATION

A. Basic Project Data

Country Serbia	Project ID P167634	Project Name Serbia Competitive Agriculture Project (SCAP)	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 21-Oct-2019	Estimated Board Date 10-Dec-2019	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Republic of Serbia	Implementing Agency Ministry of Agriculture, Forestry and Water Management	

Proposed Development Objective(s)

Improve agri-food market linkages of targeted beneficiaries.

Components

Improving the value-added of agriculture
 Improving the capacity of MAFWM to support modern agriculture
 Project management, monitoring and evaluation

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	50.13
Total Financing	50.00
of which IBRD/IDA	50.00
Financing Gap	0.13

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	50.00
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Environmental and Social Risk Classification



Moderate

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

- 1. Following years of recession and slow growth in the aftermath of the global financial crisis, the Serbian economy expanded on average by 1.8 percent during 2015–2017 and by 4.3 percent in 2018.** Growth was driven by investment, which rose by an estimated 16.4 percent in real terms and contributed 3.4 percentage points to overall growth of Gross Domestic Product (GDP). Consumption also recovered, but at a slower pace of 3.3 percent annually in real terms, adding 2.9 percentage points to growth. The contribution of agriculture to growth improved in 2018, with real growth of output estimated at 15.6 percent, adding 1.1 percentage points to growth. The realization of the Serbia's medium-term growth aspirations depends crucially on successful and timely structural reforms and on the progress with regulatory and institutional modernization towards European Union (EU) accession requirements.
- 2. The prospects for EU accession have provided an impetus for a broad spectrum of reforms.** In November 2007, Serbia initiated a Stabilization and Association Agreement with the EU. In 2012, Serbia was granted EU candidate status. Since the start of the accession negotiations in 2014, reform progress has evolved largely following its predicted trajectory. As of October 2019, Serbia has opened 16 out of 35 chapters of the EU's *Acquis Communautaire*, of which two are provisionally closed.
- 3. Regional disparities of living standards are evident.** There is a high degree of variability of living standards within the country, with 25 percent (or close to 1.8 million people) of the population of Serbia being at risk of poverty. Municipalities in the southern and eastern parts of Serbia have a higher poverty incidence compared to the rest of the country, with poverty rates ranging between 13 and 63 percent within these regions.
- 4. Serbia is highly vulnerable to climate change.** Over the past two decades, droughts, floods, harsh winters and other weather-related extreme events (e.g. hail) have caused physical damage, financial losses and even losses of human lives, with significant impacts on the economy, especially in the agricultural sector. National climate projections indicate that Serbia will face a high probability of continuing temperature increases, along with more frequent and prolonged droughts and wildfires. Projected increases in temperatures and declines in precipitation will affect rainfed crops, which dominate Serbian agriculture.

Sectoral and Institutional Context

- 5. Agriculture plays an important role in the economy of Serbia.** Agriculture is the third largest sector, accounting for 6 percent of GDP and 19 percent of formal employment, and the most important



export sector, representing 23 percent of total exports. The growth of exports of both primary and processed food products provides evidence of the competitiveness of Serbian production in international markets and of significant potential to further leverage the sector's growth to create jobs and income. Agricultural sector growth, however, is influenced by regional disparities in sector performance and composition of crops. The autonomous province of Vojvodina is the key driver of Serbia's agricultural output, contributing 43 percent to national agricultural GDP (2014), mainly because of large scale production of commodities. Between 2003 and 2013, increased crop and livestock output in Vojvodina was the main driver of agricultural growth while the south and southeastern regions of Serbia recorded only a marginal expansion or even a decline in production.

6. **As Serbia seeks to modernize its agriculture sector and to align with the EU *acquis*, the effectiveness of public spending and service delivery is becoming a critical policy issue.** National program resources, which accounted for 82 percent of sector expenditure on average during 2011-2017, are mostly allocated to subsidies and direct transfers in the form of area-based and headage payments. These are found to negatively affect sector productivity and efficiency because they support farmers in what they currently produce, thereby freezing the current production patterns and the dual farm structure in Serbia. In addition, investments in rural development, including the provision of agricultural infrastructure, Research & Development (R&D), advisory services, are low. Current sector policy therefore does not provide a conducive enabling environment for small and medium-size farms to increase their size; invest, modernize or change their production systems to benefit from expanding markets; or develop a competitive agri-food sector and vibrant rural economy.

7. **Smallholders are found to be the most technically efficient producers in the country.** Large producers, because of economies of scale are also technically very efficient. However, middle size farms are found to be performing less efficient, posing a question on the adequacy of the enabling environment for their development and consolidation of production, in general. These producer segments specialize in agricultural products that are not scale intensive yet can hold good potential and can drive the generation of jobs and growth in rural areas. The proposed project aims to bring the technically efficient and commercially viable small producers to scale and strengthen the performance of middle-size producers. Redirecting resources from subsidies towards rural development investments and targeting the small and medium producers of Serbia, especially in the South and Southeast, can improve their productivity and competitiveness, put them on a path of modernization and financial inclusion, enable them to actively participate in the process of structural transformation of agriculture in Serbia, and prepare them for EU accession.

8. **Despite significant amount of EU resources allocated to Serbia's agriculture, available investment funds are underutilized because of the limited uptake of development grants by small and medium-size producers.** The EU Instrument for Pre-Accession and Assistance for Rural Development (IPARD) funds in the amount of EUR230 million (including national co-financing) have been allocated to Serbia for the programming period of 2014-2020. Although the scope of the two measures for which Serbia is accredited for is broad, the actual number of beneficiaries is limited. Most small and medium scale producers have not been able to take advantage of this support as many either lack the commercial scale required to meet the minimum eligibility requirements, are deterred by the complex application requirements and lengthy approval processes, or are constrained by the need to mobilize upfront private financing for productive investments in order to benefit from grant support.



C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

To improve agri-food market linkages of targeted beneficiaries.

Key Results

9. The proposed PDO will be achieved by increasing the productivity and efficiency of targeted beneficiaries through improved access to technical support, information and finance. The PDO will be measured through the following indicators:

- 1) New formal contracts signed between beneficiaries and buyers of their products/services (Number)
 - a. New formal contracts signed between women beneficiaries and buyers of their products/services (Number)
- 2) Increase in the value of beneficiaries' production (Percentage)

D. Project Description

10. **Target beneficiaries are small and medium scale agri-food producers, producer groups¹, and SMEs** (e.g. agri-businesses, agri-processors) that (i) generate primary agricultural production or food products or services; (ii) are or can be commercially viable; (iii) are not covered by accredited IPARD measures, and (iv) have difficulties meeting the pre- and co-financing requirements of the National Rural Development Program. Although large producers will not be directly targeted, the project will also benefit them through a better enabling environment based on improvements in information systems, financial and advisory services. The size of producers is defined in the Grant Operational Manual (GOM) per sub-sector and below the established IPARD thresholds.

11. The project will be implemented throughout Serbia, but it is expected that most beneficiaries will be in the South and Southeast of the country, where small and medium scale agricultural production predominates, volumes per producer are small, private investment is limited and targeted investments in agricultural production and commercialization are expected to have the largest impacts.

12. **The project is structured into three Components.** Component 1 focuses on improving the productive and entrepreneurial capacity of small and medium agri-food producers, producer groups and enterprises by supporting productive investments and capacity building (through advisory services, business and financial planning) for market access and added-value of their production. Component 2 focuses on improving the capacity of MAFWM to provide core public goods for improving sector performance. This includes establishing an integrated information system to enable evidence-based decision making by agri-food producers and MAFWM, monitoring of results, enhancing production and market information for stakeholders, and building capacity for regulatory roles and compliance functions aligned with EU CAP. Component 3 focuses on project management, including the tools for a project impact assessment.

¹ In the context of Serbia and this project, producer groups are legally constituted cooperatives and farmer associations.



13. **The project will support a broader agriculture policy reform process** by addressing sector needs at the level of agri-food producers (Component 1) and the MAFWM (Component 2), through: a) improved targeting of policy instruments to different typologies of small and medium size producers; b) improved leverage of financial resources and greater financial sustainability of investments in agriculture; c) changes in the financial risk profiles of agri-food producers that could lead to improved access of IPARD resources; d) strengthened enabling environment for investment for small and medium agri-food producers, by improving the delivery of services to these productive segments (advisory, financial, information, etc.); e) improved monitoring of public resources and their utilization, as well as sector performance. It is expected that all these actions will bring about a significant shift in the utilization of public resources in agriculture from subsidies (direct payments) to rural development investments. Rural development investments (where both capital and knowledge are considered) are found to lead to improvements in productivity and sector growth in Serbia and other countries in the region.

14. **The project will also contribute towards improving the resilience of small and medium scale agri-food producers.** Some of the investments under Component 1 will finance climate resilient and mitigation technologies in the agricultural sector. Through technical assistance, Component 1 will also improve the capacity of farmers to better adapt to climate change or use adequate mitigation technologies through knowledge transfer by the advisory services. Component 2 will support the creation of an information system to strengthen MAFWM's capacity to manage risk and be pro-active, before extreme events struck, hence reducing their potential costs and adverse impacts; integrated into the information system will be key climatic variables and data available to all agricultural stakeholders at the national level.

15. **The project will work towards strengthening the role of women in productive decisions and market access.** Despite the role women play in agriculture, they are constrained by their lack of involvement in decision-making and access to finance. Women are often the main custodians of knowledge on crop varieties and good management practices. Empowering women farmers can increase their income, develop a stable rural livelihood and contribute towards adoption of new practices for improving productivity. The project will target women both through customized advisory service delivery as well as through grants selection criteria (under Component 1). Women beneficiaries will also be supported with access to information and its use for productive purposes and market access (under Component 2).

Component 1: Improving the value-added of agriculture (US\$37.7 million)

16. The objective of this component is to improve the productive and entrepreneurial capacity of small and medium agri-food producers, producer groups and SMEs to improve their linkages to markets. The component will support productive investments on- and off-farm (e.g. capital investments in equipment, machinery, processing units, packaging, storage, etc.) and the building of productive and entrepreneurial capacity of agri-food producers through the integration of production decisions with market requirements and technical and financial services.

Sub-component 1.1: Strengthening access to agricultural advisory and business development services (US\$4 million)



17. This sub-component will focus on strengthening the sector capacity for provision of technical assistance to agri-food producers for the formulation and implementation of productive investments. It will comprise both strengthening the capacity and knowledge of existing advisory services (both public and private) to respond to producer demand, as well as the delivery of advisory services to the final beneficiary, enabling them to design and implement productive investments in line with market needs and requirements. The scope of the technical assistance provided to beneficiaries will encompass traditional farm advisory services focusing on improvements of productivity, business plan development support, support for improving financial and entrepreneurial capacity, marketing advice, including compliance requirements related to national standards (e.g. better agri-environmental practices, food safety, animal welfare, traceability, etc.), advice on the use of climate-smart production practices and technologies and information to mainstream climate adaptation and mitigation in key subsectors supported by the project, as well as support for the effective use of digital tools for decision-making, including transferring of climate-related knowledge and information to reach small and medium beneficiaries.

18. This sub-component will also support the design and implementation of a communication strategy for MAFWM aimed at raising awareness about the project to stimulate broad-based participation by target groups. The communication strategy would also target local governments to ensure their support for project activities. The communication strategy will also reach out to the private sector, including commercial banks, to increase their awareness about the economic opportunities provided by the project to small and medium-size agri-food producers and the role that the private sector can play in their development.

Sub-component 1.2.: Facilitating access to finance for productive investments (US\$33.7 million)

19. This sub-component will focus on improving the productivity and competitiveness of agri-food producers by facilitating their access to finance for productive investments and to markets for their products/services. This will be carried out under a matching rural development (MRD) grants program, as a financial instrument for advancing a sub-set of priority areas and operational goals defined in the NARD Strategy for 2014-2024. It is expected that such matching grants would stimulate cross compliance (i.e. improving environmental outcomes), stimulate use of innovations, new technologies, development of skills, modernization, horizontal integration, and financial inclusion, promoting the transfer of (digital) technologies, integrating agri-food chains, increasing farm diversification (along with creating alternative employment and income opportunities outside the agricultural sector that will help agricultural producers improve their resilience to climate change and adapt to future climatic pressures), and improving product safety and quality (including provision of cold storages that will help agricultural producers adapt to the risk of extreme climatic changes by preserving their produce during harsh winters and hot summers). Through the project, capacity for the use of matching grants will be improved in the sector, which can lead to a better absorption of IPARD grants later on.

20. The productive investments supported through the MRD grants program will be defined in business plans that bundle three key elements: a) capital investment, b) working capital, and c) technical assistance and/or training for improving productive and entrepreneurial capacities and performance. The total cost of individual business plans would depend on the type of investment, the working capital required to make it operational, as well as the scope of the technical assistance and training needed. The cost would also vary by the productive activity, typology, and capacity of the applicant. Matching grant



support provided under the project would represent 50 percent of the total cost of individual business plans, while the remaining cost would be covered by beneficiaries' own funds (10 percent) and commercial loan (40 percent). The minimum and maximum total values of the investments included in the individual business plans are in the range of EUR 25,000 (i.e. minimum grant size of EUR 12,500) and EUR 400,000 (i.e. maximum grant size of EUR 200,000) for producer groups and SMEs, and between EUR 25,000 (i.e. minimum grant size of EUR 12,500) to EUR 50,000 (i.e. maximum grant size of EUR 25,000) for farmers. Eligibility and selection criteria are defined to ensure the participation of small and medium agri-food producers, producer groups and SMEs. Scoring and ranking criteria to be used would aim to target investments towards youth, women and poorer areas in Serbia. These criteria are also formulated to incentivize organization among producers, increased compliance with food quality standards and adoption of technologies (digital, climate smart). A Grant Operational Manual details the implementation and procedures of the MRD activities.

21. The sub-component will also facilitate access to finance for agri-food producers participating in the MRD grants program by providing investment and working capital and financing from commercial banks. Commercial banks will provide financing under approved business plans. Technical assistance will be provided for entrepreneurial capacity to targeted beneficiaries. Considering the high risk of lending to smaller producers, the project will support the enabling environment for de-risking agri-finance by working with existent public credit guarantee funds in Serbia available for agriculture - the European Investment Fund (EIF) and the Development Credit Authority (DCA). By providing grants, the project will leverage these existing schemes as risk mitigating mechanisms to crowd-in private investment through increased agricultural lending by commercial banks. Aid intensity levels under the MRD grants program were established in consultation with the banks to sufficiently mitigate the risk profile of the target beneficiaries and thus incentivize program participation among commercial banks. The project will also assist commercial Banks to improve their knowledge about working with targeted beneficiaries through awareness and communication strategy. Partnership agreements between the MAFWM and interested commercial banks would be concluded prior to the calls for proposals to formalize the program participation arrangements. A feasibility study will also be carried out to assess demand for a public guarantee scheme for agricultural loans as a long-term de-risking option.

Component 2: Improving the capacity of MAFWM to support modern agriculture (US\$10 million)

22. The objective of this component is to improve the capacity of MAFWM and related public agencies to enable improved sector performance through evidence-based policy making and provision of public goods, such as an information delivery system and open data platform. This will be achieved through the upgrading and modernization of existing information systems and their integration into an open data platform that will benefit all agricultural producers of Serbia. The information system would also strengthen the Government's capacity for risk management by providing all agricultural stakeholders access to relevant agroclimatic and market information to enhance climate response at the farm and agribusiness level. The integration of information could also support the Government's broader pension reform efforts with the provision of data for social benefits assessment.



Sub-component 2.1: Improving MAFWM information systems (US\$8.1 million)

23. This sub-component will support MAFWM to modernize its information systems and strengthen its decision-making capacity, through the improvement of hardware, software and human capacity for information support to the sector. Modernizing the information systems, through redesigning and upgrading of existing applications is critical in the process of alignment to EU Common Agriculture Policy (CAP), including for compliance and monitoring of sanitary and phytosanitary measures (SPS) compliance and monitoring, for provision of farm advisory information, for land parceling identification system (LPIS), for paying agency data management, etc. The project will finance: a) technical assistance to develop a MAFWM ICT strategy and to improve the coordination within and across existing information systems and enhance the delivery of information for decision making at different levels; and b) the acquisition of hardware and software to improve the scope, functionality and compatibility of information systems and establish digital data collection and processing of current paper-based processes.

Sub-component 2.2: Developing an Agriculture Business Intelligence Information System (US\$1.9 million)

24. This sub-component will improve the access to information to all sector stakeholders through an open, public information system – Agriculture Business Intelligence Information System (ABIIS) – which will pull together all relevant data, including the upgraded and reengineered applications developed under Sub-component 2.1. The project will finance the software, hardware and technical assistance required for the set-up and functionality of ABIIS. The information system can play an important role for the spatial tracking, traceability and connectivity of production and market demand, thus contributing to improved positioning of products, sales and overall competitiveness. The ABIIS could also serve as a support system for the advisory services in Serbia and can be linked to digital applications on-farm, ensuring a two-way communication on plant and animal health, and other risks that can constrain agricultural productivity and competitiveness. In addition, by including weather and climate information modeling, the project could contribute to early warning systems, helping producers to better prepare and adapt to changing climatic conditions. The project will use existing digital agriculture tools and will collaborate with private sector IT companies for finetuning electronic delivery mechanisms for monitoring production, access to technical information, traceability of goods and identification of market opportunities. Managing the content and enabling public access to ABIIS is a key role that MAFWM can play in providing the enabling environment for agricultural sector transformation.

Component 3: Project Management, Monitoring and Evaluation (US\$2.3 million)

25. This component will support the establishment of a project management team (PMT) in the Directorate of Agrarian Payments (DAP) and the capacity needs related to project implementation, including project monitoring, a comprehensive baseline, mid-term review and a final impact evaluation of project investments. The Central Fiduciary Unit located in the Ministry of Finance will perform the fiduciary function for the project.



Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

26. The project is classified as Moderate Risk, taking in account the low risk nature of the interventions, the limitations on implementation capacity, the application of environmentally friendly practices and new technologies, and the difficulty of enforcing workers' rights in multiple SME agribusinesses. No adverse impacts such as involuntary land acquisition, impacts on community health and safety, on cultural heritage, are expected. Some of the project funded activities may include support to small scale community agriculture that is undertaken within areas under some level of environmental protection. The project will introduce new technologies and support improvement of technical knowledge and skills of beneficiaries on, amongst other, water and energy efficiency, pollution prevention and best practice use of herbicides and pesticides. The project's anticipated social impacts are predominantly positive, such as increased income and employment in the agricultural sector as well as protection from climate related economic losses for farmers through the introduction of an early warning system. As labor informality is prevalent in the agricultural sector, the Borrower will prepare Labor Management Procedures to manage risks related to workers' rights in project supported agribusinesses. The environmental and social screening criteria developed for the agricultural grant schemes and the credit guarantee fund will screen for relevant risks and apply mitigation hierarchy.

27. **Exception to the Notification Requirement under OP 7.50 – Projects on International Waterways.** The Policy is applicable to this project because the activities will involve the use or potential pollution of the Danube and its tributaries. The exception to the notification requirement based on paragraph 7 (a) of the Policy applies because activities will be limited to minor additions and alterations, not exceeding existing schemes and the Project will not finance any off-farm irrigation construction or rehabilitation activities and the proposed project will not have any adverse effect on the quantity or quality of water flows to other riparians and will not be adversely affected by the other riparians' possible water use. The procedures for allocation of matching grants, which will be specified in the Project and in the Grant Operational Manual, will explicitly exclude the establishment of new off-farm irrigation systems and expansion of existing irrigation systems. As the grant program is demand-driven, it is currently not known how many irrigation or aquaculture related activities will be eligible for funding. However, based on ex-ante assessments, it is expected that irrigation technologies and aquaculture investments will constitute only a small part of the activities funded under the project. The memorandum on the exception to the notification requirement based on paragraph 7 (a) of the Policy was approved by RVP on October 11, 2019.

E. Implementation



Institutional and Implementation Arrangements

1. The implementing agency for the project will be the Ministry of Agriculture, Forestry and Water Management (MAFWM) through its relevant departments and units, namely Sector for Rural Development, Sector for Agrarian Policy, Directorate for Agrarian Payments (DAP) and Information Technology Group. A Project Management Team (PMT) will be established to support project implementation and will be placed with the DAP which is responsible for execution of the rural development investment support programs financed through the national budget and IPARD. DAP's capacity has been built over the past 10 years to meet the requirements of IPARD accreditation and within the MAFWM they are best positioned to support the implementation of the project's matching rural development grants program. Additional capacity needed to support the implementation of the investment loan financed by the Bank will be provided through the recruitment of consultants to form the PMT. The PMT's integration into the current structures of the MAFWM and DAP will ensure longer term sustainability of built management capacity, as DAP will need to recruit additional staff in the medium to longer term to obtain accreditation for available IPARD measures
2. The Central Fiduciary Unit (CFU) located in the Ministry of Finance (MoF) will perform the fiduciary function for the project. The CFU was established within the Ministry of Finance in October 2017 to provide fiduciary support (procurement and financial management activities) to all World Bank supported projects in Serbia. The CFU is currently comprised of the following staff: Director, Head of Operations, Procurement Specialist and Financial Management Specialist.
3. The POM details the implementation arrangements, including the division of responsibilities between the PMT, DAP and the CFU. This arrangement would effectively mean that the PMT and DAP agree on activities with the Bank, evaluate and select contractors, monitor and evaluate implementation, act as signatory to the contracts, letters of acceptance of goods and services, payments orders and withdrawal applications, and have main roles in budgeting for the project as the project funds are part of the implementing entities' budget. The CFU will provide procurement support in all phases of the procurement process, process payments, accounts for transactions, prepares interim and annual financial reports, perform all controls with regards to use of funds and ensure all transactions being properly documented, communicate and report regularly to the PMT on liquidity and other key financial parameters.

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APPROVAL

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