

Document of
The World Bank

Report No: ICR2889

IMPLEMENTATION COMPLETION AND RESULTS REPORT

ON A

LOAN

IN THE AMOUNT OF EUR 12.50 MILLION
(US\$17.0 MILLION EQUIVALENT)

AND A

GLOBAL ENVIRONMENT FACILITY GRANT

IN THE AMOUNT OF US\$ 4.5 MILLION

TO

THE REPUBLIC OF SERBIA

FOR A

TRANSITIONAL AGRICULTURE REFORM PROJECT

Nov. 27, 2013

Sustainable Development Sector Unit
South East Europe Country Unit
Europe and Central Asia Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective Nov. 27, 2013)

Currency Unit = Serbian Dinar (RSD)

RSD 1.00 = US\$ 0.012

US\$ 1.00 = RSD 84.0355

FISCAL YEAR

ABBREVIATIONS AND ACRONYMS

BASP	Biodiversity Strategy and Action Plan
CAP	Common Agricultural Policy
CAS	Country Assistance Strategy
DAP	Directorate for Agricultural Payments
DEP	Directorate for Environmental Protection (MSEP)
DGR	Division for Genetic Resources
DRDES	Department for Rural Development and Extension Services
EAR	European Agency for Reconstruction EU)
EU	European Union
FADN	Farm Accounting Data Network
GAO	Gross Agricultural Output
GAP	Good Agricultural Practices
GDP	Gross Domestic Product
GoS	Government of Serbia
HACCP	Hazard Analysis and Critical Control Point
IACS	Integrated Administration and Control System
IBRD	International Bank for Reconstruction and Development
IPA	Instrument for Pre-Accession Assistance
IPARD	Instrument for Pre-Accession Assistance for Rural Development
IPN	Institute for Protection of Nature
ISAA	Institute for Science Application in Agriculture
LAG	Local Action Group
LFA	Less Favored Areas
LPIS	Land Parcel Identification System
M&E	Monitoring and Evaluation
MA	Managing Authority
MAFWM	Ministry of Agriculture Forestry and Water Management
MSEP	Ministry of Science and Environmental Protection
MoS	Ministry of Science
NGO	Non-government Organization
PA	Protected Area
PIT	Project Implementation Team
PRSP	Poverty Reduction Strategy Paper
PS	Payment system
RDGP	Rural Development Grants Program
SAA	Stabilization and Association Agreement
SAO	Sector for Agrarian Operations
SARD	Sector for Agriculture and Rural Development
SASAP	Sector for Analytics, Statistics and Agrarian Policy
SPNP	StaraPlaninaNaturePark
SPS	Sanitary and Phytosanitary System

SERBIA
Transitional Agriculture Reform Project

CONTENTS

Data Sheet

- A. Basic Information
- B. Key Dates
- C. Ratings Summary
- D. Sector and Theme Codes
- E. Bank Staff
- F. Results Framework Analysis
- G. Ratings of Project Performance in ISRs
- H. Restructuring
- I. Disbursement Graph

1. Project Context, Development Objectives and Design.....	1
2. Key Factors Affecting Implementation and Outcomes	7
3. Assessment of Outcomes	13
4. Assessment of Risk to Development Outcome.....	18
5. Assessment of Bank and Borrower Performance	19
6. Lessons Learned	21
7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners	22
Annex 1. Project Costs and Financing.....	24
Annex 2. Outputs by Component	25
Annex 3. Economic and Financial Analysis	30
Annex 4. Bank Lending and Implementation Support/Supervision Processes	34
Annex 5. Beneficiary Survey Results	36
Annex 6. Stakeholder Workshop Report and Results.....	37
Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR	43
Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders	52
Annex 9. List of Supporting Documents	53
MAP	

A. Basic Information			
Country:	Serbia	Project Name:	Transitional Agriculture Reform Project
Project ID:	P094212,P093545	L/C/TF Number(s):	IBRD-74650,TF-90454
ICR Date:	11/29/2013	ICR Type:	Core ICR
Lending Instrument:	SIL,SIL	Borrower:	REPUBLIC OF SERBIA
Original Total Commitment:	USD 17.00M,USD 4.50M	Disbursed Amount:	USD 10.69M,USD 4.31M
Environmental Category: B,C		Focal Area: B	
Implementing Agencies:			
Ministry of Agriculture Forestry and Water Management			
Cofinanciers and Other External Partners:			

B. Key Dates				
Transitional Agriculture Reform Project - P094212				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	04/04/2006	Effectiveness:	11/12/2008	11/12/2008
Appraisal:	05/03/2007	Restructuring(s):		04/01/2010 12/13/2011 02/17/2012 06/11/2012 09/25/2012
Approval:	06/20/2007	Mid-term Review:	11/11/2010	03/30/2010
		Closing:	12/31/2011	05/31/2013

Transitional Agriculture Reform GEF Project - P093545				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	04/04/2006	Effectiveness:	12/19/2008	11/12/2008
Appraisal:	05/03/2007	Restructuring(s):		04/01/2010 12/13/2011 06/11/2012 09/25/2012
Approval:	06/20/2007	Mid-term Review:	11/11/2010	03/30/2010
		Closing:	12/31/2011	05/31/2013

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes	Moderately Unsatisfactory
GEO Outcomes	Moderately Unsatisfactory
Risk to Development Outcome	Moderate
Risk to GEO Outcome	Moderate
Bank Performance	Moderately Unsatisfactory
Borrower Performance	Moderately Unsatisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	Ratings	Borrower	Ratings
Quality at Entry	Moderately Unsatisfactory	Government:	Unsatisfactory
Quality of Supervision:	Moderately Unsatisfactory	Implementing Agency/Agencies:	Moderately Satisfactory
Overall Bank Performance	Moderately Unsatisfactory	Overall Borrower Performance	Moderately Unsatisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Transitional Agriculture Reform Project - P094212			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Project at any time (Yes/No):	Yes	Quality at Entry (QEA)	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA)	None
DO rating before Closing/Inactive status	Moderately Unsatisfactory		

Transitional Agriculture Reform GEF Project - P093545			
Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA)	None
Problem Project at any time (Yes/No):	No	Quality of Supervision (QSA)	None
GEO rating before Closing/Inactive Status	Moderately Satisfactory		

D. Sector and Theme Codes		
Transitional Agriculture Reform Project - P094212		
	Original	Actual
Sector Code (as % of total Bank financing)		
Agricultural extension and research	35	40
Central government administration	65	60
Theme Code (as % of total Bank financing)		
Regional integration	17	20
Rural markets	17	10
Rural policies and institutions	33	30
Rural services and infrastructure	33	40

Transitional Agriculture Reform GEF Project - P093545		
	Original	Actual
Sector Code (as % of total Bank financing)		
Agro-industry, marketing, and trade	10	20
Animal production	30	20
General agriculture, fishing and forestry sector	40	40
Other industry	20	20
Theme Code (as % of total Bank financing)		
Biodiversity	33	25
Land administration and management	17	20
Other rural development	17	20
Rural markets	17	10
Rural non-farm income generation	16	25

E. Bank Staff		
Transitional Agriculture Reform Project - P094212		
Positions	At ICR	At Approval
Vice President:	Laura Tuck	Shigeo Katsu
Country Director:	Ellen A. Goldstein	Orsalia Kalantzopoulos
Sector Manager:	Dina Umali-Deininger	Marjory-Anne Bromhead
Project Team Leader:	Olivera Jordanovic	Julian A. Lampietti
ICR Team Leader:	Olivera Jordanovic	
ICR Primary Author:	Daniel P. Gerber	

Transitional Agriculture Reform GEF Project - P093545		
Positions	At ICR	At Approval
Vice President:	Laura Tuck	Shigeo Katsu
Country Director:	Ellen A. Goldstein	Orsalia Kalantzopoulos
Sector Manager:	Dina Umali-Deininger	Marjory-Anne Bromhead
Project Team Leader:	Olivera Jordanovic	Julian A. Lampietti
ICR Team Leader:	Olivera Jordanovic	
ICR Primary Author:	Daniel P. Gerber	

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)

To enhance the competitiveness of Serbian agriculture.

Revised Project Development Objectives (as approved by original approving authority)

Global Environment Objectives (from Project Appraisal Document)

To conserve the globally important eco-system in the Stara Planina mountainous area.

Revised Global Environment Objectives (as approved by original approving authority)

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Improved MAFWM ability to disburse and. track the use of rural development funds and to evaluate their impact on the agri-food sector			
Value (quantitative or	Information lacking to forecast uptake, reporting	Provide evaluation of project results	Twice yearly reports with	No twice-yearly reporting with

Qualitative)	and analysis of subsidies; poor targeting, monitoring and verification	in strategies and actions plans to Government for assessing need and design of future investment.	details on applications, approvals/disbursements and use of direct payments and subsidies in line with EUIPAD requirements.	details on applications, approvals/disbursements and use of direct payments and subsidies that is inline with EU-IPARD requirements.
Date achieved	06/20/2007	05/31/2013	05/31/2013	04/27/2013
Comments (incl. % achievement)	Serbia doesn't have access to EU-IPARD funds yet, due to delayed EU accession process. A rural development strategy has been completed. The Paying Agency established in 2009 is under self-evaluation for accreditation. 75% acheived			
Indicator 2 :	Improved farmer access to appropriate technology			
Value (quantitative or Qualitative)	Applied research and extension services not adapted to serving the needs of the rural population	Provide evaluation of project results in strategies and actions plans to Government for assessing need and design of future investment.	Fully functioning competitive applied research and extension system with a broad range of services providers.	The applied research system is functioning on a competitive basis. The extension service system however is made of somewhat restructured extension services applying performance resource allocation rather than competitive grant approach.
Date achieved	06/20/2007	05/31/2013	05/31/2013	04/27/2013
Comments (incl. % achievement)	2010 extension law created a public extension service, however, fee-based advisory services also available from certified private providers. Extension advisor registration law under preparation. 70% achieved			
Indicator 3 :	Rising profitability and competitiveness of Serbian agriculture			
Value (quantitative or Qualitative)	Baseline will be estimated ex-ante by the M&E consultants	Provide evaluation of project results in strategies and actions plans to Government for assessing need and design of future investment.	Increased income of farms	Direct project beneficiaries and large farms have increased their competitiveness and farm income.
Date achieved	06/20/2007	05/31/2013	05/31/2013	04/27/2013
Comments (incl. % achievement)	Achieved from an aggregate sector perspective. Agriculture exports confirm export competitiveness. Attribution to project unclear. Final project evaluation confirmed improved competitiveness of direct project beneficiaries. 60% achieved			

(b) GEO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Expanded areas under ecological management and/or restoration within the Stara Planina Park and surrounding area			
Value (quantitative or Qualitative)	Less than 1 ha	Provide evaluation of project results in strategies and actions plans to Government for assessing need and design of future investment.	Integrated ecological management implemented on the whole territory of the SPNP.	Integrated ecological management plan partially implemented on the whole territory of the SPNP.
Date achieved	06/20/2007	05/31/2013	05/31/2013	04/27/2013
Comments (incl. % achievement)	Target mainly achieved. Srbijashume not yet implemented all aspects of the monitoring plan for the ecological management plan (Monitoring Plan), as pastures and biodiversity monitoring is lacking.			

(c) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	Payment Agency established and transparent and efficient EU-compliant procedures adopted			
Value (quantitative or Qualitative)	Fiduciary system and supporting manuals under development	IT upgrade	Quarterly reports from Payment Agency on applications received, disbursements made, and use of funds by beneficiaries in line with EU IPARD requirements.	IT infrastructure was strengthened. Regular reporting on disbursements of national rural development and agriculture funds is conducted. Reports include applications received, disbursements made, and use of funds by beneficiaries.
Date achieved	06/20/2007	05/31/2013	05/31/2013	04/27/2013
Comments (incl. % achievement)	Paying Agency (PA) is functioning and its harmonization procedures are ongoing. EU conferral of management initiated for 2014. 80% achieved			
Indicator 2 :	EU compliant rural development Managing Authority (MA) and Monitoring			

	Committee (MC) operating effectively			
Value (quantitative or Qualitative)	Concept being developed	MA and MC fully functional		MA effectively re-established and MC functional
Date achieved	06/20/2007	05/31/2013		05/31/2013
Comments (incl. % achievement)	MA reinstated an Rural development Strategy and Plan developed. 60% achieved.			
Indicator 3 :	Extension and Applied Research Unit with a multi-stakeholder governing body operational.			
Value (quantitative or Qualitative)	Severely understaffed unit	Impact assessment surveys implemented		Unit underfunded and lacking support from MAFWM
Date achieved	06/20/2007	05/31/2013		05/31/2013
Comments (incl. % achievement)	Applied Research Advisory Council formed of representatives of relevant ministries, farm associations, etc. It reviewed, decided, supervised and monitored the complete grants for AR and ES.			
Indicator 4 :	Number of extension service providers accredited with specific competencies.			
Value (quantitative or Qualitative)	0	200		347
Date achieved	06/20/2007	05/31/2013		04/27/2013
Comments (incl. % achievement)	End target has been achieved and exceeded before the project completion.			
Indicator 5 :	Number of farmers and processors within target group who implement activities directly related to knowledge products developed with project assistance.			
Value (quantitative or Qualitative)	0	20,000		25,000
Date achieved	06/20/2007	05/31/2013		04/27/2013
Comments (incl. % achievement)	End target has been achieved and exceeded before the project completion.			
Indicator 6 :	Number of farmers/processors who are applying internationally accepted standards (HAACP, EUREPGAP).			
Value (quantitative or Qualitative)	No EUREGAP certified farms	100		about 1750
Date achieved	06/20/2007	11/11/2010		05/31/2013
Comments (incl. % achievement)	Several hundred processors and large farms are EUREPGAP and HACCP certified and exporting to EU and Russia.			
Indicator 7 :	Number of applied research activities undertaken and related extension messages disseminated promoting biodiversity-friendly agriculture and land use.			
Value (quantitative or Qualitative)	Approximately 10 major applied research programs presently	50		There were 22 applied research programs and 50

	operational			extension service programs which had a component for knowledge and technology dissemination.
Date achieved	06/20/2007	05/31/2013		05/31/2013
Comments (incl. % achievement)	The activities supported through the competitive grant program had to be based on the Code of GAP which promotes environmentally-friendly, biodiversity-friendly agriculture and land use. End target has been achieved and exceeded.			
Indicator 8 :	Management plan for SPNP prepared through participatory process, and including areas designated as highest priority for wild biodiversity within core protection zones.			
Value (quantitative or Qualitative)	No SPNP management plan	Management Plan approved	SPNP Management plan in place endorsed by all stakeholders	SPNP Management plan in place endorsed by all stakeholders.
Date achieved	06/20/2007	05/31/2013	05/31/2013	04/27/2013
Comments (incl. % achievement)	Target achieved.			
Indicator 9 :	Increase in number of RD grants to SPNP municipalities for targeted activities.			
Value (quantitative or Qualitative)	6 RD grants in 2005	30 % of the available project budget committed	100% of project RD grants budget allocated to the region.	Total of 177 RD grants implemented, 100% of the project RD grants budget allocated to the region.
Date achieved	06/20/2007	05/31/2013	05/31/2013	04/27/2013
Comments (incl. % achievement)	Complex administrative procedures and clearances have prevented the optimization of the program so as to absorb more project resources, where demand existed, and capacity to undertake works was adequate.			
Indicator 10 :	Increase in quantity of milk purchased in SPNP			
Value (quantitative or Qualitative)	X Liters	20 Liters		Two dairies operating on territory of SPNP
Date achieved	06/20/2007	05/31/2013		05/31/2013
Comments (incl. % achievement)	Unclear indicator. Two dairies are operating on the territory of SPNP which implies that target was easily achieved			
Indicator 11 :	Establishment of local tourism association, bye-laws, standards, marketing strategy.			
Value (quantitative or Qualitative)	No local tourism organization established in SPNP	Marketing strategy developed		There is an umbrella association established that

				gathers tourist organizations of 4 municipalities in Stara planina and 6 surrounding municipalities. Also National Rural Tourism Master Plan has been prepared.
Date achieved	06/20/2007	05/31/2013		05/31/2013
Comments (incl. % achievement)	Target achieved.			
Indicator 12 :	Area of abandoned and degraded meadows/grasslands restored (pilot program)			
Value (quantitative or Qualitative)	0 ha	4,000 ha		3,029 ha
Date achieved	06/20/2007	05/31/2013		04/27/2013
Comments (incl. % achievement)	Grazing practices as a management tool for high mountain grasslands was re-introduced through GEF. 400 livestock units were selected for endangered pastures, and 532 under the second. Without a subsidy policy, it is difficult to maintain all. 75% achieved.			
Indicator 13 :	Increase in local populations of autochthonous livestock breeds			
Value (quantitative or Qualitative)	pigs 120, sheep 50, goat 40, pony 10	pigs 400, sheep 200, goat 200, pony 40 (at least 3 separate flocks/herds of each breed)		Busha cow 250 in 9 herds; 360 Mangalica pigs in 4 flocks; 640 sheep of 4 autochthonous breeds in 10 flocks; Balkan donkey 50 in 8 herds; Water buffalo 16 in two herds; Pony 85 in 9 herds
Date achieved	06/20/2007	05/31/2013		05/31/2013
Comments (incl. % achievement)	Overall target has been achieved and exceeded depending on species. Only 90% of target regarding the number of pigs has been achieved.			
Indicator 14 :	SPNP Ecological monitoring program			
Value (quantitative or Qualitative)	No ecological monitoring of the SPNP	Ongoing		The ecological monitoring has been performed by Srbijashume. Monitoring system does not include biodiversity of grasslands.
Date achieved	06/20/2007	05/31/2013		05/31/2013

Comments (incl. % achievement)	Target achieved.			
Indicator 15 :	Area of abandoned and degraded meadows/grasslands restored (pilot program)			
Value (quantitative or Qualitative)	4,000 ha	100 %		75 %
Date achieved	06/20/2007	05/31/2013		05/31/2013
Comments (incl. % achievement)	As the Indicator 12 refers, 3,029 ha has been covered. Therefore, 75 % target has been achieved.			
Indicator 16 :	At least 2 dairies processing and selling cheese from sheep in pilot high elevation pastures.			
Value (quantitative or Qualitative)	None	At least 2		Two dairies process the milk from high-mountain pastures: "Pirotska mlevara" and "Stara Planina" dairy.
Date achieved	06/20/2007	05/31/2013		05/31/2013
Comments (incl. % achievement)	Target achieved.			
Indicator 17 :	Stara Planina Nature Park Collective Brand legally registered.			
Value (quantitative or Qualitative)	None	At least 1 brand registered		In May 2013, 4 municipalities of Stara Planina registered a Collective Brand "Stara Planina" with Serbia Intellectual Property Office.
Date achieved	06/20/2007	05/31/2013		05/31/2013
Comments (incl. % achievement)	Target achieved.			
Indicator 18 :	Collaborative research/extension sub-projects under implementation/completed			
Value (quantitative or Qualitative)	0		76	72
Date achieved	12/31/2008		05/31/2013	04/27/2013
Comments (incl. % achievement)	4 canceled during implementation. End target 93 percent achieved. Indicator is duplicative, but is being added for corporate monitoring purposes.			
Indicator 19 :	Collaborative research or extension sub-projects - under implementation			
Value (quantitative or	0		0	0

Qualitative)				
Date achieved	12/31/2008		05/31/2013	04/27/2013
Comments (incl. % achievement)	No sub-projects under implementation as all have been completed. Indicator is duplicative, but is being added for corporate monitoring purposes.			
Indicator 20 :	Collaborative research or extension sub-projects - completed (number)			
Value (quantitative or Qualitative)	0		76	72
Date achieved	12/31/2008		05/31/2013	04/27/2013
Comments (incl. % achievement)	4 canceled during implementation. End target 93 percent achieved. Indicator is duplicative, but is being added for corporate monitoring purposes.			
Indicator 21 :	Clients who have adopted an improved agr. technology promoted by the project			
Value (quantitative or Qualitative)	0		25,000	25,000
Date achieved	12/31/2008		05/31/2013	04/27/2013
Comments (incl. % achievement)	30% of the 83,548 framers and SMEs involved in the program. Indicator is duplicative, but is being added for corporate monitoring purposes.			
Indicator 22 :	Clients who adopted an improved agr. technology promoted by project – female			
Value (quantitative or Qualitative)	0		0	0
Date achieved	12/31/2008		05/31/2013	04/27/2013
Comments (incl. % achievement)	Gender-disaggregated data not available. Indicator is duplicative, but is being added for corporate monitoring purposes.			
Indicator 23 :	Technologies demonstrated in the project areas (number)			
Value (quantitative or Qualitative)	0		22	22
Date achieved	12/31/2008		05/31/2013	04/27/2013
Comments (incl. % achievement)	Target achieved. Possible EU LEADER activities are likely to strengthen future SPNP management. Indicator is duplicative, but is being added for corporate monitoring purposes.			

G. Ratings of Project Performance in ISRs

-						
No.	Date ISR Archived	DO	GEO	IP	Actual Disbursements (USD millions)	
					Project 1	Project 2
1	11/30/2007	S	S	S	0.00	0.00
2	05/30/2008	S	S	S	0.00	0.00
3	02/22/2009	S	S	MS	0.00	0.00
4	07/05/2009	S	S	MS	0.46	0.20
5	03/31/2010	U	U	U	0.74	0.35
6	06/19/2010	MU	MU	MU	1.03	0.35
7	03/08/2011	MU	MU	MU	4.65	1.00
8	08/27/2011	U	U	U	4.65	1.00
9	12/21/2011	MU	MU	MS	8.21	2.61
10	06/20/2012	MS	MS	MS	9.77	2.88
11	12/30/2012	MU	MS	MU	10.21	3.61
12	06/07/2013	MU	MS	MU	10.74	4.00

H. Restructuring (if any)

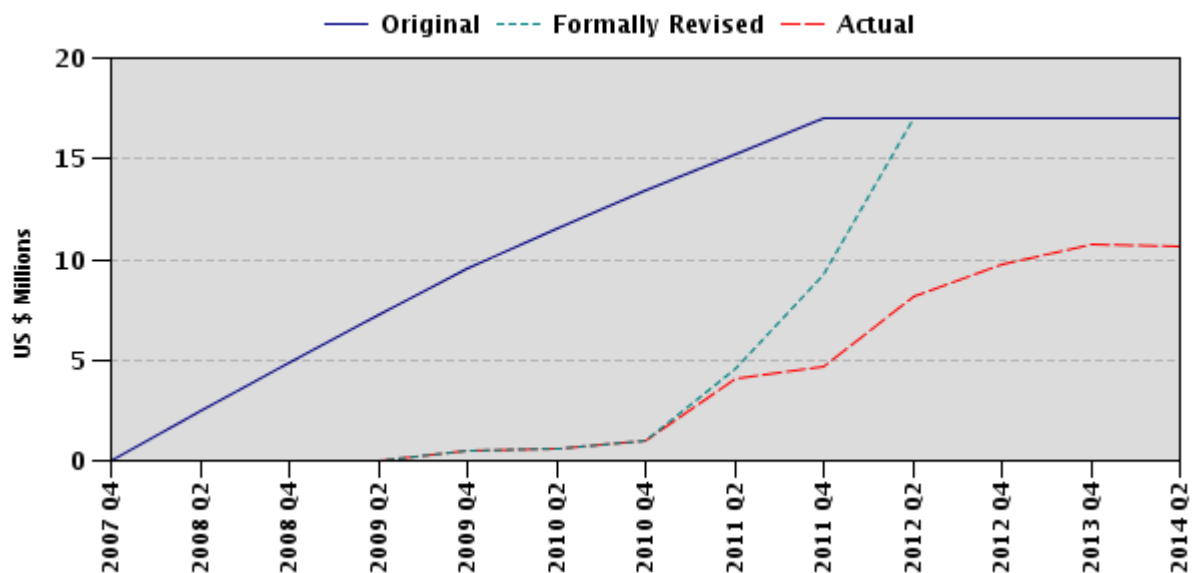
Restructuring Date(s)	Board Approved		ISR Ratings at Restructuring			Amount Disbursed at Restructuring in USD millions		Reason for Restructuring & Key Changes Made
	PDO Change	GEO Change	DO	GEO	IP	Project1	Project 2	
04/01/2010	N		U		U	0.74		To be consistent with the Government policy change in regard to support to the public agricultural extension services network, changes in wording in the LA and GEF Grant agreement, clarification on the financial mechanism, improved institutional arrangement, enabling financing for the incremental operational expenses, reallocation of loan proceeds and correction in the definition of disbursement category took place.
04/01/2010		N		U	U		0.35	To be consistent with the Government policy change in regard to support to the public agricultural extension services network, changes in wording in the LA and GEF Grant agreement, clarification on the financial mechanism, improved institutional arrangement, enabling financing for the incremental operational expenses, reallocation of loan proceeds and correction in the definition of disbursement category took place.

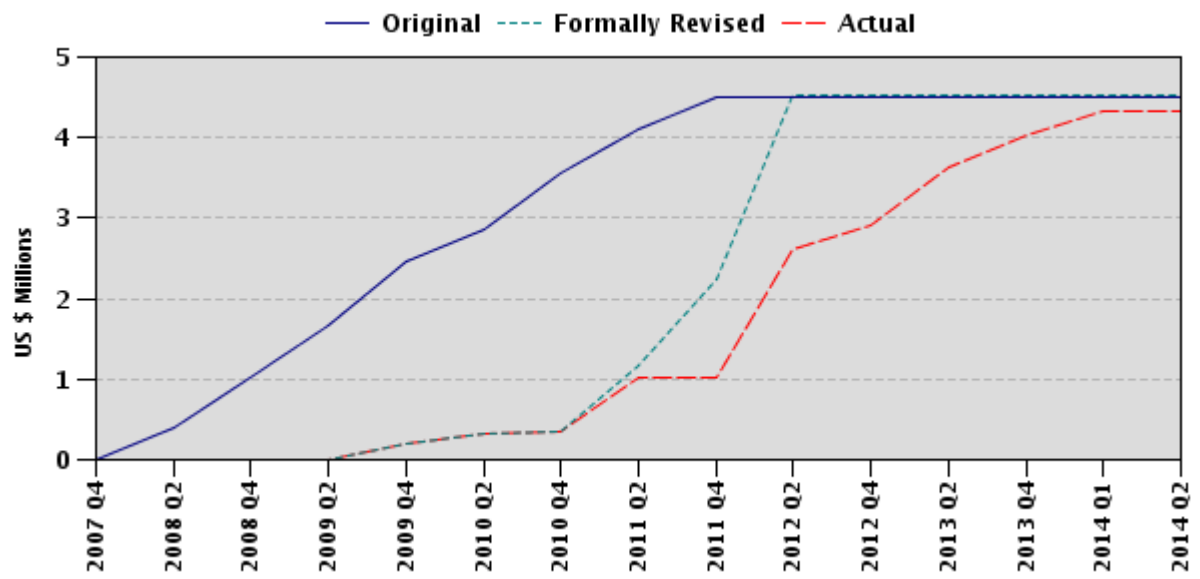
12/13/2011			U		U	8.21		The closing date was extended by 6 months because of the first 3 years delays including a 16 month effectiveness delay and changes in key leadership within the implementing agency.
12/13/2011				U	U		2.61	The closing date was extended by 6 months because of the first 3 years delays including a 16 month effectiveness delay and changes in key leadership within the implementing agency.
02/17/2012			MU		MS	8.21		The loan amount was partially cancelled. This amount was equivalent to the estimated amount of funds that will remain unused by the closing date.
06/11/2012			MU		MS	9.77		The closing date was extended by 3 months because of mainly delay of construction works under the small community infrastructure projects, which started with a delay due to an unusually harsh winter in the region.
06/11/2012				MU	MS		2.88	The closing date was extended by 3 months because of mainly delay of construction works under the small community infrastructure projects, which started with a delay due to an unusually harsh winter in the region.

09/25/2012			MS		MS	10.21		The closing date was extended by 8 months, since the Government changed in July 2012, causing implementation delays due to the absence of a signatory to authorize payments.
09/25/2012				MS	MS		3.20	The closing date was extended by 8 months, since the Government changed in July 2012, causing implementation delays due to the absence of a signatory to authorize payments.

I. Disbursement Profile

P094212





1. Project Context, Development Objectives and Design

1.1 Context at Appraisal

Country context -Serbia's political and economic isolation immediately following the Balkan wars of the 1990s and the complete dissolution of Yugoslavia in 1999 had left it unprepared to respond to the rapid changes in the region. Regional trade opportunities were expanding rapidly, driven by economic recovery in the post accession countries, a proliferation of bilateral free trade agreements, negotiation of the European Union (EU) Stabilization and Association Agreement (SAA) and plans for accession to the World Trade Organization (WTO). In order to capitalize on these trade opportunities, in late 2000 the Government of Serbia (GoS) launched an ambitious reform program to improve the business environment and create a vibrant private sector.

The changes were driven by a progressive new team in government that saw its opportunity in quickly progressing along the EU accession path to benefit from the block's trade and economic opportunities. However, opening up the economy meant that market forces were applying growing pressure on the agri-food sector to improve productivity and quality and a new emphasis on environmental sustainability.

The reform program over time lost much of its popular support raising significant opposition and political resistance. The government in charge had been in power for some 6 years at project appraisal and was facing a growing mobilization of the fragmented opposition. Over the years these competing perspectives would translate themselves into a continuous battle between reformers and conservatives across parties with frequent and disruptive government changes and reshuffles that would affect this project throughout its implementation.

Agriculture and rural development - Serbia has large areas of agricultural land with high quality soils, a strategic trading location, and an educated workforce. Primary agricultural production and agro-processing was estimated to be 15 percent of GDP and 20 percent of exports in 2005. At project preparation, some 0.8 million ha, or 15 percent of the arable land was operated by about 1050 large corporate farms and agrokombinats¹. Privately owned commercial farms averaged around 10 ha and accounted for 46 percent of arable land. The remaining 39 percent comprised an estimated 600,000 small private farms, most under five ha and often consisting of several fragmented parcels of land producing primarily for their own use consumption, and depend heavily on non-farm income.

There were and remain important regional variations in production systems and products. The low-lying and fertile Vojvodina region is dominated by large farms and partially

¹ Agrokombinats - were large socially owned vertically integrated agricultural enterprises that dominated agricultural production in Yugoslavia.

privatized Agrokombinats producing field and industrial crops and pigs, cattle and poultry. Central Serbia is characterized by hilly topography, small farms and diverse farm production systems, with fairly intense production of high-value fruits and vegetables and milk. Southern Serbia, the poorest and least developed region, is characterized by mountainous geography, large expanses of pasture and forest, small and fragmented arable areas, very limited commercial production, and high rates of out-migration.

An agriculture strategy had been developed in line with EU pre-accession requirements (August 2005) that set out a road-map for growth and competitiveness based on: (i) completing the move to a competitive market economy, including abolishing remaining production subsidies and adopting WTO principles but retaining quite a high level of border protection for as long as possible pending WTO agreement; (ii) increasing Serbia's share of EU markets by harmonizing with EU sanitary and phyto-sanitary (SPS) and quality and agro-environmental requirements; (iii) improving competitiveness through adoption of modern, cost effective production technologies; and (iv) promoting rural development, especially in poor regions of the country. Simultaneously, the EU Integration Strategy for Serbian Agriculture laid out an ambitious three-phase plan for moving towards EU standards and integration with the EU Common Agricultural Policy (CAP). This was the centerpiece of Serbia's agricultural strategy, both to gain access to CAP funds and to facilitate Serbian producers' entry into the world's largest agricultural market.

Agricultural Extension Services - The extension system was composed of publicly funded but socially owned Agricultural Stations that included large production (demonstrations and research facilities) that were expected to be privatized. As part of the policy that formed the Agricultural Strategy, the extension services were expected to develop into a pluralistic system with a small public service providing advisory services of a public good nature to smaller farmers and an administrative body that would manage the delivery of a program through a mix of public and private providers who each would focus on their comparative strengths.

Agricultural Subsidy Policy - GoS policy aimed to facilitate agri-food sector growth and competitiveness by moving away from price and input subsidies to structural support², using EU harmonized financial delivery systems in anticipation of receiving EU pre-accession (and eventually CAP) funds. The GoS 2006 Rural Development Grants program measures were aligned with CAP which in addition to farm modernization, included support for agro/eco-tourism, development and marketing of specialized local agricultural products and crafts, conservation and promotion of cultural, sociological and economic customs and values, special provisions for marginalized areas and farmer retirement incentives.

²Market support was scheduled to fall from 40 percent of the budget in 2004 to 20 percent in 2008.

Agro-Biodiversity and nature protection - Access to EU markets requires convergence with EU policies such as the Common Agricultural Policy and the *acquis communautaire*, most notably, chapters 11 and 12³. However, additionally, EU agricultural policy also emphasizes environmental sustainability in agriculture which is underpinned by the *Water Directive*, the *Nitrate Directive*, the *Habitats Directive* and an emphasis on agricultural support measures that provide incentives to farmers for environmental sustainability and conservation and *protection* of species while ensuring adequate livelihood in rural areas.

Dialogue with the Bank - The Bank's dialogue on agriculture, rural development and environment with Government was held in parallel with the Ministry of Agriculture, Forestry and Water Management (MAFWM) and the Ministry of Sciences and Environmental Protection (MSEP). MSEP was in charge of implementing the GEF financed Danube River Enterprise Pollution Reduction Project supporting legal alignment towards the EU's Water and Nitrate Directives and demonstration investments in agri business to reduce point source pollution from livestock production. MSEP sought support for a project that would tackle agro-biodiversity conservation for the Southeast of the country which suffered from massive population flight and growing forest encroachment in pastures around the SPNP as a result of depopulation. With MAFWE the dialogue had been ongoing for improvements in the rural business environment including a review of the rural credit program and an analytical piece to inform the strategic policy in the sector. Given that MSEP was the main body financing research in the various agricultural institutes, and that MAFWM was responsible for agricultural policy, rural development and extension services, already early on in the preparation of the two projects close coordination between the two Ministries was considered necessary to arrive at an optimal project design.

1.2 Original Project Development Objectives (PDO and GEO) and Key Indicators

The project development objective is to enhance the competitiveness of Serbian agriculture and to conserve the globally important eco system in the Stara Planina mountainous area.

Key outcome indicators included: (i) improved ability of the Ministry of Agriculture Forestry and Water Management (MAFWM) to target the use of rural development funds, disburse them transparently and evaluate their impact on the agri-food sector; (ii) an increased number of agricultural producers and processors using competitive, market oriented agriculture technologies and practices; and (iii) expanded areas under ecological management and/or restoration within the Stara Planina Nature Park (SPNP) and surrounding area.

³ The Acquis Communautaire is the basic set of rules countries in the EU are expected to abide by. Chapter 11 defines the rules surrounding rural development and agricultural policy and support systems including institutions that ensure the transparent traceable tracking of subsidies, while chapter 12 defines the arrangements and institutions necessary to ensure food safety and trade with the EU common market..

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

1.4 Main Beneficiaries,

The project included institutional as well as individuals as beneficiaries. The main institutions benefitting from the project were the Managing Authority (MA), the Directorate for Agrarian Payments (DAP), the extension and advisory services, a number of research institutes that obtained applied research grants, the communities, individual households and municipalities of the Stara Planina region.

1.5 Original Components

Component 1: Strengthening the Agriculture and Rural Development Support System -

This component was to support the shift of agricultural payments towards structural support and developing an EU compliant paying system. It was to involve building capacity for processing and administering the national rural investment grant program. The project was to fund development and implementation of data processing software across the Payment system. Technical assistance was to be used to design the national integrated administration and control system (IACS), a pilot land parcel information system (LPIS) and a risk management program. In PY3, the project would support the updating of the national rural development plan and support measures. This component was to complement the work of European Agency for Reconstruction (EAR) Support to Rural Development Programing and Payment System (SRDPPS) project, which was supporting the development of an EU-compatible fiduciary system within the MAFWM and the preparation of a national rural development plan and supporting measures.

Component 2: Building Knowledge and Capacity of Agricultural Producers and

Processor - This component was to develop and disseminate the knowledge and technology needed for agricultural producers and processors to raise agricultural production and competitiveness and to access and make effective use of the structural support provided by the MAFWM. Adopting best practice EU measures, this component was to build upon and enhance existing GoS systems, in which research and extension activities were carried out through transparent, competitively awarded contracts including private sector delivery. While extension delivery were to be tailored to specific country environments, systems such as those in the UK and Holland, where government funds up to 70% of the privately delivered advisory services, were the working models for Serbia.

a) Improve Agricultural Extension Delivery

- **Strengthening of MAFWM capacity:** the project supported the establishment and capacity building of a Department for Rural Development and Extension Services (DRDES) within the MAFWM to oversee the Serbian applied research and extension system, with responsibility for adopting an Agricultural Extension Strategy and approving contracts and making payments to Extension Service Providers. This included office and computing equipment and vehicles for the DRDES, technical assistance and capacity building in extension management and effective communication for DRDES staff and trainers and support for annual workshops and training programs.

- **Incremental funding for extension services contracts:** over the project life, existing funding for contracts to service providers for training of extension contractors, extension services to farmers and for facilitating farmer's rural development grant applications was to be doubled. Demand driven extension contracts financed by the project were to be awarded on a competitive basis to certified service providers, including restructured agricultural stations, academic institutions (e.g., agricultural schools), NGOs, private companies and private individuals.
- b) Improve Applied Research Delivery** – A national Advisory and Applied Research Fund would be established as defined in the 1991 Law on Agriculture Departments. The Project financed applied research programs through competitively awarded contracts based on EU best practice.
- **Capacity building for applied agricultural research:** the Project supported technical assistance and training in applied research management and implementation and regional study tours for the members of a project supported Applied Research and Extension Council.
 - **Incremental funding for applied research contracts:** for demand driven applied agricultural research, awarded on a competitive basis to accredited research institutes and, at a lower level of funding, to innovative farmer, agro-industry and civil society groups for technology testing and demonstration;
- c) Development of stakeholder representation** - The MAFWM extension and applied research program would oversee a multi-sectoral Agricultural Extension and Applied Research Council including representatives of the MAFWM, Ministry of Science and Environmental Protection (MSEP), civil society and target beneficiaries (agricultural producers and processors). The project also supported the establishment of a system for democratic, gender-balanced stakeholder representation in local extension and applied research management. This included a consultation and communication package on the development of stakeholder representative bodies and TA and capacity building in support of effective representation. The project will also fund TA and capacity building in applied research management at both scientific and Council levels and funding for national Council operations.

Component 3: Management of the Stara Planina Nature Park - Support aspects of improved management and biodiversity conservation and sustainable natural resource use within the non-core conservation areas (Zones 2 and 3) of the SPNP. The Project would support TA, training and equipment for the forestry management authority (Srbijasume) and support the preparation of management and operational plans for the SPNP including public awareness raising and strengthening of cooperation with local authorities and communities and trans-boundary cooperation. Support would be provided for ecological restoration of priority sites (particularly degraded high elevation meadows), development and certification of "SPNP branded" products based on sustainable use of natural resources, incentives to farmers for maintaining rare indigenous livestock breeds, small scale infrastructure to support rural/eco-tourism, and establishing an ecological monitoring system. Project support was provided to the establishment of a practical and meaningful ecological monitoring system for effective PA management. GEF co-

financing was used to strengthen MAFWM capacity in areas such as agro-environmental production and agro-tourism. While targeted toward the SPNP, these competencies will be applicable anywhere in the country.

In the Stara Planina resources were be applied as competitive grants to support the global objectives of promoting managed extensive grazing, ecological restoration, sustainable rural tourism and related enterprises, and preservation of natural and agro-biodiversity, including using the LEADER approach where appropriate. Twenty five percent of the amounts were to be paid by local communities and 75 percent financed by the GEF grant (€1.3 million). This was to be supplemented by the limited funds available from GoS for these purposes (in 2005, approximately €103,000 equivalent went to farmers in the four Stara Planina municipalities). The GEF investment grants would fund up to 100% of investment costs, to encourage recipients to undertake activities with a high public goods element (such as ecological restoration) or higher than usual financial risk. The grants, managed through a Stara Planina Advisory Committee, supported integrated strategies for sustainable local development, prepared through decentralized, integrated and bottom-up approaches. In the agriculturally marginal SPNP area, GEF funds helped to pilot approaches to introduce sustainable farming and forestry practices and to diversify household and local economies.

Component 4: Project Management and Coordination - The project was to be managed as an integral program of MAFWM, without the establishment of an independent project implementation unit and covered incremental costs of consultant services, training, equipment and operations to facilitate project implementation including procurement and financial management, monitoring and evaluation and reporting. A Project Implementation Team within MAFWM, working under the direction of a MAFWM Project Manager, was providing technical, procurement and financial management support to participating MAFWM Sectors. A small technical advisory team was located in the Stara Planina area to support MAFWM and Srbijasume in implementation of the GEF-financed activities under Component 3. Day-today implementation of the project subcomponents was the responsibility of the associated MAFWM Divisions, Directorates and Sectors, and Srbijasume in the case of for the SPNP program. The project M&E system was designed to provide timely and concrete information to project managers, based on the Results Framework.

1.6 Revised Components

The project components substantially remained as designed at appraisal albeit substantial reallocations of resources and cancellations were undertaken.

1.7 Other significant changes

The project underwent five level II restructuring processes during its implementation, three of which primarily to extend the closing date, however none affected the PDO/GEO nor were the primary results indicators modified. The initial restructuring was in March 2010 to enable the project to be responsive Government policy change in regard to support to the public agricultural extension services. The new Government policy was geared toward actively supporting the public extension service approach although at the

same time supporting a mix of public and private sector entities. The original design of the project was unable to accommodate this policy change because state ownership made the agricultural stations ineligible to receive project financing. The proposed changes involved (i) the changes in wording in relevant places in the Loan Agreement and GEF Grant Agreement – mainly in the project description to accommodate for the above described policy change; (ii) clarifications on the financing mechanism of the agricultural extension service and for applied agricultural research activities; (iii) improved institutional arrangements for the implementation of the competitive grant scheme; (iv) enabling financing for the incremental operational expenses for project management from the loan proceeds; (v) a reallocation of loan proceeds among disbursement categories to ensure consistency with the above amendments; (vi) and the correction in the definition of disbursement category 1 in the GEF Grant Agreement to include training under eligible expenditures and redefining implementation arrangements.

A second restructuring involved a project closing date extension from December 31, to June 15, 2012 after encouraging signs for willingness to implement ongoing activities were made. Bank Management supported this extension in spite of the relatively poor project performance with the agreement that cancellation of activities that had little prospect for realization would be undertaken in parallel once the amounts for such cancellation were better known. Consequent in February of 2012, a third restructuring was undertaken for the cancellation of some EURO 2.34. There were no changes to the project development objective, environmental assessment (EA) category, or the results monitoring framework were proposed.

The fourth restructuring involved a project closing date extension of some 3 further months to September 30, 2012 mainly due to the elections that were deemed disruptive and little implementation progress had been made during that period.

A full year should have been sought as the disruption was worse than expected and no contract or payments were processed requiring a fifth and final restructuring in September 2012 when the project was finally extended to its closing date of May 30, 2013. Some EURO 2.14 of IBRD resources remained unspent after all transactions have been processed meaning the project only absorbed some EURO 8.0 million during its implementation. It needs to be noted that the extensions were granted in view of the goodwill the new government expressed and the fact that local communities in remote areas of Stara Planina would have been the ones most penalized from project closure without completing the rural infrastructure that had been promised by the project. GEF financing was nearly fully absorbed.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

There was a lack of clarity as to the shape Bank support in agriculture, rural development and environment would take in Serbia. The initial preparation mission was already fielded in February 2005 aiming at a GEF financed In Situ Agro-Biodiversity

Conservation with MSEP and in parallel with MAFWM to discuss an intervention to support improvement in the rural business environment. Two projects were prepared in parallel: (i) one focusing on improving the Stara Planina region under a GEF grant that would both preserve the landscape while simultaneously providing for grants to stimulate the local economy and the competitiveness of less favored areas; and (ii) a rural credit study reviewing Serbia rural credit support program, and an agriculture sector review with the aim to have a project that would address the rural business environment. The sector review had ambitious objectives for reforms which were fully supported by the reformist government but may have lacked broader based popular support especially in rural areas, and may not have been insufficiently promoted at the lower functional level of the MAFWM and its related agencies.

On the Bank side there was also some pressure to deliver larger projects to reduce administrative costs and GEF especially expressed a wish to have its projects paired up with a Bank projects to optimize impacts. The initial concept review meeting held in September 2005 underlined the complexity of the design and the wisdom to have both the GEF and IBRD project under a single operation. However, the single operation was endorsed at the second PCN review meeting in March of 2006 as an expressed wish of GEF and supported by the project preparation team.

The project thus agglomerated the preparatory work under GEF and the conclusions of the two studies. At the time of project preparation, Serbia was negotiating the Stabilization and Association Agreement which would allow access to EU IPARD⁴ funding, where competitiveness was to be stimulated by implementing EU compliant payment system, and establishing a policy making body that would allow the country to absorb the funding made available to Serbia from IPARD. Given the experience with absorption issues, this included strengthening extension and advisory services to help disseminate knowledge to the farming community with applications that have a strong business plan. The support to extension services was also going to help government implement its reform agenda in moving extensions towards a more pluralistic system that would also generate some of its own revenues from sale of services.

Support to access EU IPARD was considered uncontroversial regardless of the turn elections would take and the policy stance of the new government would be. The team was composed of a fairly broad team of experts who also had worked on the agriculture sector review and as such no questions could be raised as to the technical competence of the team. Given that the project was negotiated with a caretaker government, at the last minute project financing had to be revised reducing counterpart contributions so as to not fall upon resistance during implementation. The pressure to move ahead with negotiations was also in large part driven due to the fact that resources that had been allocated to the project would be lost if not locked in the current Bank fiscal year.

⁴ European Union Instrument for Pre-accession Assistance for Rural Development

Retrospectively, it could be argued that the Bank could have taken a step back and get a bit more clarity as to what the government really wanted. While preparation took nearly two and half years it seems in the end there was still a need to get a better sense of the vision of the new government.

2.2 Implementation

The project was faced with serious implementation challenges as soon as it was approved by the Bank. This is well illustrated by the fact that it took some 18 months from that point to effectiveness. The political turmoil was such that a total of five Bank projects were similarly held up. By the time effectiveness was declared the political landscape had significantly changed in the country and a previously reformist MAFWM had been replaced by a more conservative one. An important change was the reversal on the research and extension policy back towards a fully budget funded model. The result was that the project required an almost immediate restructuring and amending of the legal agreements and the development of a grant manual that reflected the conditions of the grants and grant administration by the PIU. A project restructuring should have been discussed with the new government and completed shortly after effectiveness. The supervision assessed this option with ECA quality, but was advised that a restructuring so early in project implementation would be difficult to justify.

While little changed conceptually, a series of four new Ministers along with associated senior staff changes severely undermined continuity in overall decisions. The successive administrations failed to coordinate project resources to improve and operationalize the activities developed by the EU funded EAR and politicized the establishment of technical bodies with the move of the Directorate for Agrarian Payments and the loss of support for the Managing Authority including the temporary firing of crucial staff that guided these nascent institutions. Each new MAFWM management raised issues of corruption and all contracts under implementation were reviewed. Since these allegations were primarily based on hearsay they could never be substantiated and project audits and procurement reviews did not bring to light any unusual issues. The net result of these inquiries was significant delays in procurement and contract signing, ultimately causing very late delivery of most of the project activities. The continuous changes in counterparts combined with the utter lack of devolution for signing and decision authority to the Project Implementation Team (PIT) made this project an administrative nightmare, and the primary cause for the implementation delays, the inability to absorb the loan funds, and the need for the three consecutive project closing date extensions.

More specifically at the component level this meant that for ***Component 1*** dropping of software development as the government of Serbia purchased a payment software package out of its own funds with the aim of customizing it in house to suit the DAP's needs. At the same time, it decided that the DAP would be established in Sabac some 100km away from Belgrade and the embryonic Managing Authority to Vojvodina. This decision also led to some difficulties in finding adequately qualified staff locally and eventually staff had to be bussed in from Belgrade daily. It also effectively disconnected the policy making body for RD and agriculture from the MAFWM and focused subsidy policy in favor of the region. Savings from not funding software development were

reallocated towards some key TA support to the DAP for training and assistance in developing process and procedures as well funding of core specialized staff that eventually would be absorbed into the civil service, and support for procurement of computer hardware and technology for improved on-the-spot controls and verification.

For **Component 2** changes related to the new structure of the extension services and regional extension stations. While at project design the intent was to substantially move away from a public extension service towards a hybrid system where public funding would essentially fund programs to be delivered to farmers by private and non-governmental bodies, by 2009 this policy reverted to have extension delivered mainly through publicly owned bodies. The extension stations that had been slated for privatization were effectively renationalized and brought under the budget of the MAFWM. This new reality led to the need for restructuring of the project as soon as the project became effective as funding could not be channeled through budgeted public bodies. The grants were to be made in accordance with a grant manual that was only completed by 2009 after several iterations, thus the number of grants altogether was substantially lower than had been estimated at project design. The delays also were related to grant administration mechanisms and the lack of local knowledge for effective application and management of grant funded applied research. As a consequence no new grant funded activities were authorized after the mission of 2011, allowing only the closure of already contracted activities.

For **Component 3** there were no significant changes in design except that altogether the number of community grants and infrastructure investments were reduced in large part due the cost overruns on the construction on a number of projects. The lodge for the SPNP Manager – Srbijasume (Visitor Center) in particular cost nearly double what had been envisaged at design. This had several reasons including an agreement to drop the counterpart funding from Srbijasume with the investment fully financed from grant resources, but also problems with design that had overlooked a number of issues related to sanitary installations and waste management requirements to obtain occupancy permits. Overall, the community investments and infrastructure works were started very late and were the main reason why the Bank approved altogether 3 project closing date extensions cumulatively amounting to some 23 months.

Unfortunately, the implementation difficulties were not helped by the fact that the Bank had assigned a series of seven Task Team Leaders (TTLs) starting from preparation until closing. The changes in Bank staff were disruptive and at times also led to a lack of responsiveness from the Bank to client requests, delays in providing No Objections and implementation advice. For instance while restructuring of the project was identified as soon as the project became effective, it was only undertaken some 16 months later after effectiveness. Only in the last 3 years of implementation was there effective continuous and responsive engagement from the Bank through its TTLs.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

The PDO for the IBRD portion of the project defined as “*to enhance the competitiveness of Serbian Agriculture*” was rather broad and appears a carryover of the preparation work that had been done before the contents and activities of this project were finally agreed. The accompanying outputs and indicators could only indirectly contribute to this objective. While the establishment of institutions for management of payments and for rural policy making as well as advisory services, all provide a potential for improving competitiveness, they play only a limited role and many other factors⁵ have a greater influence on this envisaged outcome. Consequently, the indicators for measuring progress towards PDO suffer from an attribution problem. While a number of indicators have been substantially achieved, it is somewhat difficult to link that achievement with the objective of the project.

The indicators suffered from the optimism of project preparation where many activities had been agreed that then subsequently could not effectively be delivered due to recurrent policy changes with the arrival of each new MAFWM administration. While overall the indicators were appropriate in terms of measuring performance towards achieving a number of crucial elements that would help Serbia on the path to the EU on their own, they can hardly be thought of having measurably contributed to the ambitious PDO focusing on competitiveness of the sector.

The GEO defined as “to conserve the globally important eco-system in the Stara Planina mountainous area” has a similar issue with overstating what can reasonably be achieved with a US\$4.5 million regional investment. The project without a doubt made significant contributions that will help the area revive economically and bring in more agricultural activities back to help manage the overgrowth and loss of pasture and revival of autochthone livestock species in the area. However, depopulation and neglect remains a fact that will only be alleviated if the new rural development programs currently being prepared includes measures to help revitalize such less favored areas.

In part due to the serious delays with project implementation and contracting, and despite the preparation of a detailed Monitoring and Evaluation (M&E) Plan pre-project, M&E was also undermined as a baseline was effectively only established in 2011 nearly 4 years after the project had been negotiated. In the end a very large M&E contract was awarded, but due to poor data collection before the contractor was on board, a good baseline to compare progress before and after, could never be really established. The PIUs M&E responsibilities in terms of providing regular status reports were also neglected and regular updates against indicators were not performed very diligently. The lack of a clearly assigned project coordinator at the PIT to assume responsibility for the project outcomes including M&E data collection played a role as well.

Finally, the indicators defined in the PAD and Legal Agreement were not systematically followed as the ISR included other intermediate indicators that were in many cases more

⁵ These factors include financial resources for farm investments and modernization, land consolidation, access to developed value chains and markets, agriculture support policy

effective in measuring progress under the components, but left some indicators without data.

2.4 Safeguard and Fiduciary Compliance

Given that the project primarily dealt with institutional capacity building it presented few safeguards risks and during its implementation there were never any issues raised from either the environmental or social side. There were some problems with getting goods purchased under the project delivered to their rightful beneficiary institutions. While procurement and financial management processes always followed Bank guidelines and audits were always clear the lack of accountability at the Ministry of Agriculture resulted in a significant number of vehicles never being distributed to the designed beneficiaries. This was the case for the vehicle dedicated to the Project Implementing Team as well as for vehicles assigned for extension and advisory services. Given that the vehicles had all been purchased and paid for in accordance with Bank rules, the end effect of having fifteen cars (out of 90 purchased) left at the parking lot of the dealership without registration was mainly an embarrassment and the illustration of the lack of continuity and institutional accountability at MAFWM. With a new Administration in charge at project closure the situation was finally satisfactory resolved and the vehicles were distributed to the rightful beneficiaries.

2.5 Post-completion Operation/Next Phase

The systems and institutions that were developed and strengthened under the STAR project, even in their somewhat incomplete shape, are fundamental to Serbia's progression to eventual EU accession and will serve to improve agricultural competitiveness, especially for less well capitalized farms. The recent recommendation for Serbia to commence negotiations for accession the EU only strengthens the sustainability of the investments under component one, as they lay the ground work for further investments towards an eventual IACS system as required from new candidate countries. This step is accompanied by the promise for significant IPARD resources. As such the investments under this project will pay for themselves many times over and are consequently assured financing from budget resources, thus mitigating many of the typical sustainability risks. While EU accession will require significant further investments in public administration, it will be important for Serbia to carefully and selectively increase its ranks of public servants so as to remain within sustainable budgetary envelopes. In a number of neighboring countries the Bank is implementing TA operations to support them in optimizing the planning, delivery and monitoring of their agricultural and rural development programs.

There remain questions as to the optimal shape and structure of extension services which today are under the budgetary responsibility of the MAFWM. The fairly large land holdings that the stations are endowed with provides for their capacity to survive from sale of production, but the optimization of services delivery remains questionable and value maximization of the assets extension services possess remains unfulfilled.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

The objectives of the project remain highly relevant to Serbia's path towards EU accession and its ability to integrate its agricultural sector in economic environment of the EU. Aligning with EU requirements and the necessary competitive and structural adjustments remains the primary policy driver in the Serbian agricultural sector today. Serbia's CAS continues its focus on improving sector competitiveness and alignment towards the EU and, as such, the project remains fully in line with overall Country Assistance Strategy.

3.2 Achievement of Project Development Objectives

Both the PDO and GEO were equally broadly defined and not in tune with what could reasonably be achieved within the framework of a US\$22.00 million project. While many of the project activities were substantially delivered, in neither case could it be legitimately claimed that the project measurably contributed to the competitiveness of Serbian agriculture or that the GEF activities have effectively and sustainably secured the globally important eco-systems in the Stara Planina mountainous areas. As it relates to the activities and indicators of each component the outcome is more balanced.

Outcomes towards objectives of Component 1 - The Directorate for Agricultural Payments (DAP) in Sabac and a Managing Authority are both effectively in place and operating and the DAP has recently obtained national accreditation. The DAP fully processes all the subsidy payments in the agricultural sector in line with EU requirements; however it only now is going through national accreditation and EU conferral of management which will, at best, be obtained by summer 2014. Under its current set up and limited staff resources, it is regularly overwhelmed with the large volume of direct payments that it has to process, often at short notice⁶, rather than focus on EU IPARD like rural development grants which was the primary objective for its establishment. In spite of these facts, an EU IPARD compliant payment mechanism is slowly emerging in Serbia. However, the progress with these two institutions cannot be attributed to this project alone, a number of coordinated EU support activities helped with achieving the current results. The location in Sabac has clearly had a negative impact on the DAP in terms of staffing and effective communications with the MAFWM itself and in terms of attracting and retaining qualified staff. Similarly, the move of the MA to Vojvodina, its dissolution and recent reconstitution back in Belgrade have undermined the development of the MA into a credible representative policy body that reflects the regional structural differences. However, the recent completion of the rural development strategy and program does show that this body in spite of its tumultuous history, with Bank support has acquired the capacity to develop a coherent sector policy. While the project did not fully meet the two key indicators defining this component, i.e., a Paying Agency with EU compliant procedures that is accredited, and a Managing Authority with a functioning Monitoring Committee, the structures are substantially in place. Conferral

⁶ This is due to delayed approval of government subsidy policy

of management is expected in 2014. As it relates to the PDO, competitiveness of Serbian Agriculture appears to have substantially grown as can be observed from the growing export volumes. The subsidy policy however left large swath of smaller and medium sized farms that would have benefitted from EU IPARD falling further behind widening the competitiveness gap between the major agronomic regions of the country. The outcome of this Component is rated as ***Moderately Unsatisfactory*** in large part due to distractions that have fraught the establishment of these institutions and the inability to affect policy to help convergence in the sector with well-targeted IPARD measures to help competitiveness of smaller and medium size farms..

Outcomes towards objective of Component 2 - The objective of Component 2 was to improve farmers' access to appropriate technology. Under the Project a competitive applied research and extension service system providing broad range of services was piloted through competitive grant schemes (CGS), while the capacity of the public extension service was strengthened by improving the infrastructure for service delivery and by delivering a training program for accreditation of over 250 farm advisors. At the inception of the project Serbia was at the cusp reforms in the structure of its extension services with a major role to be played by the private sector, a pluralistic delivery mechanism of extension/advisory services and a more demand driven program design. The back tracking on reforms with extension services that took place early on in the project ultimately meant significant restructuring of this component. In particular, farmers were not empowered to guide extension delivery. On the side of the applied research while a number of grants produced quite interesting and practical outputs, the lack of commitment by the MAFWM to the competitive grant model under this project and lack of vision for continued financing of applied agricultural research by MAFWM undermine the sustainability of the activities under this component. Most of the indicators such as the number of accredited extensions services providers was achieved, and bodies such as the Institute for Science Application in Agriculture (ISAA), with its aggressive pursuit of funding from various donors to deliver a variety of training and knowledge programs to extension services and other stakeholders, appear quite successful and sustainable. A similarly positive outcome can be assigned to the comprehensive farm management training program developed and implemented with USDA co-financing for all extension agents provided an understanding of the multifaceted aspects farmers need to take into account in their business and operational planning. The fact remains that productivity and competitiveness increases have mainly taken place on the large farms in Vojvodina that have the resource base to pay for their advisory services and are only marginally dependent on the publicly funded extension services diminish the outcome rating under this component to ***Moderately Satisfactory***.

Outcomes towards objectives of Component 3 –The aim of the component was to improve sustainable land use and ecological management in SPNP. A management plan for the park has been prepared and a number of investments have been made under the project to help with improving accessibility and viability of the residents living in or near the park. The key challenge is to restore livelihoods that will bring back economic life to the region thus preventing the slow depopulation of people and livestock and its return to full wilderness. This was addressed through community-based investments in rural

infrastructure, and individual grants to stimulate rural tourism that facilitate access to the remote villages in the area. While the population in the region has not stabilized yet, there is anecdotal evidence that, given the improved infrastructure and access to services, some younger locals are considering making their life in the region. Livestock numbers have grown including of autochthone breeds, and if the trend of growing livestock numbers continues the prospects for maintaining the large pasture areas are improving. The catalysis provided by the project could be significantly boosted by EU IPARD measures that target “Less Favored Areas” not only aiming at agricultural productivity but also alternative income sources from services such as the hospitality and tourism industry. The delivery of technical advice for the expansion of organic production as well as protection of the regional brand “Stara Planina” for a variety of cheese, agro artisanal activities and home crafts (tanning and weaving) have had a good response and significant adoption. By supporting production but also processing and creating a consumer market (tourists and weekenders) the value chain that will prevent overgrowth of pastures will be secured. While the lack of effective implementation of the SPNP Management plan limits the impact of the project, it is only one factor that will determine the sustainability of the area. Due to the overwhelmingly positive impressions from field visits and beneficiaries (reflected in a brief film) and substantial achievement of most of the indicators under this component support an outcome rating of ***Moderately Satisfactory***.

3.3 Efficiency

The economic and financial analysis for this project was based on the underlying assumption that the project will contribute to the more effective use and absorption of Serbian Government structural funds for agriculture. While delayed, Brussels recent approval of Serbia as a candidate country, and the forthcoming accreditation of the paying agency including the foreseeable conferral of management in mid-2014, the potential benefits from the Project will still yield major benefits to the country largely in line with original estimates but delayed by some 3 years. The capacity to absorb the funds made available from IPARD, of course, is also dependent on the ability of farmers to prepare adequate business plans and overall business acumen by farmers as a result of component 2.

As a candidate country, Serbia has access to EU IPARD funding ranging from EURO 37 to 57 million per annum. While this outcome will not be attributable to this project solely, the rate of return if IPARD funds are fully absorbed relative to the small investment of some US\$9.5 million (EURO 7.5 million) under this components is between 4to 7 fold each year for the period of IPARD 2013- 2020. Using various absorption and plausible funding scenarios *the Net Present Value of these activities under component 1* are as follows:

<i>IPARD funding</i>	<i>Net Present Value</i>			<i>Internal Rate Of return</i>		
<i>(US\$ million)</i>	<i>At 10% absorbed</i>	<i>At 15% absorbed</i>	<i>At 20% absorbed</i>	<i>At 10% absorbed</i>	<i>At 15% absorbed</i>	<i>At 20% absorbed</i>
<i>45.00</i>	-1,778,381	404,089	2,586,559	-14.00%	14.00%	31.00%
<i>60.00</i>	-323,401	2,586,559	5,496,519	7.00%	31.00%	51.00%

75.00	1,131,579	4,769,029	8,406,478	20.00%	47.00%	70.00%
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In addition, the paying system is not only a requirement for IPARD but will also be used for later implementation of EU CAP funds and thus will generate benefits beyond that period. As such, in spite of their significant deficiencies, the two components are to be considered highly efficient in terms of the potential returns to which they contribute to the country.

For component 2 taking the conservative approach of the M&E report and a GVA growth of EURO 3.0 million is assumed per year by maintaining the practices and technology developed with project support, the following outcome can be calculated stemming purely from the competitive grants for research and extension. At a constant rate of growth over 20 years and a discount rate of 12% the investment under the component would generate a Net Present Value of the investments of US\$ 2,054,853 with an IRR of 17%. Taking data from a sample of projects based on cost/benefit analysis performed by beneficiaries, and assuming a wholesale adoption across the sector, the GVA grows to an astonishing US\$392 million.

For Component 3. GEF investments in sustainable farming in the SPNP were of a pilot nature and included the reintroduction of traditional breeds and products, a substantial expansion of organic farming, creation and registration of a collective brand “Stara Planina”, a decline in pasture degradation and initiation of agri-tourism with local infrastructure investments and grant support to households and communities. There was no quantification of the benefits from improved pasture management in part due to a lack of an adequate baseline, nor were the environmental benefits estimated as the effective implementation of the management plan of the SPNP remains lacking. From the survey undertaken in Stara Planina for the grant program, 68% of recipients claim an increase in income, while 21 % did not report a change and another 5% did not know. Overall, 42% of the recipients claim income increases of up to 50% while another 16% had incomes above 50%. Finally as required by GEF, the PAD included an Incremental Cost Analysis to justify funding for the component and is reflected in annex 3.

As it relates to project efficiency and costs incurred, the cost of goods, services and works appear within the regional averages. Cost of some items were higher than estimated mainly because the designs had not adequately taken into account the need for auxiliary investments and the national building code. For example at the visitor center for Serbiasume and at a training center, septic tanks had to be built subsequently. The poor utilization of vehicles purchased by the project was also not an optimal use of resources. On balance relative to the utilization of funds while only about 2/3 of project resources were absorbed in component 1 and 2, component 4 expenditures were fully absorbed mainly as a consequence of the project closing date extensions to effectively implement the GEF financed component.

3.4 Justification of Overall Outcome Rating

Rating: ***Moderately Unsatisfactory*** for the PDO. The project's outcomes related to the PDO is a mixed bag. While recent agricultural statistics indicate higher productivity in Serbian Agriculture, this outcome is difficult to attribute to the activities under the project. The subsidy policy in the country has, over the duration of the project focused on uniform area payments that overwhelmingly benefited large field cropping farms, especially wheat and maize producers that are predominantly found in the agronomically favored Vojvodina region⁷. It needs to be noted in this context, that these direct payments have been quite successfully handled by the DAP which very substantially benefitted from the capacity building under the project. However, there is no conclusive evidence that the capacity of DAP substantially affected productivity in the less favored Central or Southern parts of Serbia. The competitive grants did produce some interesting technical research that could significantly benefit the country if adequately replicated and adopted on a larger scale. A willingness to introduce a more pluralistic structure of the extension and advisory services and a continued program to support to financing of competitive grants for applied research and training are necessary to reap the full potential of the investments made by the project. Overall, here is a need for a clear policy vision that would be more inclusive of small and medium farmers found in these regions, however this may well be something that is beyond the scope of influence and the investments under this project.

Achievement towards GEO is somewhat easier to assess, simply because the indicators have been substantially achieved and field visits do reflect a certain economic dynamic and slowly increasing livestock numbers (only in a limited fashion for those breeds supported under the project) returning to the Stara Planina region. More livestock means less forest encroachment, a key issue in the region, and supports the economic revival necessary to preserve livelihoods and the natural and cultural assets of the region. On the flip side, the lack to date of a support program that will continue these investments, and the lack of implementation of the SPNP management plan for pasture biodiversity, somewhat undermine the sustainability of the gains achieved.

For these counter acting reasons the outcome of the project relative to its GEO, in spite of the catalytic impact it has on improving both livelihood and sustainability of the Stara Planina region is rated as ***moderately Satisfactory***.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

Given the nature of the project, focusing mainly on institutions had no direct poverty or gender focus. Its investment under GEF however clearly aimed at improving livelihoods in one of the poorest areas of Serbia. Elderly people living in the remote villages where rural infrastructure was rehabilitated (roads, bridges) will benefit from increased economic activities from more traffic and dynamic farming which might with time also

⁷ Also reflected in the agricultural chapter of the most recently produced CEM of Serbia

lead to a slight repopulation. More population and more economic activity will increase the value of their small holdings and attract crucial local government services such as better access to health services, the return of schools and a more involved approach in the development of these remote areas.

If or when a future rural development program that includes measures for less favored areas, along IPARD principles is adopted livelihoods for smaller more remote farms the benefits from the experience gained in Stara Planina will be exponential. The uniform area payments helped in improving competitiveness but only provided limited benefits to small diversified farms with limited access to land.

(b) Institutional Change/Strengthening

Unfortunately, one has to draw the conclusion that the project was not able to reach its institutional strengthening objectives as laid out at design. While the project significantly contributed to strengthen the capacity to the DAP to implement agricultural policies, the legal and regulatory grounding of both the DAP and MA and their budgetary independence remains unclear. However the recent EU approval of Serbia as a candidate country will renew the focus and, in all likelihood, the political will to make the DAP and MA not only functional but also rooted in an adequate legal and regulatory framework in line with EU requirement for IPARD. As it relates to the institutional capacity building with extension services and competitively funded research little progress has been made. In fact, the return to public ownership of the regional extension offices including all the land and other assets and the cessation of competitive extension grants, which existed pre-project, is a retrenchment from pluralistic demand driven extension and advisory services.

Nonetheless, the project also had significant beneficial institutional impacts, especially as it relates to the work with rural grants and infrastructure in the Stara planina where local municipalities, communities, interest groups and government agencies coalesced to define priorities. This capacity to reach consensus and prioritize and play an active role in determining where and how public resources are spent will serve the region well for any future EU LEADER programs that help regions develop a strategic vision for which then funding can be sought for priority investments.

(c) Other Unintended Outcomes and Impacts (positive or negative)

There are not really any unintended outcomes from this project, as it primarily deals with institutions that have specific functions in a country on the threshold of joining the EU.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

The summary of the project closing stakeholder workshop is attached in annex 6.

4. Assessment of Risk to Development Outcome

Rating: **Moderate**. In spite of the lack of clear vision and continuity of Serbia's government as it relates to the agricultural sector, overall the activities related to the establishment of EU compliant systems have reasonable sustainability prospects simply because EU accessions remains a key objective for the Serbian authorities. The risk to Development Outcome for component 1 consequently is low. The effectiveness of the

current structure of the extension services and funding of research is suboptimal, and is likely to undergo further changes as part of the EU accession process. There is full understanding of the crucial importance advisory services have to play to optimize the impact of EU IPARD funding and absorption capacity. The reforms to arrive at a pluralistic demand-driven extension system providing information that is useful to the farmers will entail political backlash from those who benefit from the status quo, and it is unclear whether the immediate prospects to pre-accession funding will reignite the willingness of policy makers to such a model. With EU IPARD funding access becoming a reality, resources for less favored regions also are likely to become available and the project provided a model to help improve livelihood and environmental sustainability in remote areas such as Stara Planina.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating: ***Moderately Unsatisfactory***. Several activities were prepared in parallel and eventually combined under this project. In line with a reforming and modernizing team at the MAFWM, and in collaboration with the EC Commission, a set of activities were agreed that would contribute to align the government's strategy with parallel EC efforts supporting Serbia's pre-accession path. Although the Bank had prepared a sector study before project preparation identifying critical policy gaps and issues affecting the potential of Serbia's agriculture, it had not sufficiently taken into account the changing mood in the country and potential political backlash that would follow once the reformist government fell. EU accession was considered uncontroversial however also meant that the institutional commitment to reforms at lower levels in the Ministry would be necessary for the reforms and for the project to be successful. The subsequently elected government had a more conservative approach to the sector with a public sector extension services delivery focus, block grants for research without a competitive element, and a subsidies policy focusing on area payments at the expense of rural development financing, which, while largely in line with EU objectives, disproportionately benefited large specialized farms relative to the smaller family farms with diversified production thus deepening the competitive gap.

(b) Quality of Supervision

Rating: ***Moderately Unsatisfactory***. Serbia required a lot of hand holding in supporting the Project Implementation Team to handle Bank procurement procedures and contract management. The lack of continuity with TTLs was not conducive to provide this intensive support that was necessary given the lack of continuity at the administration level. In two distinctive periods the Bank lacked proactivity in resolving poor project performance. This included during the long lapse until effectiveness, in late 2008 and later after effectiveness when it was recognized that amendment to the legal agreement was necessary for disbursement under component 2 but was processed only some 16 months later in March of 2010. In the last 3 years of project implementation supervision became more proactive and effective in restructuring and cancelling activities that were not progressing. A pragmatic approach was used to respond to the strong commitment to

delivering activities particularly as related to the GEF objectives. The project was considered low risk in terms of social and environmental safeguards risks, consequently there was only occasional participation by safeguards colleagues in the regular supervision missions. The GEF activities generally started very late in the project, but, once started, progressed quite swiftly and were the primary reasoning for the repeated project closing date extensions.

(c) Justification of Rating for Overall Bank Performance

68. Rating: ***Moderately Unsatisfactory*** – The Bank’s overall performance is uneven with a lack of clarity at preparation, merging two substantially disconnected operations (IBRD, GEF) pushing for a tight delivery deadline and underestimating the risk posed by political upheaval resulting from elections as well as government reshuffle. Implementation was characterized by frequent changes in Task Team Leadership which has been disruptive with periods of near inactivity and very long response times to clearing No Objection requests and overall responsiveness with restructuring at crucial points in time. In the later part of the project engagement by the Bank and frequency of supervision intensified and the Bank showed a clear willingness to engage with the client to get the project to work. In spite of this improvement, overall Bank performance is rated ***Moderately Unsatisfactory***

5.2 Borrower Performance

(a) Government Performance

Rating: ***Unsatisfactory*** - as reflected above, with the frequent changes in government, there was a lack of vision at the MAFWM as to how the project could support the modernization and competitiveness of the sector. The various succeeding administrations lacked coherence and continuity and made decisions that effectively undermined the sustainability of some of the activities funded by the project. The treatment of the DAP and the MA are good examples of this lack of coherence at the policy level. The handling of contracts and the complete distrust between the various incoming administrations as to how implementation was handled by its predecessor led to systematic “investigations” to try to identify misappropriation, and had the corrosive effect of completely undermining the decision making process at the PIT. Project implementation effectively became politicized and decisions were needlessly delayed due to often unwritten “administrative” procedures to stall effective decision making and avoid accountability.

(b) Implementing Agency or Agencies Performance

Rating: ***Moderately Satisfactory*** - Given the above described climate the PIT faced huge administrative challenges and failed to effectively coordinate the implementation of the project. Due to the lack of continued support from government, the project decision making process was pushed to the highest common denominator with the Minister and his cabinet the only persons authorized to sign contracts, or make decisions. The PIT was effectively devolved to a glorified courier service handling request from the field by passing them on to the Ministry level and waiting for either decision or clearances. At times several months passed before any decisions would be made and then several more months for them to be implemented. The PIT tried to overcome these challenges and its

efforts were beneficial for finalizing activities in Stara Planina for instance but also in properly closing the competitive grants program.

(c) Justification of Rating for Overall Borrower Performance

71. Rating: *Moderately Unsatisfactory* - The Borrower lacked clear commitment to the objectives and activities under the project once a new administration took charge. The suspicion towards the previous administration and ensuing review of all contracts and payments without real grounds was highly disruptive created an atmosphere of fear and lead to project management decision paralysis. The willingness to introduce reforms was also affected by the lack of clarity of the schedule leading to EU accession that included extraneous political considerations and delayed the process.

6. Lessons Learned

The Bank needs a clearly agreed vision when negotiating a project. While project preparation took nearly 2.5 years in the end there was considerable pressure to deliver in the given fiscal year. Negotiations should probably not have been held with a caretaker government that does not really have the mandate to push through deep rooted administrative reforms opposed by a number of stakeholders and lacking buy in from the new administration. Suspending preparation until more clarity as to the policy direction may have helped in formulating assistance that had more buy in by policy makers. However, when administrations change as frequently as they have in Serbia, the uncertainty and lack of continuity cannot effectively be eliminated.

In a political environment as dynamic as Serbia's the frequent change of TTLs may not have given the project the attention and management continuity required for a strong dialogue and successful implementation. Institutional development takes time and needs close coordination between all the various actors which is easier to realize with continuity in the Bank's team. However, even when the Bank does everything right, in the end government may take decisions based substantially on political factors such as with the choice in location for the DAP and the MA.

Agricultural and Rural Development policy within the EU neighborhood is largely determined by the EU who is the largest donor and policy influence to the sector while the Bank plays a complementary role only. This means that Bank interventions have to substantially agree with EU objectives and schedules and take an opportunistic approach to close gaps that EU support does not finance but are necessary for the institutional systems to function.

The Bank needs to better assess the risk of engaging in institutional capacity building in the agricultural sector in pre-accession countries given that perspectives of readiness towards a candidate State can change for reasons extraneous to the sector or the project. In the case of this project the delaying of the candidacy status from 2008 to 2012 had a significant impact on the borrower's commitment to institutional structures in alignment with EU requirement given that IPARD funding would remain unavailable.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies



**Republic of Serbia
MINISTRY OF AGRICULTURE,
FORESTRY AND WATER MANAGEMENT
401-00-1218/2013-06
26.11.2013.
Belgrade, Serbia**

The World Bank Office
Republic of Serbia

Mr. Tony Verheijen
Country Manager
Bulevar Kralja Aleksandra 86
11000 Belgrade

Subject: Comments on the Draft Implementation Completion and Result Report for Transitional Agriculture Reform Project (Loan No.7465-YF, GEF TF90454-YF)

Ref: Your letter from November 13, 2013 and Draft Implementation Completion and Result Report for Transitional Agriculture Reform Project (Loan No.7465-YF, GEF TF90454-YF)

Dear Mr. Verheijen,

Thank you for the Draft Implementation Completion and Result Report for Transitional Agriculture Reform Project (Loan No.7465-YF, GEF TF90454-YF).

Ministry of Agriculture, Forestry and Water Management conducted review and few comments are inserted in the attached document. Please reflect our comments in the document.

Thank you for your cooperation.

Sincerely,

STATE SECRETARY

(b) Cofinanciers

(c) Other partners and stakeholders
(*e.g. NGOs/private sector/civil society*)

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
I. Strengthening the Agriculture and Rural Development Support System	6.00	3.45	57.7
II. Building Knowledge and Capacity of Agricultural Producers and Processors	10.10	6.10	60.5
III. Management of the Stara Planina Nature Park	4.50	4.30	95.6
IV. Project Management and Coordination	1.50	1.30	87.0
Total Baseline Cost	22.10	15.15	
Physical Contingencies	0.00	0.00	
Price Contingencies	0.00	0.00	
Total Project Costs	22.10	15.15	67.5
Front-end fee PPF	0.00	0.00	
Front-end fee IBRD	0.00	0.00	
Total Financing Required	22.10	15.15	

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
IBRD Loan	NA	17.00	10.85	63.5
GEF Grant	NA	4.50	4.30	95.6
Borrower	NA	0.63	0.00	0.0
TOTAL		22.13	15.15	68.3

Note: This was a EURO loan and the above expenditures were converted back to US dollars. While some US\$3.0 million were cancelled in February 2012, at closure in May of 2013, another US\$3.00 remained uncommitted and due for cancellation.

Annex 2. Outputs by Component

Component 1: Strengthening the Agriculture and Rural Development Support System

This component has supported establishment of a transparent rural development programming and payment system. The MAFWM has recently established a Department for Rural Development (DRD) including the Division for Programming and Publicity containing two groups: the Group for Technical Assistance and the Group for Programming. The Department also includes a separate Group for Extension Services. The Department is planned to serve as a future Managing Authority (MA) for IPARD, tasked with programming and monitoring of the IPARD program and coordination of the IPA rural development structures.

A Monitoring Committee (MC) is scheduled for establishment at end-2013. It will include a recently established inter-ministerial council (agriculture, economy, finance, environment, local administration, education and social and labor), an expert group (institutes and faculties) and a Council for Farmers' Associations.

The Ministry of Finance (MoF) is drafting a law on the implementation of IPA. Once enacted, the MAFWM will prepare a decree on the decentralized management of EU financial assistance under IPARD. This decree will designate the MAFWM Department of Rural Development as the designated MA and the MAFWM Directorate for Agrarian Payments as the designated Paying Agent.

A National Rural Development Program of the Republic of Serbia, 2010-2013 (NRDP), which was adopted by government on 28 October 2010, defines the following strategic goals for the sector: (i) improving the competitiveness of the agricultural, forestry and food sectors; (ii) environmental protection, conservation and improvement in accordance with sustainable rural development policies; (iii) preparation and promotion of local rural development initiatives and strategies for improving the competitiveness of and the quality of life in rural areas; and (iv) improving the quality of life of the rural population through increasing the possibilities for economic activity expansion, both in the agricultural production and processing areas as well as in the non-agricultural economy. A new agriculture and rural development strategy and plan (the Strategy) for the period 2014-2020 is under preparation. The development of core principles and key elements of the Strategy were supported under the project.

The Government has also recently passed a law on incentives/subsidies in agriculture and rural development, which sets out the conditions for subventions in agriculture and rural development in Serbia. The law includes: (i) incentives for investments in agriculture to improve competitiveness and achieve quality standards; (ii) incentives for rural development including agro-ecological measures, organic production and animal welfare; and (iii) support to diversify the rural economy. The law envisages that 70-80 percent of subventions will be direct aid payments, with the balance financing rural development

measures. In 2012, area-based payments (production-based direct aid) formed 90% of government agriculture and rural development subventions. Measures under this law are not fully IPARD compliant.

Based on the NRDP, a Serbian IPARD program 2013 has been drafted and undergone several unofficial consultations with the European Union Directorate General for Agriculture as prerequisite for official submission to the Commission of the program by a candidate country. The Program foresees measures under Axis I – Improving the competitiveness, and measure 501 - Technical Assistance. The beginning of implementation of the IPARD Program 2013 is foreseen in 2015 for the MA, MC and PA; and iv) receiving EC's accreditation and conferral of management decision. The EC Progress Report for 2012 outlines the importance of appointing the MA, and staffing of the DAP, while building inter-ministerial mechanisms for coordinating rural development policies. It also emphasizes the need to (i) bring direct payments in Serbia into line with EU rules, decoupling direct aid payments from production; (ii) strengthen the agri-environmental orientation of Serbia's rural development policy; (iii) establish a farm accountancy data network (FADN) – a pilot FADN is presently being implemented by the Institute for Science Application in Agriculture (ISAA); (iv) strengthen the administrative structure and legal provisions for producer groups; (v) strengthen the administrative capacity of the institutions involved in controlling food chain safety particularly the MAFWM veterinary, phytosanitary and national reference laboratories; and (vii) strengthen the administrative capacity for the management of common market organizations.

Overall, project support to the MA and DAP has been fractured and unsystematic, due primarily to weak management and frequent changes of administration in MAFWM, exacerbated, until recently, by the retreating prospect of achieving EU Candidate Country status. Over its life, the project has supported three variations of the MA, while, at least initially, the DAP management showed little interest in project support, benefiting instead from a strong stream of government funding that led it to pursue the early and, ultimately, unsuccessful establishment of an IT-based agrarian payment system. The underutilization of STAR funds largely centers around the inability of the MAFWM to apply a consistent policy to the development of these agencies and of an IPARD-compliant agriculture and rural development strategy and program.

Nonetheless, the STAR project has made important contributions to both agencies. It has provided vehicles, equipment, training and key staff to the MA over an extended period, has supported the development of the IPARD 2013 program, including its ex-ante review and is currently supporting the preparation of the IPARD 2014-2020 program. The PA has also received substantial project support in the form of vehicles, office and computing equipment, equipment for on-the-spot field control, technical assistance for IPARD-compliant payment systems development and subsequent implementation, financing for key IT staff, and extensive staff training in payment systems application. That both agencies are expected to receive national accreditation in 2013, with EU accreditation likely in 2014 and that an IPARD compliant NRDS has been developed, can, in no small measure, be attributable to STAR support, however, it must be recognized that both agencies could have been much further advanced in their accreditation processes, had the

MAFWM maintained a consistent vision of and commitment to the EU integration process.

Overall expenditure under this component amounted to US\$ 3.51 million over 40% less than envisaged at appraisal.

Component 2: Building Knowledge and Capacity of Agricultural Producers and Processors

This component has supported a Competitive Grant Scheme (CGS) for applied research and extension service projects implemented by research institutes, farmers associations, NGOs, private sector extension agents, etc. (the CGS for extension service grants was open for all non-public agriculture extension service providers). It has also supported the public agricultural extension system through technical assistance and training, and extension-related equipment, such as IT and vehicles.

In 2010, Serbia's agriculture stations in charge of delivering extension service to farmers were converted to limited liability companies with 100 percent Government ownership and integrated into the MAFWM supported by a new law on extension services.

This approach was different to that negotiated with MAFWM management at project design, which envisaged a more independent, publicly financed but privately owned extension service, with strong stakeholder engagement in its management, wherein extension funding would be allocated by a new MAFWM extension department on a more competitive basis, both between agricultural sectors and agricultural stations. The project also envisioned performance-based extension contracts with a strong, independent monitoring and evaluation role for the ISAA.

Subsequent project-led discussions with a wide range of advisors and agricultural stations resulted in a paper on "*Management of agricultural extension work in Serbia*", which was agreed by MAFWM management. The project also reinforced the MAFWM Agriculture Extension Group and initiated an innovative training program working on close cooperation with USAID to train extension officers in farm management and business planning. The Project has also supported the establishment of an Agricultural Research and Extension Council (AREC), which awarded 52 extension service and 24 applied research contracts to non-public extension service providers with an objective to expand the network of farm advisors and implement some non-traditional instruments for transferring knowledge and innovations, such as media, study tours for farmers, farmers exchange programs, etc.

13. Following the project extension to 15 June 2012, applied research and extension service grants contracts were extended. However, in all cases, those extensions were for short periods and provide only limited opportunity to complete project activities, due, initially, to the delayed assembly of the Agriculture and Research Extension Committee (AREC) followed by a 20-day lag within the MAFWM in signing annexes to extend grant contracts, which were finally signed only on 20 April 2012. Of the original 24 applied research grants, 2 were never initiated; 20 were extended; and 2 were not

extended due to their completion. Of the 52 approved extension grants, 2 did not sign contracts; 2 were cancelled prior to the 1st tranche payment; and one at the time of the 2nd tranche payment. Of the remaining 47 grants, 46 have been positively assessed by the ISAA, which is in charge of coordination, monitoring and evaluation of all extension work in Serbia; and 27 grants were proposed for extension. This decision was subsequently confirmed by AREC and 27 extension service grants were extended to 15 May 2012. ISAA evaluated all extension grants following their closure and submitted a final report on 10 June 2012.

The extension grant program was evaluated by the STAR monitoring and evaluation contractors. They estimated that a “minimum 2,100 farmers have been involved in the projects” and that “most of the projects indicate that a minimum of 2,550 farmers are benefitting from STAR”. In addition, 2,125 processors were determined to have benefitted from the program. A separate PIT survey of extension grant managers estimated about 28,000 farmer beneficiaries from the extension grant program. Grant managers reported a relatively high level of satisfaction with the extension grant program (see Table 1 below).

For the applied agricultural research projects, the M&E report recorded that 55 new technologies have been developed and disseminated thanks to the applied research funding and that a minimum of 1,114 farmers were directly involved in the projects with a minimum of 1,094 indirect farmer beneficiaries. A further 630 processors participated in the research, while a minimum of 710 processors benefitted from the project results. Applied research project managers expressed a high level of satisfaction with the grant program.

Table 1. Grant Holder Perceptions of the Impacts of their Grants

Extension Grants		Applied Research Grants	
• New ideas for product and technology development	83%	• New ideas for product and technology development	100%
• Increased competences of farmers	82%	• Cooperation with other institutions	90%
• Increased possibilities to cooperate with other institutions	76%	• Quality of products	90%
• Increased cooperation with farmers	73%	• Increase in competences and in farm income	85%
• Increased farm income	67%	• Knowledge of more effective production methods	85%
• Larger networks	61%	• Knowledge on sustainable agriculture	70%

- | | | | |
|--|-----|------------------|-----|
| • Increased productivity through more effective production methods | 61% | • Larger network | 70% |
| • Increased interest in rural development by media | 59% | | |
| • Increased local rural development capacities | 56% | | |

Component 3: Management of the Stara Planina Nature Park

The following items were completed as part of the four main project activities under this component:

Increase populations of endangered breeds of farm animals inside the SPNP

The following breeds were identified as endangered: Domestic Mountain Pony, Balkan donkey, Busha cattle, Mangalitza pig, group of Zackel sheep breeds (Bardoka Sheep, Pirot Sheep, Karakachan Sheep and Krivovir Sheep), Balkan goat and Svrlijig chicken. The activities aimed at increasing the number of livestock of rare animal breeds through grants for interested households and individuals. A total of 66 grants were allocated with around RSD 36 million (EUR 360,000) of investments. These projects were implemented in 2010 and 2011.

Management plan for SPNP prepared in participatory manner with communities, landowners and Srbijašume. The plan for SPNP has been developed by the SPNP Managing Authority Srbijašume. The plan was adopted in April 2010 by the Ministry of Spatial Planning and Environment. Visitor Center was constructed in Vrelo locality. Additional activities include: engagement of 22 rangers, demarcation of border line of Nature Park core zone and Nature Park border, application for the SP Collective Brand and application for SP Designation of Biosphere Reserve.

Area of abandoned and degraded meadows/grasslands and pastures restored through local grants. A total of 49 projects were approved (29% of all approved projects) in the amount of RSD 24 million (approximately EUR 240,000). In the period June-October 2010, project team reports that 2,250 ha of pilot pastures (Mucibaba, Vrtibog, Kovacevo, Ponor) were pastured by 400 livestock units. In 2011 the pilot pastures were pastured with 532 livestock⁸, covering territory of more than 3.000 ha.

Increase in number of RD grants to SPNP municipalities. Within the framework of the grant program, three funding cycles (call for applications) were launched. In the first two rounds a total of EUR 1,000,000 was disbursed and the rest (EUR 230,000) was allocated through a third round. A total of 177 grants were approved in five sub-programs (76 in the first round, 89 in the second round and 26 in the third round).

⁸STAR Status of Agreed Outcome Indicators, 16.11.2011.

Annex 3. Economic and Financial Analysis

The economic and financial analyses were based on the underlying assumption that the Project will (i) contribute to the more effective use and absorption of Serbian Government structural funds for agriculture; (ii) improve farmer access to appropriate technology, raising the profitability and competitiveness of Serbian agriculture; and (iii) in the case of the SPNP, pilot profitable conservation-based farming practice having wider application in Serbia. These assumptions while delayed due to the lapsing candidacy status still hold substantially true.

Potential benefits stemming from improved payment system PA and MA, Component 1
Approximately 3.5 million US\$ have been spent on supporting the PA and MA under the project. Of course, this does not present the totality of the resources invested, as the EU and the government both have supported these facilities. As Serbia achieved candidate status in March 2013, it is estimated it will receive each year €12 per hectare of agricultural land in IPARD. This projection is based on the experience of the new member states, where the average SAPARD/IPARD⁹ allocation from 2000 to 2011 was € 12.8 per hectare of agricultural land which amounts to some EURO 57.0 million (US\$74.0 million) per calendar year. However, recent discussions with the EU seems to point out a lower per ha level that would amount to around EURO 40.0 million (US\$52.00 million) per annum. The table below assumes that the project investment only generated 20% of benefits from access to IPARD, and different funding scenarios and absorption capacities with the resulting Net Present Value and Internal rate of Return based on 8 year funding cycle from 2014 to 2021 (8 year funding cycle) and a discount rate of 12% with a continuous staff increase at the Paying Agency to the required levels of a similarly sized country. The lower end of absorption of 10% is considered an absolute minimum, and is the critical variable on the economic benefits of this component. Changes in absorption rates make a dramatic difference on NPV and rate of return. It needs to be noted that once the Common Agricultural Policy sets in with Serbia's membership, these two bodies will continue to generate significant returns.

<i>IPARD funding</i>	<i>Net Present Value</i>			<i>Internal Rate Of return</i>		
<i>(US\$ million)</i>	<i>At 10% absorbed</i>	<i>At 15% absorbed</i>	<i>At 20% absorbed</i>	<i>At 10% absorbed</i>	<i>At 15% absorbed</i>	<i>At 20% absorbed</i>
<i>45.00</i>	-1,778,381	404,089	2,586,559	-14.00%	14.00%	31.00%
<i>60.00</i>	-323,401	2,586,559	5,496,519	7.00%	31.00%	51.00%
<i>75.00</i>	1,131,579	4,769,029	8,406,478	20.00%	47.00%	70.00%

⁹ MAFWM projections based on SAPARD 2000-2006 allocations; IPARD 2007-2011 allocations to the Republic of Croatia (who became an EU member state in July 2013); and IPARD 2009-2011 allocations to Former Yugoslav Republic of Macedonia.

Potential Benefits from Farmer access to appropriate technology, Component 2.

Some US\$ 6.11million were invested under this component. STAR support to the competitive grant schemes will, sooner or later, materialize into benefits for the farmers and food processors in Serbia once the dissemination and adoption of the technology and practices have been absorbed in the sector.. Figures from the Monitoring Evaluation Report are based on two extreme assessments of the *expected impacts*. One assessment is based on sector average productivity in agriculture and food processing and a theoretical increase in these indicators stemming from the projects for those farmers and food processors able to take advantage of the project results. The other is based on the estimates from the project holders, where the project holders have provided STAR PIT with estimates of the economic benefits from the projects (the so-called cost benefit tables), when and if the results are disseminated to the sector.

According to the first approach, the total annual expected impact is a growth in GVA of EUR 3 million and an average of EUR 1 per 1 EUR invested in support to the projects, if the impacts are generated within one year. If the dissemination period is assumed to be 3 years, the impacts will be EUR 1 million the first year, EUR 2 million the second year and the full impact will be EUR 3 million the third year. The aggregated contribution to the GVA will be EUR 6 million over three years, equal to EUR 2 per 1 EUR invested. ***Assuming this rate of growth in Gross Value Added is maintained over 20 years and a discount rate of 12% is assumed the Net Present Value of the investments under this component amounts to US\$ 2,054,853 with an IRR of 17%.***

According to the second approach, project beneficiaries provided their own cost benefit assessment of the project once benefits have been fully absorbed in the sector. Based on this selection of projects, representing a total of EUR 517,000 in investment support from STAR, and assuming all other variables to remain constant, the potential benefits in terms of GVA increase would amount to some EURO 392 million (US\$500 million).

The big difference is that the first approach only estimated the benefits for a share of the farmers and food processors taking advantage from the projects, while this second approach estimates the full advantage for the sector taking the full production of a given crop or animal into consideration. There are very big variations from one project to another, and some of the projects generate very big benefits, which multiplied to full sector level become quite extraordinary.

Benefits from GEF financing under Component 3

Cost: Total expenditures under the Baseline Scenario were estimated at **US\$8.85 million**, including **US\$1.78 million** from the Government of Serbia municipal budgets.

Benefits: Implementation of the Baseline Scenarios without GEF funding were expected to result in only limited protection of biodiversity within the production landscape in and around Stara Planina and limited integration of environmental sustainability measures into local agricultural practices.

Many of the initiatives listed under the Baseline Scenario are grant or loan programs for rural communities and farmers for basic rural development activities, and are consistent with the criteria under Pillar 2 of the EU Common Agricultural Policy (CAP). However, since these programs are essentially demand-driven, the degree to which they will support sustainable rural activities such as eco-agriculture, eco-tourism and other environmentally-friendly entrepreneurial activities is uncertain. Only very limited resources were available, mainly from local NGOs, for public awareness and planning activities to strategically guide and assist local stakeholders as they transition to environmentally friendly agricultural practices including maintenance of agro-biodiversity. The lack of a rural development program with focus on support to less favored areas limits the potential impact of the GEF investment. While investments made with GEF appear sustainable and benefit from a great level of beneficiary satisfaction the lack of a measure in the rural development strategy at present limits the potential offered by the project activities to expand.

Management of the SPNP almost exclusively focused on timber production, with little capacity for or investment in ecological management, biodiversity protection or monitoring. Thus, under the Baseline Scenario, the valuable landscapes around the national park were to continue to be degraded and provide limited environmental benefit over the next decade. The adoption of the Management Plan offers basis to take a more integrated approach to the management of the SPNP and the surrounding territories. However, implementation of the plan requires substantial resources and commitment to a broader approach than the narrow focus on resources generating timber production. In an environment where forestry services are expected to generate most of their own revenues, aligning of the priorities for implementation of a management plan that focuses on ecological management and biodiversity protection which is mostly an operational cost is not likely to take place unless the services are restructured separating policy and enforcement services from revenue generating timber operations and sales.

The project's GEF activities were subjected by a STAP review and underwent an incremental cost analysis, the matrix of which is attached hereby.

Incremental Cost Matrix

Component	Category	US\$ million	Domestic Benefits	Global Benefits
Support for Environmentally Friendly Agriculture and Rural Development	Baseline	3.9	Functioning but inefficient service delivery for rural development programs	On a demand-basis some governmental rural development grants may be requested by local farmers for environmentally friendly agricultural activities
	With GEF Alternative	7.9	Improved service delivery for all rural development programs; increased agricultural production	Increased understanding and implementation of environmentally-friendly agricultural and rural development activities
	Incremental Benefit	4.0		
Building	Baseline	4.6	Limited capacity for research,	Little attention paid to raise

Knowledge and Capacity for Eco-Agricultural Producers and Processors			extension and advisory services, particularly for non-agricultural activities in rural areas	understanding and awareness of how to integrate environmental principles into landscape production areas
	With GEF Alternative	7.65	Improved capacity agricultural production	Dedicated research for eco-agricultural and sustainable tourism operations, which will have significant impact on not only other research and extension programs, but also the impact of national rural development grant schemes
	Incremental Benefit	3.03		
Sustainable Land Use and Ecological Management of the Stara Planina Nature Park	Baseline	0.04	Limited capacity to plan and implement protected area management in Nature Park; limited public awareness, no comprehensive strategy for improving natural resource management	
	With GEF Alternative	1.77	Increased opportunities for alternative income generation in rural communities; increased capacity to manage protected area; creation of opportunities for education and nature oriented tourism	Sustainable conservation management of Nature Park natural resources; increased awareness and use of biodiversity-friendly agricultural activities; transboundary collaboration with Bulgaria
	Incremental Benefit	1.73		
Project Management	Baseline	0.29	Not applicable	
	With GEF Alternative	0.62		
	Incremental Benefit	0.33		
Totals	Baseline	8.85		
	With GEF Alternative	17.96		
	Incremental Benefit	9.11		

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Julian Lampietti	Sector Leader	LCSSD	Primary TTL
Aleksandar Nacev	Senior Agriculturist		Agronomist
Agnes Kiss	Regional Environmental and Safeguards Advisor	ECSEQ	Env. Safeguards
Pierre Olivier Colleye	Senior Microfinance Specialist	LCSAR	Rural finance
Tijen Arin	Senior Environmental Economist	EASER	Initial TTL
Paula Lytle	Social Social Development Specialist	AFTCS	Social Safeguards
Olivera Jordanovic	Operations Officer	ECSAR	Operations
Natalia Otel	Junior Professional Associate		Operational Support
Nikola Ille	Senior Environmental Specialist	ECSN	Rural Development
Nicholay Chistyakov			Financial Mgnt
Aleksandar Crnomarkovic	Senior Financial Management Specialist	ECSEQ	Financial Mgnt.
Plamen Stoyanov Kirov	Senior Procurement Specialist	LCSPT	Procurement
Garry Smith	Agricultural Specialist, FAO		Ag Specialist
Solvita Klapare	Environmental Economist	ECSN	Operational Support
Supervision/ICR			
Aleksandar Nacev	Senior Agriculturalist		Initial TTL
Sari Soderstrom	Senior Manager	AFTSN	Third TTL
Michael Carroll	Consultant		Second TTL
Holger Kray	Lead Agriculture Economist	LCSAR	Fourth TTL
Olivera Jordanovic	Operations Officer	ECSAR	Fifth TTL
Solvita Klapare	Environmental Economist	ECSN	
Meeta Sehgal	Rural Development Specialist	ECSAR	
Nikola Ille	Senior Environmental Specialist	ECSN	Env. Sfgu. Specialist
Garry Smith	Agricultural Specialist, FAO		Ag and RD Specialist
Daniel Gerber	Rural Development Specialist	ECSAR	ICR author
Ama Esson	Program Assistant	ECSSD	Admin. Support

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY05	4.43	35.12
FY06	25.09	113.92
FY07	41.83	121.41
FY08	2.2	1.07

Total:		271.52
Supervision/ICR		
FY08	24.40	48.63
FY09	37.42	108.09
FY10	31.54	90.12
FY11	15.86	66.41
FY12	17.17	70.65
FY13	12.75	79.95
FY14	2.19	6.75
Total:		470.60

Annex 5. Beneficiary Survey Results
(if any)

Annex 6. Stakeholder Workshop Report and Results

PARTICIPATING IN A BETTER FUTURE – A VISION FOR REGIONAL DEVELOPMENT IN SERBIA

Pirot, 29-31 May, 2013

Report from the discussion sessions at the workshop

The workshop was organized to build awareness of current trends in agriculture policy and rural development especially in the less favored areas and to link it to the current situation of the Stara planina, challenges and restrictions faced by different stakeholders, and a vision of strategic action towards improving the rural population's quality of life in the future.

Participants have been representatives from various stakeholder groups that have been involved and/or supported the implementation of the WB STAR project activities, and the leaders of community initiatives, women and farmer groups, local NGOs and cooperatives, managers and employees of the as well as the will include community and youth leaders, women's organizations, local non-government organizations, municipal rural development managers, municipal tourism managers, , national technical institutions (tourism, nature protection, geographic indication, etc.), representatives of leading private and public companies in S.E Serbia, STAR PIT team... Majority of the participants had good history of joint cooperation and implementation of the activities within and beyond STAR project, which contributed to the good exchange and envisioning the possibilities for the future.

The workshop was organized as two day presentation-information sessions on the policy framework and financing opportunities for the rural areas in Serbia and in Stara planina region, which included the experiences from the neighboring EU countries Bulgaria and Croatia. The time limits conditioned that the group discussion was organized only in two sessions at the end of the each day, while each of the presentations was followed with question and answer session.

Upon the presentation of the possibilities for the niche market products – organic production, geographic indication and tourism, there has been discussion about the on and off the farm diversification and opportunities for creating a supportive environment for development of entrepreneurship and cooperation among various stakeholders. The following ideas have been given:

- Initiate and develop stronger connections with “Slow food” movement and explore the possibilities to promote and organize the Convivium for some of the Stara planina products

- work on direct marketing and strengthening the consumer understanding on the values of the products from Stara planina,
- transform know how and experiences from other successful cases such as German “Unser land” trademark that supports the market position of the producers from the mountainous areas of Bavaria.
- Support measures to establish further processing of the organic milk and meat and establish organic dairy and meat processing workshops and small scale production;
- use local market for promotion of good quality food (including neighboring bigger cities);
- support livestock farmers to increase size of their flocks and improve or preserve generic properties of the animals, and therefore create more milk and meat for further processing.
- establish cooperation between producers and processors based on the experiences of other GI value chains such as those functioning in Switzerland, EU etc.
- explore the potential for crossborder cooperation between the producers and associations of similar products or product groups;
- strengthen the position of the education and training and use the existing Dairy production vocational school as unique point in the Serbian secondary education system to help preservation of good quality dairy, meat and baking products and to position as a leader in traditional and quality food vocational training;
- initiate regional coalition of various traditional products in the region that could help to promote the “regional basket of products” elsewhere. The certification sign “Stara planina” is a good initiative to follow and to expand to food products as well;
- initiate association of “brands” of South Eastern Serbia and base it in Pirot, to link and establish cooperation between all registered GI products in the wider region;
- build coalition of ten (or similar) municipalities with the most prominent GI products that would promote the marketing of those products through large supply chains and supermarkets.
- Initiate cooperation and support of the Ministry of Agriculture to create the platform of various stakeholders.
- Base it on strong producer involvement and cooperation.

The understanding between the participants was that the processes last too long, however that similar situation is in the other countries and that building successful coalitions needs a lot of commitment and time.

Minutes from the last session of the WB Pirot workshop

The objective of the final workshop session was to initiate discussion related to the vision for joint regional development, regarding selection of topics/areas for development and stakeholders/coalitions to be addressing these priorities.

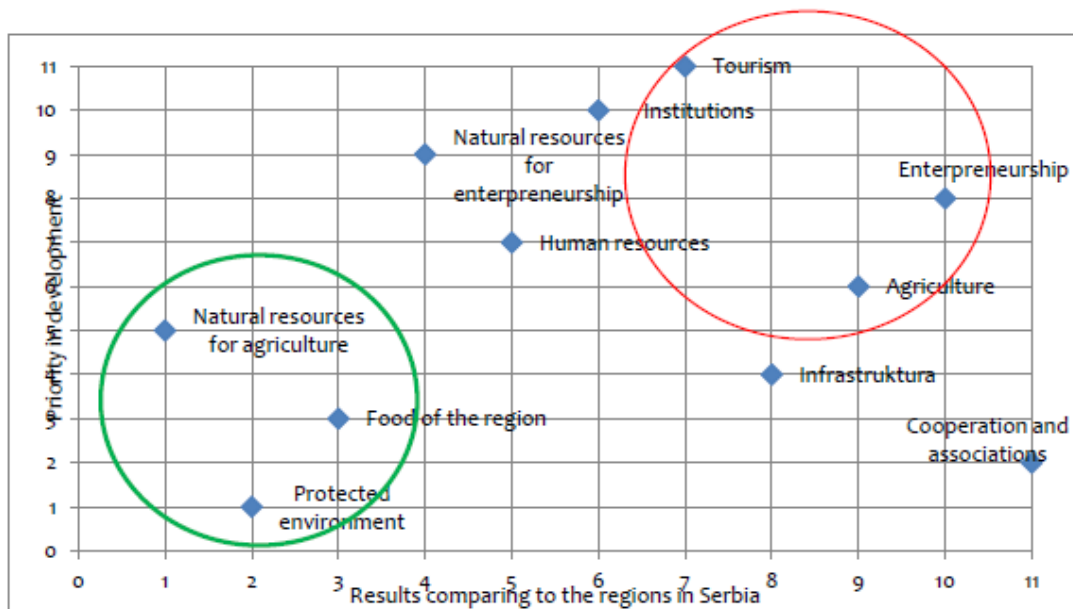
To make the best use of the limited time, the participants were asked to fill in the questionnaire that would help in prioritization of the development issues and sectors by two criteria:

- measuring the progress comparing to other regions in Serbia;
- measuring the importance of the topic, sector for the regional development

Out of 11 development areas the following results were obtained:

Figure 1: Ranking of development priorities with comparing results on the national level

Bench line to SR		priority		Priorities
Rank	Average	Rank	Average	
9	2,04545	6	4,09524	Agriculture 2
8	2,31818	4	4,38095	Infrastructure
11	2,04545	2	4,33333	Cooperation and associations
10	2,18182	8	4,04762	Entrepreneurship
2	3,95455	1	4,7619	Protected environment 1
5	3,13636	7	4,28571	Human resources
7	2,40909	11	3,90476	Tourism
3	3,63636	3	4,47619	Food of the region 2
6	2,45455	10	4,04762	Developed institutions
1	4,04545	5	4,33333	Natural resources for agriculture production 1
4	3,63636	9	4,09524	Natural resources for entrepreneurship



The results of this survey show that the protected natural resources are considered as the biggest asset and the most important development potential for the region, followed by the premium quality food products.

At the same time Cooperation and associations of producers are considered as one of the most important (rank 2) but with the worst achievements comparing to the rest of the country. Low ranking of development themes such as entrepreneurship, institutions, tourism was discussed in the group in order to understand the logics and reasons behind, and the group has agreed that the balanced development of all is necessary. Two workgroups were formed in order to collect the ideas for actions – a group on environmental resources for sustainable development and agriculture and food products.

Group 1: Agriculture and quality food products

Members of the group have offered ideas regarding innovation and transfer of new knowledge as well as increase of competitiveness as according to the EU policy axes.

Support to competitiveness:

- increase of volumes in meat and dairy production
- support to small processing units on farms (where the role of local authorities was seen as particularly important) in particular in dairy sector, bee keeping and fruit production
- reconstruction and reactivation of existing deteriorated premises (processing and storage)
- planning livestock production and fruit production (berries)
- support to innovation in investments (such as electrical fences or milking units)
- coordination of priorities for the existing local agricultural funds

In addition the following areas were proposed for support:

<u>Value chain integration:</u>	<u>Marketing</u>	<u>Knowledge transfer and innovation</u>
Support to cooperatives, associations and other forms of producer cooperation (through cooperative alliance of Pirot district?);	support to marketing of the local products and market research	Including vulnerable groups (women) in education on organic production or implementation of standards
establishing databases of producers, traders, processors, associations;	standardization of the local products (Pirot kackavalj)	support to vocational training (sheppards)
	direct marketing to link offer and demand	support to improvement of livestock breeds (reproduction farms)
	improving design of the local products	reactivation of the existing natural resources (pastures)
	seasonal ethno markets to promote local produce as an innovative point of sale for tourists and transit passengers	

Group 2: Protected environment as resource for economic activities

1. Support to nature protection through research and analysis to establish grounds for sustainable use of resources and development with:

- analysis of the status of the natural and semi natural systems in relation to sustainable development
- organizing field research and activities for research and academia (biologists, nature protection workers, foresters etc..)
- Study for development of entrepreneurship in the Nature park area, by using “clean technologies”
- monitoring of environment (air, water, soil) as well as population of plant and animal species and their habitats

through nature protection

- creation of eco tourism offer to generate income for the activities in protecting local biodiversity
- introduction of species of large herbivores to preserve the biological and landscape diversity and
- aesthetic values of the Nature park and to increase touristic values and interest
- reintroduction of vultures (*Gyps fulvus*)

2. Support to education and information with

- Collection and promotion of best practices in function of further investments in the agriculture, construction, tourism, etc., in the Nature park
- Building capacities for the management of the Nature park: education, equipment, infrastructure, network development of training modules for private forest owners for improvement of forest management
- lobbying and advocacy on integration of environmental concerns in development processes
- promotion of obligatory “schools in nature” or other forms of environmental education for allages (from elementary school onwards)

3. Intensified communication about natural resources and their values

- web site about Stara planina Nature park, natural values, touristic attractions, business opportunities, cultural heritage
- Traffic signalization and hiking signalization with touristic information: android application and promotion of touristic potentials and offer through internet.
- work with local population on raising awareness of the natural resources, promote voluntary activities, and voluntary ranger service

4. infrastructure improvements

- better waste management infrastructure in the region
- establishment of early warning system for control of forest fires (and also education to the local population for the threats of illegal fire)

- improvement of paths and rest areas for mountaineers, hikers, campers in order to preserve natural habitats and prevent disturbance of species, but also to provide access to the natural values

5. promotion of sustainable business

- in agriculture: promotion of organic agriculture, introduction of growing of medicinal herbs (education for sustainable collection from the nature),
- in energy: small scale renewable energy sources – biomass, solar,
- tourism: promotion of standardization of touristic offer through seal “Stara planina”, SAVE touristic offer (Scientific Academic Voluntary Environment)

Both groups have agreed that there is need to continue or initiate work on:

- cooperation and networking of various stakeholders to support local initiatives and create broad consensus is essential;
- identification of local leaders and supporting their teamwork as local motivators and community developers;
- initiating a pool of local volunteers for the protection and promotion of Stara planina values in local communities and elsewhere;
- jointly and systematically work on establishing LAG Stara planina based on the existing partnerships – Forum for Stara planina and Association for the promotion of certification seal “Stara planina”

Conclusion:

In terms of group dynamics and cohesion, there is need of further support of the processes that would give mandate to each involved stakeholder in joined development efforts and promote culture of cooperation. Nature resources at most, and to some extent human resources are recognized as a valuable asset, however their linking and synergizing seen as weak point. Still, many of the success stories and best practices were shared during the workshop, valid for other similar regions in Serbia, and that could add to the confidence and motivation of the group. Some of the unique features are the results of the STAR project (efforts made in the area of nature management, rural tourism development, development of quality schemes) could be recognized in a wider national network and further improved. The initiatives of cooperation through Forum for Stara planina and Association for the promotion of certification seal “Stara planina” should be further strengthened.

The issue of leadership and motivation are the important ones for the participants group—the first in endorsing the local leaders and opinion makers through joint vision and cooperation and the second in developing the self-confidence and power to take meaningful role in the development of the region. Though state structures and local governance were often identified as the main leading force, it is the people of the region who have the ideas and drive to see the Stara planina region thrive. This workshop was a good tool to build this self-esteem and recognize good work done, as well as to envisage bricks for the future actions.

Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR

The STAR project was planned to start in July 2007 after the signing of the loan documents between the IBRD and the GoS, but the process of the national parliamentary ratification of the loan documents caused a 1½ year delay in the launch of the project. Consequently, the STAR project was initiated in November 2008 with a budget of EUR 12.50 million in loan capital from IBRD and USD 5 million (approximately EUR 3.22 million) in grant from the GEF to component 3. The total budget was EUR 15.72 million. After cancellations of EURO 2.3 million in February of 2012, and EURO 2.2 million remaining unspent at closing, project resources amounted to EURO 11.2 million.

The STAR project had the aim to achieve several important development objectives through combining institutional capacity building, knowledge generation and dissemination and direct investment support:

- (i) to increase the efficiency and transparency of public funds use (structural support for agriculture and rural development) through European Union (EU) pre-accession and, eventually, Common Agriculture Program (CAP) funding mechanisms;
- (ii) to enhance the competitiveness of Serbian agricultural products in local, regional and international (particularly EU) markets, thereby increasing rural incomes and strengthening rural economies; and
- (iii) to preserve biodiversity in natural and agri-ecosystems and promote sustainable land use through reinforcement of traditional agriculture and cultural practices in ecologically fragile areas.

STAR project consists out of 4 Components, each with a number of specific objectives:

Component 1: Strengthening the Agriculture and Rural Development Support System

Component 2: Building Knowledge and Capacity of Agricultural Producers and Processors

Component 3: Management of the Stara Planina Nature Park

Component 4: Project Management and Coordination

Relevance of the project

Support under *component 1* aimed at build-up of Managing Authority and Paying Agency (Directorate of Agrarian Payments) was very relevant at the STAR program level, where the overall objective was to strengthen the agricultural and rural development support system. No MA and PA were in place in 2007 and 2008 and these institutions were urgently needed to support the development of the sector and to facilitate EU accession.

Regarding *component 2* it is concluded that the support to the competitive grant schemes and the training activities were highly relevant taking into account the identified needs in Serbia in 2007 with a weak extension service, low competitiveness and low profitability in Serbian agriculture. Interviews with different stakeholders and project holders (applied research and extension service grant schemes) indicate that the STAR program was and still is highly relevant. The agricultural sector and the extension service in Serbia are still facing huge challenges and therefore the need to strengthen and build up capacity in the

sector and among the extension service providers. Yet on the other hand it may be put into question, if all the selected and supported projects are sufficiently relevant and fulfilling the project development objectives of *component 2*. For instance it can be discussed whether all supported information and media projects as well as some of the softer strategy-oriented projects are relevant.

Regarding extension training under *component 2*, it is obvious that the participants have gained a lot of knowledge from participating in the training, and that the training topics were considered to be relevant for an individual trainee. More than 80% of the trainees have responded that the training met the current training needs of their clients, thus making it very useful for them.

Results and impacts

In conclusion for *component 1*, the results of the STAR support to the MA and the PA relate to the utilization of deliverables in order to prepare the structures and procedures for a new effective support system for agriculture and rural development. All deliverables in terms of furniture, cars, IT equipment and technical assistance including training from international and national experts have contributed positively in preparation for the formation of MA and PA, but it must also be concluded that the STAR support has not been *decisive* in the process of building up the MA and the PA.

The conclusions regarding results and impacts from *component 2* support are summarized here, first for agricultural extension projects and then for applied agricultural research projects.

Regarding agricultural extension projects, the number of *farmers* involved per project is for the majority of projects above 50 farmers. It can be calculated that minimum 2,100 farmers have been involved in the projects. Beside this, most of the projects indicate that minimum 2,550 farmers are benefitting from STAR. It is in itself a big number given the small number of projects, but it is still a small number of farmers compared to the total number of households in Serbian agriculture.

The number of *processors* involved directly in the projects is minimum 1,750, while minimum of 2,125 processors have benefitted in total.

The project holders also summarize positive results and impacts in terms of the following topics, where the percentage inferred in brackets indicates the share of the project holders, who agree with positive results and impacts under each topic:

- New ideas for product and technology development (83%)
- Increased competences of farmers (82%)
- Increased possibilities to cooperate with other institutions (76%)
- Increased cooperation with farmers (73%)
- Increased farm income (67%)
- Larger networks (61%)
- Increased productivity through more effective production methods (61%)
- Increased interest in rural development by media (59%)

- Increased local rural development capacities (56%)

The conclusions are positive and that is that supported projects to a large extent contribute to strengthening the competitiveness of the farmers involved in and benefitting from the project results. The projects contribute to meeting the objectives of the component and of the STAR project.

Regarding applied agricultural research projects, it is indicated by the project holders that *55 new technologies* have been developed and disseminated thanks to funding from the STAR project. Furthermore, a minimum of 1,114 farmers are involved in the projects according to responses received by the project holders, and a minimum of 1,094 farmers benefits from the projects. The numbers of processors involved and benefitting from the projects are 630 processors, while minimum 710 processors are benefitting from the project results. Again, it can be concluded, that it is in itself a big number from the small number of applied research projects, but it is a small number of farmers compared to the total number of farms in Serbian agriculture.

The project holders also summarize positive results and impacts in terms of the following topics, where the percentage inferred in bracket in the same way as above indicate the share of the project holders, who agree with positive results and impacts under each topic:

- New ideas for product and technology development (100%)
- Cooperation with other institutions (90%)
- Quality of products (90%)
- Increase in competences and in farm income (85%)
- Knowledge of more effective production methods (85%)
- Knowledge on sustainable agriculture (70%)
- Larger network (70%)

The applied research projects also *contribute to creating jobs*, although at a small scale. In total the project holders expect that 139 people will be able to keep their jobs due the STAR project, while 59 jobs will be created indirectly as a result of the STAR project. Regarding *extension training*, participants of various training modules have experienced an increase in their knowledge and capacity in relation to ‘farm management knowledge’. All said they had a ‘good’ knowledge level as minimum after attending the training, and a number of those who have an ‘excellent’ knowledge has increased from 7% to 39%. For most participants the training modules were positive experience in terms of being involved in the discussions during the training course. 49% said they could participate ‘excellent’ on all the important issues during the training course. “The relationship between theory and practical application” within the training modules is assessed to be ‘good’ to ‘very good’ for most of the participants (71%).

Only very few respondents found that the training modules did not have any impacts on the factors listed below. In contrast, the majority found that the training modules are contributing and benefitting to the listed factors.

The same situation is summarized below. The majority either ‘agree’ or ‘strongly agree’ that the trainings are contributing to:

- increases my focus and knowledge on sustainable agriculture
- increases my focus and knowledge on project work
- increases my focus and knowledge on how to get through with my ideas to the farmer
- of extension service staff to improve the competitiveness of agriculture improves my understanding about EU accession and IPARD

Finally, 53% of the trainees found that the training module on “Farm management” had the greatest impact or importance to their work. This topic is followed by the issue “European Integration” (26%) and the issue “Counselling skills” (37%) as the third most important impact.

In total it can be concluded that the results and impacts of the support from STAR under *component 2* contributes in itself to good project results, involving and benefitting relatively big number of farmers and processors, and representing an appropriate effort regarding development and dissemination of new technologies. The capacity building of the extension service is absolutely also an important result of the project.

On the other hand the effort is too limited and the results are too few to change the situation in Serbian agriculture radically. A much more devoted national effort is needed making national and EU co-funded support available for farmers and processors at a higher level than seen today. The support systems are under construction (MA and PA) and these systems need to have practical experience with EU compliant interventions in order to develop the procedures in an effective and efficient way also demonstrating good administrative practice. Any future intervention based on grant support should as a consequence be based on the criteria outlined in relevant EU regulations.

Component 3 was designed to provide targeted technical and material assistance to Srbijašume and local communities to improve both the management of the SPNP and the capacity to use its natural resources in environmentally sustainable and profitable ways. In the Stara Planina area EUR 1.2 million was to be provided as competitive grants to support the global objectives of promoting sustainable land use (particularly well-managed extensive grazing), ecological restoration, sustainable rural tourism and related enterprises, and preservation of natural and agro-biodiversity, including using the LEADER approach where appropriate. Another important element of this component is the preservation of autochthonous livestock varieties, which represent an important genetic (agro-biodiversity) heritage.

There were 4 outcome indicators:

1. *Outcome Indicator 1*: Increase populations of endangered breeds of farm animals inside the SPNP

The following breeds were identified as endangered: Domestic Mountain Pony, Balkan donkey, Busha cattle, Mangalitza pig, group of Zackel sheep breeds (Bardoka Sheep, Pirot Sheep, Karakachan Sheep and Krivovir Sheep), Balkan goat and Svrlijig chicken. The activities aimed at increasing the number of livestock of rare animal breeds through grants for interested households and individuals. A total of 66 grants were allocated with

around RSD 36 million (EUR 360,000) of investments. These projects were implemented in 2010 and 2011.

2. *Outcome Indicator 2: Management plan for SPNP prepared in participatory manner with communities, landowners and Srbijašume*

Management plan for SPNP has been developed by the SPNP Managing Authority Srbijašume. The plan was adopted in April 2010 by the Ministry of Spatial Planning and Environment. Visitor Center was constructed in Vrelo locality. Additional activities include: engagement of 22 rangers, demarcation of border line of Nature Park core zone and Nature Park border, application for the SP Collective Brand and application for SP Designation of Biosphere Reserve.

3. *Outcome Indicator 3: Area of abandoned and degraded meadows/grasslands and pastures restored*

Pasture restoration was achieved through local grants. A total of 49 projects were approved (29% of all approved projects) in the amount of RSD 24 million (approximately EUR 240,000). In the period June-October 2010, project team reports that 2,250 ha of pilot pastures (Mucibaba, Vrtibog, Kovacevo, Ponor) were pastured by 400 livestock units. In 2011 the pilot pastures were pastured with 532 livestock, covering territory of more than 3.000 ha.

4. *Outcome Indicator 4: Increase in number of RD grants to SPNP municipalities for targeted activities*

Within the framework of the grant program, three funding cycles (call for applications) were launched. In the first two rounds a total of EUR 1,000,000 was disbursed and the rest (EUR 230,000) was allocated through a third round. A total of 177 grants were approved in five sub-programs (76 in the first round, 89 in the second round and 26 in the third round).

The conclusion is that the interventions under *component 3* have contributed to the fulfillment of several of the objectives of the component. The Increase in the local populations of autochthonous livestock breeds is fulfilling the set target, while the area of restored grassland only is 80% of the defined target. On the other hand a management plan is prepared for the SPNP and support has been provided for a number of rural development projects including those providing support to animals and pastures, processing facilities, but also to rural tourism projects.

Also a number of infrastructure projects is under implementation in 2012 also contributing to the improvement of the quality of life in the area, with improved road access and bridge access to remote villages, better management of water supply, waste water and sewage as well as solid waste management.

The targeted support has proven to be useful for the local community and the implementation has demonstrated how difficult it is to operate with targeted support in remote areas like SPNP. The lessons learned from the implementation of the component are useful for future interventions.

Expected impact

STAR support to the competitive grant schemes has been an important part of the program, and the support will sooner or later materialize into benefits for the farmers and food processors in Serbia.

We have in this report provided two assessments of the *expected impacts*. One assessment is based on sector average productivity in agriculture and food processing and a theoretical determined increase in these indicators stemming from the projects for those farmers and food processors able to take advantage of the project results. The other is based on the estimates from the project holders, where the project holders have provided STAR PIT with estimates of the economic benefits from the projects (the so-called cost benefit tables), when and if the results are disseminated to the sector.

According to the first approach, the total annual expected impact is a growth in GVA of EUR 3 million and an average of 1 euro per 1 euro invested in support to the projects, if the impacts are generated within one year, equal to 3 euro per euro over three years. If the dissemination period is assumed to be 3 years, the impacts will be EUR 1 million the first year, EUR 2 million the second year and the full impact will be EUR 3 million the third year. The aggregated contribution to the GVA will be EUR 6 million over three years, equal to 2 euro per 1 euro invested.

According to the second approach, the selected projects represent a total of EUR 517,000 in investment support from STAR, and EUR 392 million in potential benefits in terms of GVA increase, all other factors kept constant. The benefit per euro in STAR support is EUR 597. This is much higher than estimated with the first approach.

The big difference is that the first approach only estimated the benefits for a share of the farmers and food processors taking advantage from the projects, while the second approach estimates the full advantage for the sector taking the full production of a given crop or animal into consideration. There are very big variations from one project to another, and some of the projects indicate to generate very big benefits, which multiplied to full sector levels are extraordinary. In general improved agricultural practice, including better use of pesticides and improved yields seem to be the key to better results. In wine production (table grapes and grapes for wine) and in field crops, such as maize, the potentials are big, due to the high scale of production.

Under the **Component 3**, The grants had positive impact on the income of the beneficiaries. As reported in the survey, 68% of the recipients record increase in income, 21% do not report, while 5% does not know. However, when it comes to the assessment of the increase in income, results tend to be less conclusive: 42% of respondents claim increase in up to 50%, 16% more, while as much as 42% of respondents did not answer. Furthermore, only 10% of respondents claim that the grants led to creation of new jobs. Apparently, the greatest impact has been recorded vis-à-vis endangered breeds, where 42% of respondents claim there has been an increase in the number of these animals. Slightly less favorable results have been noted while assessing impact of grants on the number of tourist and grassland areas. 15 communal infrastructural projects were proposed for realization and the final list was approved at the end of December 2011. Communal infrastructural projects were proposed by local communities of Senokos, Dojkinici, Gostuša and Municipalities of Pirot and Dimitrovgrad and approved by SPAC. All works on projects were finalized by May 30, 2013.

Recommendations

Component 1 and 2:

- The evaluation demonstrates the need for training of 1) extension service advisors, 2) beneficiaries as well as 3) ministerial and municipality staff in the importance of identifying environmental indicators, in understanding the importance hereof, and how to measure and report on these indicators. The environmental assessment approach is essential in the view of the IPARD, where fulfillments of EU requirements related to environment and nature protection are among the most important requirements. The competences and the understanding are therefore extremely important. It is thus highly recommended to organize training within the field.
- It is recommended to assess the currently used project evaluation and selection criteria in order to streamline them to EU requirements where relevant. It is also important to consider eligibility, ranking and selection criteria contributing to increased additionality of projects and to reduce deadweight loss.
- Furthermore, today relatively many projects are supporting media companies and mass communication towards farmers about e.g. good agricultural practice and use of modern technologies. This type of project is relevant in order to reach a large number of potential users of the information, but it is very difficult to ensure an appropriate uptake of knowledge among farmers from TV programs only. More effort should be put on extension service as the main channel for dissemination of knowledge to farmers.
- In prolongation of this, it is difficult to assess these media projects in terms of results and effects. It is for instance difficult to assess if a TV program about good agricultural practice will change practice and procedures at farm level, and it must be considered difficult for farmers to absorb new knowledge from TV alone without the hands on advice from extension service providers.
- Feedback received from the extension service advisors during training sessions tells, that the trainees are very much interested in acquiring hands-on experiences through the training. It is therefore recommended that future training is less theoretical and more practical oriented providing the advisors with more hands on experiences, which they better can pass on to the farmers.
- The current distinction between the Applied Agricultural Research projects and Extension Service Grant Scheme in practical terms is not that obvious. This is also noted by some of the peer reviewers, who furthermore found that scientific level was relatively low in the applied agricultural research projects. Here of course there is a choice to be made. The scientific level of the current projects is relatively low, but on the other hand the supported projects reach and include many farmers making the projects user-friendly in their approach. It is, however, recommended that STAR PIT considers, which types of projects, it wishes to support in the future. Where in the value chain should the focus be: Research/science oriented projects not involving many farmers and advisors, or practical oriented projects, which include more advisors and farmers?!
- Training of farmers and extension service providers is generally needed to enhance the human capital and to facilitate the access to support schemes like the

grant schemes under *component 2* and *3*, but also national support schemes that are currently in the process of implementation.

Regarding information to potential beneficiaries, it must be taken into consideration that many potential beneficiaries in remote rural areas do not have internet access, do not watch TV programs or read newspapers. Alternative more direct information activities are needed in order to make sure that the potential beneficiaries are informed. Here the extension service advisors from the agricultural stations are relevant as kitchen table advisors coming directly to the farmhouse.

Component 3

- It is important that big national interventions are anchored sufficiently in the MAFWM from the very beginning and that the objectives of the project/ program is seen in context with the overall agricultural policy of the country. In case of STAR *component 3*, it had no impact on the anchoring that the country has a priority for EU accession and that the intervention also should contribute to the build-up of competencies and capacities to manage the challenges stemming from the accession process. It has not been considered in the implementation of the activities that the project should contribute to this overall objective. Instead the project has suffered from sub-optimal activities within each of the components, including *component 3*, leaving aside potential synergies internally within STAR and externally in relation to other national interventions.
- Implementation of the grant schemes is accomplished without cooperation with the Directorate for Agrarian Payments (PA) and the MA. It can be concluded that the *component 3* interventions are only very loosely anchored, if at all, in the MAFWM and the PA and the MA and for future interventions this should be avoided.
- The implementation is not in line with EU procedures, and for future interventions these procedures should be applied.
- The grant scheme under *component 3* has demonstrated that it is possible to recruit farmers in mountain areas to invest in grazing of mountain pastures, which otherwise would not have been grazed and therefore would have been covered with shrubs and semi forests representing a loss of biodiversity. This lesson can be used in future interventions.
- With the grant scheme for grassing of rare animals, it is succeeded to increase the number of autochthonous species, the area of mountain pastures under management and the biodiversity is improved (plants, birds, animals) and the farmers have attained an increased income from milk from the autochthonous animals, sheep in particular.
- Use of organic production as a ranking criteria in the selection of projects has caused an increased interest from farmers in converting to organic production, supported in 2010 per hectare and per animal.
- Financial engineering instruments are needed in order to loosen the liquidity squeeze the farmers are in, due to lack of collateral and difficulties is obtaining bank credits. Advance payments, guarantee funds and high aid intensities are needed, and a balance between EU requirements and national designs is needed.

- Training of farmers and extension service providers is needed to enhance the human capital and to facilitate the access to support schemes like the grant schemes under *component 3*.
- It must be taken into consideration that many potential beneficiaries in remote rural areas do not have internet access, see TV or read newspapers. Alternative more direct information activities are needed in order to make sure that the potential beneficiaries are informed. Here the extension service providers from the agricultural stations are relevant as kitchen table advisors coming directly into the farmhouse.

Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders

Annex 9. List of Supporting Documents

- Project Appraisal Document, 39846-YF of May 25, 2007
- Loan Agreement 7465-YF, GEF Trust Fund Number TF090454
- Project restructuring Papers and Amendments to Loan and Grant Agreement
- Project Monitoring and Evaluation Reports for component 1& 2 of March 2012 and August 2012, NIRAS IC Consortium.
- Star Project evaluation report for Component 3, Management of Stara Planina, NIRAS IC Consortium, March 2012.
- GEF Project Executive Summary, submission to GEF Council.
- Mission Aide Memoires and letters to Government.
- Project Implementation Status Results Reports (ISRs)
- Serbian Law on Incentives/Subsidies in Agriculture and Rural Development – published in official gazette No 20/12.
- Country Economic Memorandum 65845-YF, dated January 17, 2012

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