



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 27-Nov-2019 | Report No: PIDA27531

**BASIC INFORMATION****A. Basic Project Data**

Country North Macedonia	Project ID P168014	Project Name Agriculture Modernization Project	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 27-Nov-2019	Estimated Board Date 12-Feb-2020	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Republic of North Macedonia	Implementing Agency Ministry of Agriculture, Forestry and Water Economy	

Proposed Development Objective(s)

Improve competitiveness in targeted agricultural sub-sectors and strengthen agricultural public sector readiness for EU accession.

Components

Agriculture Sector Competitiveness
Institutional Capacity for EU Accession
Project Management

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	55.50
Total Financing	55.50
of which IBRD/IDA	50.55
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	50.55
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Non-World Bank Group Financing



Other Sources	4.95
EC: European Commission	4.95

Environmental and Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **North Macedonia is a landlocked country at the heart of the Balkans, characterized by its mountainous terrain that is intersected by valleys and lowlands.** It is a transit region that sits on two of the ten Pan-European transport corridors, Corridor VIII and Corridor X. Its proximity to the European Union (EU) potentially provides the country with access to a large export market of 650 million customers. According to the last census of 2002, the population is about two million people of which 25 percent live in the capital Skopje; 40 percent reside in rural areas; and the remaining share lives in smaller urban centers.
2. **An aging population and a long tradition of emigration pose challenges to productivity.** The projected population growth is nearly zero, and estimates based on census data from destination countries (mostly Western European countries and North America) suggest that more than 500,000 citizens reside abroad, one of the largest diasporas in the world as a percentage of the total population. Considering the small size of the workforce and low birth rates, the loss of even a small number of workers affects the overall pool of skills in the economy.
3. **The resolution of the decades-long dispute with Greece over the country's name marks a turning point in North Macedonia's history as an independent nation.** On June 12, 2018, the Governments of North Macedonia and Greece signed the Prespa Agreement¹ aimed at resolving the prolonged name issue². The parliament in Skopje endorsed the necessary constitutional changes introducing the new name of "Republic of North Macedonia" on January 11, 2019. The use of the new name entered into force in February 2019 after ratification of the Prespa Agreement by the Greek Parliament. In parallel, North Macedonia signed the NATO accession protocol, a process that had stalled for years due to the dispute. In April 2018, the European Commission (EC) recommended the opening of negotiations with North Macedonia, but on October 17, 2019, the Council of the EU failed to reach the decision on opening negotiations with North Macedonia. The Council will revert to the issue before the EU-Western Balkans summit in Zagreb in May 2020³. Following the European

¹ The text of the agreement can be found at <https://vlada.mk/sites/default/files/dokumenti/spogodba-en.pdf>

² The country became a member of the United Nations in 1993, but because of a dispute with Greece over the use of the name Macedonia, it was admitted under the provisional description of "the former Yugoslav Republic of Macedonia."

³ Council of European Union, <https://www.consilium.europa.eu/en/meetings/european-council/2019/10/17-18/>



Council's decision, the Prime Minister announced early elections which all political parties agreed to hold on April 12, 2020.

4. North Macedonia has a good track record of sound macroeconomic management and business environment reforms. The country managed to decrease public debt from 45.7 percent of Gross Domestic Product (GDP) in 2002 to 23 percent in 2008. Prudent macroeconomic policies prior to the global financial crisis enabled it to create the space for a countercyclical fiscal policy. This fiscal stimuli for public employment, pensions, and public works helped largely mitigate the financial crisis impact in 2008–09 and again in 2011–12. To spur investment, the Government spent more on road and civil infrastructure and abolished the profit tax on reinvested earnings for 2009 to 2014. It lengthened the list of goods given preferential tax rates; exempted tax for foreign direct investment in technological industrial development zones; and supported consumption by ad hoc pension hikes, a reduction of social insurance contribution rates, and employment subsidy schemes. Monetary policy was also accommodative. The National Bank of North Macedonia (NBNM) reduced interest rates to encourage credit growth and avoid deposit withdrawals. These measures helped the economy to grow at an average of 2.7 percent from 2012 to 2017, despite the political uncertainty during 2015 to 2017 that adversely affected investors' expectations and led to a temporary recession during 2017. Yet, they also exhausted fiscal space since it built up debt to above 48 percent of GDP by 2018.

5. Growth and fiscal measures helped increase employment and reduce poverty after 2009. The employment rate increased by 10 percentage points to above 45 percent in 2018. Job creation was supported mainly by public spending for large-scale public projects, new active labor market policies and Government support for employment in Special Economic Zones. Growth has also been pro-poor. Between 2009 and 2018, poverty fell by about 14 percentage points from 35 to 21 percent.⁴ It is estimated that during these nine years, 287,000 people were lifted out of poverty. However, unemployment is still high at 19 percent by June 2019, and labor-force participation is low, especially for those younger than 25 and older than 55, and for women. In addition, poverty remains high in rural areas, and the reduction in poverty since 2009 has not been sufficient to close rural-urban gaps in living conditions. While the urban poverty headcount is 17 percent the rural poverty headcount remains at nearly 30 percent.

6. Despite the country's relatively moderate public and publicly guaranteed debt level, macroeconomic risks are significant due to: (a) a possible decline in growth related to deterioration in the external - prospects and geopolitical tensions in the region, and (b) possible delays in the implementation of consolidation measures, and accumulation of new contingent liabilities. With the EU being the country's main trading partner, slower than expected growth in the EU could dampen recovery of North Macedonia's economy, straining public finances and negatively affecting the fiscal and debt consolidation agenda. Lower economic growth than expected would make it more difficult to achieve and sustain the current level of agricultural subsidies. Given the increasing share of US\$-denominated public debt, any appreciation of the US\$ would worsen debt metrics and strain public finances. Delays in undertaking consolidation measures and renewed accumulation of arrears and contingent liabilities – including during the pre-electoral season – could worsen refinancing options as a large part of public debt comes due in 2020–21. Support provided by all international partners helps ensure that the authorities remain committed to their ambitious reform program and actively move forward.

⁴ Poverty is measured as absolute poverty using the poverty line for upper-middle income countries (UMIC), estimated at \$5.5/day in 2011 purchasing power parity (PPP)— the cost in UMIC countries of satisfying a minimum caloric requirement and typical non-food consumption.



7. **North Macedonia is highly vulnerable to natural hazards, including floods, droughts, forest fires, landslides, earthquakes and extreme temperatures that are amplified by climate change.** The flood risk is higher than in any other country in the Europe and Central Asia region. Agriculture is the most vulnerable sector to climate change. The annual damage to critical infrastructure from climate-related hazards is expected to double by 2020, and by 2080 it could be more than five times higher. A major flood or earthquake disaster could derail economic growth, affect critical infrastructure, cause losses in agricultural incomes, and disrupt rural livelihoods (North Macedonia Systematic Country Diagnostic, World Bank 2018). As temperatures rise and precipitation becomes more variable, droughts can particularly affect southern and eastern part of the country and jeopardize agricultural production and water quality in these regions.

8. **The World Bank has been a partner of choice of the Republic of North Macedonia for over twenty-five years.** The current Country Partnership Framework (CPF) was endorsed in April 2019. Its preparation was informed by broad consultations with various stakeholders, which included members of parliament, government institutions, opposition representatives, non-governmental organizations, academy, private sector, and development partners. The result of the consultations is a CPF which aims to support North Macedonia's ability to achieve faster, inclusive and sustainable growth and provide its citizens with greater opportunities for a better life. The CPF is organized around three focus areas that will help North Macedonia (a) improve the environment for a dynamic private sector to enhance export-led growth; (b) strengthen human capital for inclusive development; and (c) build sustainability. Prepared after a prolonged period of political turmoil in the country when the World Bank engagement was compromised, the new CPF envisages an ambitious lending program in FY20 to address public finance challenges including in pensions, modernize agriculture, improve energy efficiency of public buildings, and improve connectivity by investing in local roads.

Sectoral and Institutional Context

9. **Agriculture is a critical employer in the rural areas of North Macedonia and an important economic sector.** Full-time formal agricultural employment accounts for 18 percent of total employment. There is also large number of part-time farmers and a significant number of informally employed in the sector. Primary agriculture contributes 11 percent to GDP. In addition, the agri-business sector is an important industry. The agri-business sector accounts for 19 percent of total manufacturing jobs and for 23 percent of total manufacturing turnover (World Bank, 2017). More importantly, the agri-business industry turnover is geographically evenly distributed across the country, which underlines the unique role that agriculture can play in promoting broad-based growth and jobs in rural areas. North Macedonia exports vegetables and fruit, tobacco, and beverages (mostly wine), sheep (mutton), and food products represent about 10 percent of total exports. The country's main markets for primary agricultural exports are the Western Balkans, the EU, and Russia.

10. **Agriculture development, however, remains below potential because of several structural constraints.** Primary agricultural production is characterized by low productivity. With an average farm size of less than two hectares and about half of the agricultural producers being semi-subsistent, the potential to sell surplus production to markets, produce at scale and higher quality, promote integration among small-scale producers into higher-value agricultural value chains, and introduce innovation is limited. In addition, smaller agricultural producers and agri-businesses lack access to new technologies and market opportunities, as well as quality



agricultural knowledge and skills in various areas, including business management, quality management, logistics, financial literacy, and domestic and international marketing. Agriculture competitiveness is also constrained by the lack of access to inputs.

11. Small producers mainly participate in short value chains that typically end at local green or wholesale markets. Contract farming is not widely developed and transactions – in particular for small producers – remain largely ad hoc and contract breaches and delayed payments are frequent issues. Poor post-harvest management and practices, including poor sorting and grading and suitably packaging for transport, undermine product freshness and quality. In addition, North Macedonia has limited and technically outdated cold storage capacities, which are often not adequately located to serve producers and buyers efficiently. The sector requires the establishment of collection and conditioning centers and a food hub with adequate logistical arrangements as well as infrastructure, technology, and know-how to provide a full range of grading, sorting, and packing services that meet buyers' quality and delivery requirements. In addition, technology and capacity to meet food quality and sanitary-and phytosanitary standards to comply with traceability requirements to access the EU and other high-end markets need to be built gradually.

12. The National Strategy 2012-2020 recognizes agricultural land consolidation as an important instrument to address fragmentation and to improve productivity. More than 40 percent of the total area of arable land (approximately 240,000 hectares) and 80 percent of the pasture land (approximately 570,000 hectares) in North Macedonia is owned by the state. Nearly one third of the total arable land is either abandoned or not utilized for agricultural production. The farm structure is dominated by small family farms with an average farm size of less than 2 hectares. Pilot projects funded by the EU and implemented by the Food and Agriculture Organization of the United Nations (FAO) in cooperation with the Ministry of Agriculture, Forestry and Water Economy (MAFWE) have recently initiated the land consolidation process in two regions with the objective to enlarge farm size, optimize farm holdings in order to increase efficiency of agricultural production and establish necessary infrastructure, including roads and irrigation structures. The state-owned agricultural land represents a valuable asset and provides the opportunity to develop more competitive and productive family farms. At the same time, there is potential to develop a more vibrant agricultural land market, both for land leases and land ownership, which could help facilitate sector modernization.

13. Management of state-owned agriculture land. There is currently no single, unified policy or law on public land, its administration or its management. The responsibility for protecting and utilizing the state land lies with different organizations depending on whether land is arable, pasture or forest. Management of arable state-owned land falls under the responsibility of the MAFWE, management of pasture under the responsibility of the Public Enterprise for Management of Pasture (PEMP), and management of forests under the Public Enterprise for State Forests "National Forests". The Agency for Real Estate Cadastre (AREC) is a national registration agency for all types of land and other real estate objects, recording their physical characteristics, and ownership and related rights. There is no reliable and up-to-date inventory of state land, and the reliability, actuality and correctness of data on state land registered with AREC is not known. For all the institutions involved, it is challenging to manage state land in a sustainable and financially responsible manner, throughout its life cycle, and to support an optimal, cost-effective and efficient delivery of Government programs.

14. Crop production dominates the agricultural production with an average share of 75 percent in total value. The remaining 25 percent originates from livestock production, where enhancing food safety is of particular concern. Although food safety standards have improved, food safety and veterinary policies, as well



as required infrastructure are not yet aligned with EU standards. In the past few years the systems have received considerable support from the EU Instrument of Pre-accession Assistance (IPA) for harmonizing the national legislation with the EU *Acquis communautaire*, which describes the rights and binding obligations of EU Member States. Aligning food safety standards with EU requirements is essential to successfully grow the food-processing industry and free the movement of agricultural produce in the market. This will also enhance the traceability of the products origin and processing which will improve access to market. As North Macedonia moves towards EU accession, MAFWE's key objectives are to: (a) upgrade its food safety establishments for products of animal origin, including establishments for animal by-products; and (b) set-up an EU compliant system for official control of live animals and animal products. The EU is in the final process of approving its IPA 2019 program, in which an indicative budget of EUR4.5 million, out of total EUR9 million required, has been allocated towards support for the establishment of a compliant and dedicated system for disposal and /or processing of animal by-products (ABP) in line with EU requirements.

15. The Government's current agricultural support measures are not effective in overcoming these sector constraints and are not stimulating investment. Public support for agriculture has been highly generous in recent years. Between 2010 and 2015, annual budgetary transfers to farmers represented 1.14 percent of GDP and on average were double that of other Western Balkan countries and almost 60 percent higher than the EU28 average. Market support and direct payments (MSDP) per output and area/animal represent 80 percent of agriculture budget outlays on average. The high share of MSDP has raised questions on the effectiveness of this type of support and its capacity to facilitate the necessary structural adjustments, e.g. land and farm consolidation, productivity enhancement, and modernization through technology investments. The support payments are also skewed towards only a small number and often lower-value products: tobacco received 27.7 percent of total MSDP support (EUR100 million in total or EUR4,350 per tobacco farmer household) although it contributes only 5.1 percent to total agricultural output. Field crops received 14.9 percent of MSDP support, followed by vineyards, grapes, and wine (12.2 percent); cattle (9.3 percent); milk (8.4 percent); fruits and vegetables (5.2 percent), and sheep and goats (4.5 percent). These support payments entail few incentives for farmers to modernize their practices, and at the same have not been effective in alleviating poverty nor proven to be an effective rural safety net. A rebalancing of public support from the current MDSP toward broader rural development measures in line with EU best practices could bring greater efficiency gains at the farm-level and allow for a better use of public resources.

16. MAFWE is responsible for sector policy design, management and coordination. The implementation of agricultural and rural development programs, including national projects and the Instrument for Pre-accession Assistance for Rural Development (IPARD) lies with the Agency for Financial Support in Agriculture and Rural Development (AFSARD), i.e. the Paying Agency. Advisory services are provided by the National Extension Agency (NEA), which operates through 33 local units and supports farmers in their applications for IPARD funds. The Food Safety and Veterinary Agency (FVA) is responsible for food safety and veterinary activities, while the Phytosanitary Directorate of the MAFWE is responsible for phytosanitary control and prevention. Since 2014, the Inspection Services for Agriculture have become a distinct institution. Local governments do not have an explicit agricultural mandate, but most of them employ agricultural and environmental service staff, which mainly provide advice to local farmers on how to apply for IPARD funds for on-farm investments. In general, advisory services that foster improved production and post-harvest practices as well as entrepreneurial skills, such as business management, quality management, logistics, financial literacy, and domestic and international marketing, are rare.



17. **Overall institutional capacity in the sector is weak.** Public agricultural services often do not meet the needs of farmers and agribusinesses to address and comply with the veterinary, phytosanitary, and food safety requirements. In addition, MAFWE Sector for Rural Development, which is responsible for planning, programming, managing, and carrying out the monitoring and evaluation (M&E) of the rural development and national agriculture support program, has no M&E system in place to assess program and policy effectiveness and provide evidence-based decision support to Government for policy reform and adjustment. The M&E system is fragmented within the Ministry with various MAFWE departments collecting their own data not linked to a single integrated data platform.

18. **AFSARD capacity is weak and requires further strengthening to ensure the implementation of an increasing volume of the national and IPARD measures⁵.** Specifically, the ongoing IPARD II program for 2014-2020 envisaged a maximum EU Contribution for IPARD funds of EUR60 million for five measures⁶. In addition to the three accredited measures, IPARD II includes *Investments in rural public infrastructure* - EUR9.1 million, and *Technical Assistance* - EUR2.4 million, for which North Macedonia will not receive accreditation before the end of the IPARD II cycle, given the limited human resources capacity of the Paying Agency. In order not to lose the EUR9.1 million allocated to the *Investments in rural public infrastructure* the EU has agreed for it to be reallocated to the following measures: *Investments in physical assets of agricultural holdings*; and *Investments in physical assets concerning processing and marketing of agricultural and fishery products*. However, capacity of the Paying Agency will need to be enhanced in order to increase the processing of applications and absorption of the accredited and future funds.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

Improve competitiveness in targeted agricultural sub-sectors and strengthen agricultural public sector readiness for EU accession

Key Results

19. The achievement of the project outcomes will be measured through the following PDO-level indicators:

- (i) **Farmers adopting improved agricultural technology.** This is the World Bank corporate results indicator in agriculture sector. In the context of the project, this indicator measures the number of project beneficiaries who have adopted an improved agriculture technology promoted by the project. This refers to beneficiaries' acquired knowledge in modern production techniques, including better pest and disease control, improved production practices, and climate-smart practices, which will allow them to be more competitive in the market. The information will be disaggregated by category of technology adopted,

⁵ The EU provides access to IPARD funds through the “Entrustment of budget implementation tasks for EU IPARD funds” which certifies that the country has established structures, systems and procedures in compliance with EU requirements for specific entrusted measures. North Macedonia obtained entrustment of budget implementation for Measure 101 “Investments in physical assets of agricultural holdings”, Measure 103 “Investments in physical assets concerning processing and marketing of agricultural and fishery products”, and Measure 302 “Farm diversification and business development” in March 2009.

⁶ The five measures are: (i) Investments in physical assets of agricultural holdings; (ii) Investments in physical assets concerning processing and marketing of agricultural and fishery products; (iii) Farm diversification and business development, (iv) Investments in rural public infrastructure, and (v) Technical Assistance.



gender and youth/non-youth.

- (ii) **Percentage of agricultural produce marketed in compliance with quality standards.** This indicator will measure the (expected positive) change in quality of marketed agricultural produce by using information from the produce class sorting at the Collection and Conditioning Centers (CCCs) for the main project-supported crops. Improvements of produce quality are expected to relate to food safety, food hygiene and product quality classifications. Data will be disaggregated by crop, quality classifications and destination markets - domestic and export.
- (iii) **Share of 2021-2027 Performance Monitoring and Evaluation Framework Indicators recorded in North Macedonia.** This indicator will measure the (expected positive) change of the Monitoring and Evaluation system for agricultural and rural development policy design and implementation supported by the project in terms of its coherence with the European Union's Common Agricultural Policy post-2020 requirements, as envisaged in the CAP post-2020 Performance Monitoring and Evaluation Framework.
- (iv) **Tons of animal by-products safely disposed annually at the animal by-product facility.** This indicator will measure the change of safely disposed ABP at the project-supported facility, in compliance with EU requirements. Data will be disaggregated by ABP classification.

D. Project Description

20. The project is structured along three complementary components as follows:

Component 1: Agriculture Sector Competitiveness (EUR32.0 million)

21. Component 1 aims at enhancing farm-level competitiveness and fostering agricultural produce aggregation and market integration of farmers. The component activities focus on technical assistance (through training and advisory services) and off-farm infrastructure investments to complement existing IPARD measures in on-farm productivity-enhancing investments. It includes the following two sub-components:

22. **Sub-component 1.1 - Access to Training and Advisory Services (EUR1.30 million).** The sub-component aims at providing high-quality training and advisory services for agricultural producers and agribusinesses in two formats: First, it will support targeted trainings on specific topics relevant for the beneficiaries of the CCCs, and the Agri-food Platform (AFP) to be established under sub-component 1.2 in the project areas (Resen, Strumica, Skopje). Such topics are envisioned to include but not limited to: improvement of crop varieties specifically for exports; Global Good Agricultural Practices (GAP); organic agriculture, and climate smart techniques. These trainings will be extended also to the NEA advisors, to increase their capacity. Second, it will provide financial support to producers and agribusinesses throughout North Macedonia in form of matching grants for on-demand advisory services by qualified advisors. Given the existing advisory services by NEA or local government agricultural service staff that primarily support producers' applications for IPARD funds, the project-supported services are expected to enhance access to quality advice on improved production and post-harvest practices, business management skills⁷, marketing, etc. This will be done through the establishment of an Advisory One-

⁷ Given the increased regulation and transparency on the issue of labor standards in the agribusiness value chain in the EU (such as



stop Shop that is expected to strengthen the attractiveness of the CCCs to be established under sub-component 1.2.

23. Sub-component 1.2 - Agriculture and Food Distribution Systems (indicative cost EUR30.7 million). This sub-component aims to develop sustainable and competitive food storage and distribution systems to benefit producers, distributors and consumers. The newly constructed centers will include storage capacity to help agricultural producers adapt to the risk of extreme climatic changes by preserving their produce during harsh winters and hot summers. The sub-component will support the development and operation of two CCCs in Resen and Strumica municipalities, and an AFP in Skopje suburban area, composed of a wholesale market and a logistics area. Specifically, the sub-component project will support: (a) technical assistance for the preparation of feasibility studies, business plans, environmental and social impact assessments, and detailed designs and construction supervision plans for all three facilities; (b) civil works for the construction of three facilities; and (c) operational guidance for the start-up of activities. The facilities are expected to be built on state-owned land and will be owned by the State. The CCCs will be managed through a public delegation service contract to a private operator (cooperatives and/or agri-food sector company). With regard to the AFP, two options have been identified: (a) a public delegation service contract to a private experienced operator; and (b) a public delegation service contract to a semi-public company, with technical assistance for training of local personnel to operate and guide the operation of the market for several years.

Component 2: Institutional Capacity for EU Accession (EUR13.0 million)

24. Component 2 aims at enhancing public support services, including the capacity to design and deliver effective support to the agriculture sector. It includes following three sub-components:

25. Sub-component 2.1 – Evidence-Based Policy-Making (EUR6.5 million). The sub-component will support the establishment of a M&E system for agricultural and rural development policy design and implementation, and information system for management of state-owned agriculture land. It will provide technical assistance, goods, training and study tours to strengthen the MAFWE capacity for effective M&E and evidence-based policy making. Specifically, technical assistance will be provided for:

- Establishing of a M&E system consistent with Common Agricultural Policy (CAP) post-2020 requirements, as described in the recent legislative proposals of the EC. The M&E system will allow to record all relevant indicators -- context, output, result and impact -- as envisaged in the CAP post-2020 Performance Monitoring and Evaluation Framework (PMEF) to guide evidence-based decision making in both agriculture and rural development policy, including associated data collection, surveys, and evaluations.
- Strengthening MAFWE capacity to re-design the existing direct payment scheme in a manner that facilitates compliance with current EU farm income support measures and integration of rural development measures into a common policy framework.

formulated in the 2015 Modern Slavery Act), trainings will ensure to highlight the need to comply with these regulations in particular related to seasonal, casual and transient workers.



- Mapping of data currently collected (in terms of both variables and software/hardware environment) to assess: (a) the needs for and identify data variables to be stored in the platform, and (b) the necessary software and hardware infrastructure. The sub-component will provide support to establish one integrated data platform that includes all relevant data associated with agriculture and rural development that is currently compiled by various MAFWE Departments, AFSARD, NEA, State Statistical Office, and others for decision making at central level.
- Identifying a set of agriculture and rural development performance and impact indicators that can guide evidence-based decision-making aligned with the CAP 2021-2027 PMEF.
- Developing of data update and quality control procedures.
- Facilitating the creation and functioning of an agricultural and rural development evaluation system, including support for ex-ante, ex-post and thematic evaluations to be carried out by independent experts.
- Creating an information system to improve climate knowledge as well as an information platform with key climatic variables and data to be available to all agricultural stakeholders at the national level.

26. Sub-component 2.1 will also strengthen MAFWE capacity to manage state-owned agriculture land through:

- Assisting MAFWE in the drafting Government policy on state land administration and management and of relevant legal framework updates;
- Improving data quality and records of leased state arable land and pastures with the AREC;
- Designing and creating a temporary inventory for state arable land and pastures;
- Supporting the data migration on leases of arable land from the MAFWE electronic system, out of maintenance since 2012, from spreadsheets and paper records of MAFWE and PEMP, into a temporary inventory to allow use of the data while developing the new state agriculture land management information system;
- Establishing a new state agriculture land management information system, including equipment and software, assuring interoperability with the systems of AREC, Ministry of Finance, the Paying Agency (Farm Register) and other institutions;
- Ensuring data migration from the temporary inventory into a new state agriculture land management information system and creating a publicly accessible inventory for state agriculture land in support to transparency and good governance; and



- Analyzing and reengineering of business processes in state agriculture land management to achieve better efficiency and transparency.

27. While project support is limited to strengthening MAFWE capacity to manage state-owned agriculture land, a better managed state-owned agriculture land is expected to support the development of the agricultural land market, both related to leasing and ownership, which in turn will facilitate the consolidation efforts supported under other projects.

28. **Sub-component 2.2 - IPARD Implementation Capacity (EUR2 million).** Sub-component 2.2 aims to strengthen AFSARD (Paying Agency) capacity required for the implementation of the IPARD accredited measures, in particular for Measure 101 “Investments in physical assets of agricultural holdings”, Measure 103 “Investments in physical assets concerning processing and marketing of agricultural and fishery products” which will receive an increase in allocation of EU grant contribution of EUR9.1 million, as well as future measures planned to be accredited, namely the “Improvement and development of rural infrastructure” measure. AFSARD has recruited some 46 new staff (June 2019) and is expected to recruit an additional 21 staff by end of 2019 to ensure adequate staff numbers capacity for the implementation of the accredited measures (as assessed in the workload analysis). The sub-component would support: (a) the renovation of a suitable office building to be identified by the Government to accommodate increased AFSARD staff; and (b) office furniture and information technology equipment.

29. **Sub-component 2.3 - Safe Disposal of ABPs (EUR4.5 million - IBRD; EUR4.5 million - EU IPA grant).** Sub-component 2.3 will support technical assistance, civil works, and goods required for the establishment of an ABP safe disposal system compliant with the provisions stipulated in the EU negotiations Chapter 12 Food safety, veterinary and phytosanitary policy. This will also include support for the operationalization of an ABP control system along the entire chain (production, separation, storage, transport, and disposal and/or processing); training of inspectors and business operators; establishing documented procedures and check lists for the approval of establishments and inspection thereof, completing the alignment as necessary of the legal and regulatory framework in line with the current and relevant EU acquis; and launching a public information and awareness campaign for the food production and processing industry. Ultimately, this sub-component is expected to significantly reduce GHG emissions from livestock disposal.

Component 3: Project Management (EUR1 million)

30. Component 3 aims at supporting MAFWE in the efficient implementation of the project, assuring compliance with fiduciary (financial management, procurement), environmental and social safeguards, and M&E requirements according to the agreed project implementation arrangements. Specifically, the component will provide technical assistance, goods and finance incremental operational costs associated with the establishment of the Project Management Team (PMT), which will be staffed with a Project Director, Project Coordinator, Component Leaders, Procurement Specialist, Financial Management Specialist, Safeguards Specialist, and Technical Specialists. Staff and civil servants of the MAFWE, AFSARD and FVA will be appointed as Component Leaders for the relevant activities. The PMT will also manage the project’s Grievance Redress Mechanism (GRM) and citizen engagement activities. Support for project implementation will also include: provision of technical assistance for the day-to-day coordination, additional technical support, as needed, as well as for fiduciary (procurement, financial management) and safeguards (environmental, social) requirements; training, equipment



and incremental operating costs to support project management and monitoring. It will also support financial audits and surveys as required for monitoring and evaluation of project results and impacts.

Legal Operational Policies

Triggered?

Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

31. The environmental risks considered during the project preparation are mainly those related to the construction and further operation of collection centers, which may include generation of waste, noise, dust, disturbance to local communities and landscapes. The specific impacts cannot be pre-determined and will be identified as part of the development of Environmental and Social Management Plans for each specific site where civil works will be implemented. Project social risk mostly concern ensuring vulnerable and small farmers benefit from the project, most notably Component 1. Other social risks to be considered are mostly those related with the land acquisition given that the project will finance building of two collection centers about 4,000-5,000 sq. meters each and about 18,000 sq. meter agri-food platform whole sale center in Strumica, Resen and Skopje. Land acquisition could be avoided given that there is available agriculture state owned land managed by the MAFWE that could be used and this is the objective of the borrower. If there is a need for land acquisition it is highly unlikely that there might be impact to more than 50 to 100 PAPs. Labor related risks could be higher with the contracted workers for the construction works. There will be diligent supervision whether the contractors adhere to industry collective agreements and the labor law collective agreement which satisfy the standard for Labor Conditions and Environment except the possibility for labor related grievance. The Project related Labor Management Procedures will guide the specific procedures to be prepared for each contractor.

E. Implementation

Institutional and Implementation Arrangements

32. **The Ministry of Agriculture, Forestry and Water Economy (MAFWE).** The MAFWE will be the lead implementing agency with overall responsibility for project management and implementation. AFSARD and the FVA will be supporting implementing and beneficiary agencies. Activities envisaged under sub-component 2.1 to strengthen MAFWE capacity to manage state-owned agriculture land will be implemented in collaboration with the PEMP and the AREC.

33. **Project Management Team (PMT).** A PMT will be established in the MAFWE to guide overall implementation and project management. The PMT will be headed by a Project Director and staffed with a Project Coordinator, Component Leaders, a Procurement Specialist, a Financial Management Specialist, a Safeguards Specialist, and Technical Specialists (civil engineer, etc.), as needed. The State Advisor for Rural Development (civil servant), who is also the MAFWE's Gender Focal Point, has been appointed by the MAFWE as



Project Director. Staff and civil servants of the MAFWE, AFSARD and FVA will be appointed as Component Leaders for the relevant activities. Given the demanding specific requirement for the implementation of the project, it has been agreed that the Project will provide technical assistance for ensuring day-to-day project coordination, additional technical support as needed, as well as Bank fiduciary and safeguards requirements; training, equipment and incremental operating costs to support project management and monitoring.

34. The PMT main responsibilities will include: (a) day-to-day project management; (b) coordination and cooperation among various institutions; (c) coordination with stakeholders, the Bank and co-financiers; (d) preparation of annual work plan and budget; (e) preparation and update as necessary of procurement plan; (f) preparation of quarterly unaudited financial reports and annual audited financial statements; (g) monitoring and evaluation of project activities, including updating of the results framework and monitoring and reporting of safeguards compliance; (h) preparation of semi-annual and annual progress reports; (i) briefing of Ministry on the status of project implementation; and (j) systematic filing of all project-related documents (including procurement and financial management).

35. A Technical Committee, led by the Project Director and involving Project Coordinator, Component Leaders, as well as any additional staff as necessary will be established to ensure coordination at the operational level. The committee will include any technical staff on a case by case base according to the topics to be discussed and should meet at least once a month to ensure there is good progress in planned activities, or in case it would identify bottlenecks and solutions to move forward.

36. Other supporting implementing and beneficiary agencies are the AFSARD and the FVA, while activities relevant to strengthen MAFWE capacity to manage state-owned agriculture land will be coordinated with AREC and PEMC.

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