Concept Environmental and Social Review Summary
Concept Stage
(ESRS Concept Stage)

Date Prepared/Updated: 08/19/2019 | Report No: ESRSC00622
## BASIC INFORMATION

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Region</th>
<th>Project ID</th>
<th>Parent Project ID (if any)</th>
</tr>
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<tbody>
<tr>
<td>Serbia</td>
<td>EUROPE AND CENTRAL ASIA</td>
<td>P167634</td>
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**Project Name**: Serbia: Competitive Agriculture Project (SCAP)

<table>
<thead>
<tr>
<th>Practice Area (Lead)</th>
<th>Financing Instrument</th>
<th>Estimated Appraisal Date</th>
<th>Estimated Board Date</th>
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<tr>
<td>Agriculture and Food</td>
<td>Investment Project Financing</td>
<td>9/2/2019</td>
<td>11/21/2019</td>
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<tr>
<th>Borrower(s)</th>
<th>Implementing Agency(ies)</th>
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<tr>
<td>Ministry of Finance</td>
<td>Ministry of Agriculture, Forestry and Water Management</td>
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**Proposed Development Objective(s)**

Improve market access for small and medium agricultural producers in Serbia

<table>
<thead>
<tr>
<th>Financing (in USD Million)</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Total Project Cost</td>
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### B. Is the project being prepared in a Situation of Urgent Need of Assistance or Capacity Constraints, as per Bank IPF Policy, para. 12?

No

### C. Summary Description of Proposed Project [including overview of Country, Sectoral & Institutional Contexts and Relationship to CPF]

The objective will be achieved through a) improving productivity of small and medium scale farmers by strengthening advisory and technical support; b) supporting market access of small and medium scale farmers (including finance and business planning capacity); c) improving government systems to strengthen the enabling environment for all agricultural producers (including capacity building for the Ministry, information systems, data platform).

While the 2015 Strategic Country Diagnostic (SCD) identified agriculture as a priority sector for the twin goals, the Country Partnership Strategy (CPF) for the period of FY16-20 did not originally envisage an operation because of counterpart readiness. However, engagement with a new team at the Ministry of Agriculture, Forestry and Water Management (MAFWM) demonstrates a new strategic drive and opportunity to make an impact. The Performance
and Learning Review (PLR) of the CPF (February 2019) identifies agriculture as one of the high priorities for the Government with an important dimension of shared prosperity.

D. Environmental and Social Overview

D.1. Project location(s) and salient characteristics relevant to the ES assessment [geographic, environmental, social]

Serbia Competitive Agriculture Project (SCAP) will target its financial and technical support to small and medium agricultural producers, agribusiness and agro-processors for increased productivity and access to markets across Serbia and beyond. The project is covering the whole country, although it is expected that most beneficiaries will be in the Southeastern part of the country, where small and medium scale agricultural production predominates, volumes per producer are relatively small and private investment is limited. As main beneficiaries will be producers, agribusinesses and agro-processors, the project will predominantly be implemented in rural areas. The project has two components. Component 1 will provide technical and financial assistance to producers, producer groups and agribusiness. Technical assistance (sub-component 1.1) will include support for preparation and implementation of business plans, which may include: business skills and organizational training for small-scale producers; advisory services that would contribute to the implementation of the proposed activities. The business plans will also include public good/ compliance elements (environmental and social aspects, food safety compliance, etc.). This sub-component will also support banks with developing methodologies suitable for assessing credit for the types of investments and beneficiaries of the project. Financial assistance (sub-component 1.2) will include matching grants for capital investments in on-farm inputs and equipment, machinery, processing units, packaging, storage, etc. Value of matching grants may range between 10,000-100,000 for agricultural producers and 30,000-400,00 for agricultural processors (50% financed by the project) This sub-component will also provide technical support to producers for using private loans for financing part of the business plans and to commercial banks for the use of existing public guarantee funds to de-risk investments in small and medium agricultural producers.

Component 2 will support the MAFWM to effectively manage the grant-related activities through the upgrade and coordination of the Ministry’s information systems (sub-component 2.1) and establishment of a open data platform (sub-component 2.2) for production and market information. This component will finance improvements in hardware, software and human capacity. The component will also support the digitalization of on-farm investments and their links to the open data platform.

Social profile and sector background significant from social risk management perspective: (i) 44.5% of Serbia’s population is rural with agriculture contributing 9% to the country’s GDP and formal employment in agriculture of 19.4%; (ii) Most farms are mixed income; only 20% of rural household income comes from agriculture with non-farm employment and social assistance contributing most to household income. 99.5% are family farms; (iii) Serbia’s rural areas are characterized by outmigration and aging populations; (iv) Agriculture continues to be an important safety net in terms of food and income security for old people, given that pensions are small or inexistent, and for unemployed younger people; (v) Women represent a high share of agricultural labor (36.2%) vs. 64% formal employment among men, but the majority (80%) of informal workers in the agricultural sector are women. Women are rarely employed full-time on the holding, their work in the household and the farm holding is not legally recognized, increasing their economic dependence and lack of labor protection (e.g., maternal leave, insurance, pension); (vi) 26.7% of farm holdings are registered to women and 15.9% of the women make decisions on the organization of the agricultural production of the farm holding. However, more women are becoming grant recipients...
of government agricultural grant schemes and have an active role in the decision making for production and post-
harvest.

D. 2. Borrower’s Institutional Capacity

The Project will be implemented by a Project Management Team (PMT) consisting of seconded staff from MAFWM and consultants to support specialized functions, including Grant Coordinator, Grant Finance Specialist, Environmental and Social Specialists. To implement the grant component, the MAFWM may engage a firm to help review proposals. The PMT will be housed in the Ministry’s Directorate for Agrarian Payments (future Paying Agency) responsible for implementation of agriculture support programs. Although MoA has past experience gained from implementing a Bank operation (closed in 2013), at the present, they do not have staff knowledgeable about environmental and social risk management procedures. The existing Paying Agency has no staff experienced in environmental nor social screening and dealing with the environmental or social impacts of related investments. Thus, the PMT will be obliged to hire, prior to the Project effectiveness, Environmental and Social Specialists with experience on IFI’s social and environmental standards to conduct social and environmental due diligence for the project, including environmental and social screening of business plans submitted under the grant scheme. The Project Operations Manual (POM) will detail implementation arrangements, including the roles and responsibilities of the Environmental and Social Specialists. The Bank team will also carry out ESF training of relevant PMT staff. It is expected that the financial mechanisms supported by the project, the agricultural grant scheme for small and medium farmers, will continue to operate beyond the duration of the project. As part of the project’s environmental and social due diligence, project will support the development of durable environmental and social management procedures, systems and capacity within MoA to encourage responsible management of environmental and social risks of financially supported agricultural SMEs beyond the project period.

II. SCREENING OF POTENTIAL ENVIRONMENTAL AND SOCIAL (ES) RISKS AND IMPACTS

A. Environmental and Social Risk Classification (ESRC)

Environmental Risk Rating

- National institutions dealing with the environmental assessment, management and monitoring are at various stages of development in relation to implementation capacity and monitoring, and application of the enforcement mechanisms. Generally, they have limited capacities for implementation of ESF. Adoption of the common standards and implementation enforcement mechanisms for agricultural grant schemes will need to be designed and implemented during the project execution;

- Ministry of Agriculture and Paying Agency have no staff responsible for environmental risk identification, mitigation and monitoring. Due to organizational and legal constraints use of staff from other institutions at the national level is not likely - MoA will have to develop in-house capacity for screening and monitoring environmental risks associated with agricultural grant schemes. In order to mitigate the above risk, PA will hire suitable qualified and experienced staff, while the project will support internal and external training activities;

- Project related activities may fund on-farm investments for optimization and diversification of production, including small scale civil works, equipment, processing units, packaging and storage facilities. Application of good environmental and agricultural practices and development of respective guidelines will be part of the environmental and social due diligence activities related to agricultural grant schemes;
The nature of environmental risks and impacts are directly linked to implementation of activities related small-scale construction works (small processing facilities, animal husbandry related structures; machine sheds and equipment storage facilities). The nature of environmental risks mainly relates to physical impacts, construction labor and site management, material management on small construction sites, and in some cases possible local water/groundwater issues - that cannot be determined more specifically at this point;

- The project may finance limited activities related to internationally and nationally designated and/or protected areas. Management of relevant impacts of these activities on biodiversity and habitat preservation, however minor, will have to be implemented in accordance with the legally binding national, international and Bank’s procedures;

- Activities related to training and advisory services will include environmentally friendly practices for use of new technologies, adherence to food safety and quality standards, technical standards on inputs including herbicides and pesticides;

- Given the low risk nature of the interventions, the limitations on implementation capacity and application of enforcement mechanisms related to future subprojects, the project’s environmental risk is considered to be moderate.

**Social Risk Rating**

Moderate

The project will introduce integrated business support, improved access to agricultural market information and provide grants to small and agricultural production units with commercial potential currently excluded from other agricultural support programs. These activities are generally anticipated to have positive impacts on the targeted beneficiaries in terms of increased sales, income, and employment. The project will facilitate consolidation at product level and there is very little potential for land take. Additionally, the project will reduce risks of economic loss for farmers by introducing two-way communication about plan and animal health risks and early warning systems for anticipating changing climate conditions. Most of the SME portfolio supported through the grant scheme is expected to support activities that have limited social risks, impacts that are site specific and predictable (e.g., potential pollution from intensified use of pesticides & fertilizers). Given the prevalence of labor informality in the agricultural sector in Serbia, the Borrower will require grantees to contractually enforce the national labor law. The project targets agricultural units that have commercial potential, which means that majority mixed-income farms that do not have this focus would not be eligible or have direct access to the agricultural grant schemes and financial products enabled by the credit guarantee fund. This creates a potential risk of perceived exclusion from project benefits which the project will address through an awareness campaign, transparent communication about the project scope, clear eligibility and selection criteria and application procedures in the Grant Operational Manual. Given the unequal position of women in the agricultural sector, both in terms of holding ownership and decision making regarding production, the risk of exclusion of women in terms of eligibility and access to project financial and non-financial benefits cannot be ruled out. Because calls for proposals will be on-going throughout the duration of the project, they can be targeted to different beneficiary groups (women, youth) and hence resolve some of the perceived risks for their exclusion. The project will develop a methodology for social risk screening and identification of any unwanted indirect impacts on non-beneficiary farmers and opportunities for targeted actions to enhance women’s access to project benefits. Given the low risk nature of the intervention, the complexity of enforcing workers’ rights under multiple subprojects, the potential of perceived exclusion from project benefits, and the low capacity of the client, the project’s social risk is considered to be moderate.
B. Environment and Social Standards (ESSs) that Apply to the Activities Being Considered

B.1. General Assessment

ESS1 Assessment and Management of Environmental and Social Risks and Impacts

Overview of the relevance of the Standard for the Project:

Based on project screening, project description, discussions with the stakeholders and web-research, environmental risks mainly relate to lack of environmental risk assessment at design stage, inadequate monitoring and application of enforcement mechanisms for on-farm investments and agricultural grant schemes (in the range of 10,000-100,000 for agricultural producers and 30,000-400,000 for processors). Range of different tools will be used within the project cycle, among them the following: project level Environmental and Social Management Framework (ESMF) that will assess current level of implementing agencies capacities, gaps and responsibilities for application of ESF and mitigation measures. Although, due to the size and nature of each particular investments, the project related activities are unlikely to result in major environmental risks or significant negative non-reversible impact, lack of the experienced staff in the implementing institutions (MoA and PA) and lack of formalized screening procedures with respect to environmental and social risks and impacts will necessitate development and implementation of a targeted methodology for environmental and social risks and impact screening for agricultural grant schemes as part of the project ESMF. The methodology will also consider/include development of good agriculture practice notes on related subjects, including but not be limited to: land use, labor, water use, herbicides/pesticides, etc.

Social risk screening was conducted based on project description, web-research and review of Bank’s sector review for agriculture in Serbia (2015), technical note on expanding agricultural export in Serbia (2017), Bank’s paper on employment patterns in agriculture in Serbia (2018) and UN Women report on situation of rural women in Serbia (2017). The identified social risks are related to labor’ rights of workers engaged by the on and off-farm production units supported by the project given the prevalence of informal labor in the agricultural sector, especially among women. Violations of workers’ rights are relatively common in Serbia (e.g., work without contract, nonpayment of salary, pension and health contribution, etc). 67% of all employment in the agricultural sector is informal with females representing 80 percent of all informal workers in agriculture. Grantees are expected to adhere to the national labor law. The project ESMF will further assess these labor risks and provide clear measures to manage them through the grant application process (eligibility criteria), monitoring (e.g. spot checks) and providing grantee workers access to the project-level GRM. Other potential social risks include the matching grant system predominantly benefitting men, who are majority owners of agricultural land, and financially stronger (medium size) farmers. Negative economic impacts of improved efficiency of beneficiary commercial production units (including reduced price and enhanced quality) on non-beneficiary mixed-income farmers for whom agricultural sales represents an important safety net may also occur.

The assessment of anticipated social impacts of grant schemes will be undertaken to: (i) assess project impacts on employment and labor, including identification of additional labor risks (working conditions and rights) in the agricultural sector; (ii) assess indirect impacts of project activities on non-beneficiary farmers; and (iii) assess potential gender risks and opportunities related to access to project benefits, both financial and non-financial support. Based on the assessment, appropriate adjustments to the project activities (training scope, grant eligibility criteria), and implementation arrangements (for monitoring and enforcing labor requirements) will be made to ensure equitable service delivery and to avoid anticipated risks. Environmental and social screening guidelines will be
developed in form of an ESMF prior to project Appraisal, while the team will also revise accordingly once the implementation starts and the actual grant program is developed.

Areas where “Use of Borrower Framework” is being considered:
Given the nature and complexity of project activities and considering existing deficiencies and institutional capacities of the Borrower, the Borrower’s E&S Framework will not be used for the project as a whole, nor for any of its parts.

ESS10 Stakeholder Engagement and Information Disclosure
Direct beneficiaries are small & medium size production units with (greater) commercial potential, most of which are expected be located in the Southeastern part of the country where poverty is most prevalent. This includes producers, producer groups and agro-processors linked to smallholder farms. The project will directly benefit women farmers through targeted business training and financial services. The MoA and its Directorate for Agrarian Payments (future Paying Agency), Advisory Services, Veterinary and Phytosanitary Services will directly benefit from modernized information systems and improved capacity to deliver services. Larger producers and aggregators will benefit indirectly from better access to sector information and financial services. Financial institutions will benefit indirectly from expanded customer base of commercial production units. Other interested parties may include Farmer’s Associations, NGOs representing the interest of different farmer groups and rural populations and women business networks.

The project will launch a public awareness campaign to present the features of the support program to familiarize the potential applicants with the schemes and EU required standards and documentation. A Grievance Redress Mechanism will provide the opportunity for continued feedback on the grant scheme and resolution of individual grievances during implementation. Procedures related to complaints handling will be posted on the MoA’s website to ensure full transparency. The Borrower will initiate a stakeholder engagement processes to identify additional project stakeholders and prepare a Stakeholder Engagement Plan (SEP) that outlines the timing and methods of engagements with different stakeholders, including hard to reach groups (e.g., women, older farmers).

B.2. Specific Risks and Impacts
A brief description of the potential environmental and social risks and impacts relevant to the Project.

ESS2 Labor and Working Conditions
The types of workers relevant for this project include contracted workers (individuals and/or firms contracted to perform training and technical assistance), civil servants and direct workers (consultants engaged by MAFWM). The PMT will consist of seconded staff from entity ministries and agencies, which are classified as government civil servants under ESS2, para 8, and consultants, which are classified as direct workers. All requirements of ESS2 will apply to direct and contracted workers hired by the MAFWM. The Serbian Labor Law includes provisions on non-discrimination, minimum employment age (15 years), freedom of association, protection and safety at work, etc. It prohibits forced and child labor. The Borrower will prepare Labor Management Procedures as part of the project’s ESMF, which will outline the Borrower’s enforcing ESS2 requirements. None of the identified project workers are considered vulnerable. The use of community workers is also not anticipated.
ESS3 Resource Efficiency and Pollution Prevention and Management

The standard is relevant to project Component 1 and activities that focus on agricultural knowledge support and technical assistance related to on-farm inputs and equipment required for the optimization of production and/or diversification, as well as technical advice on inputs, technologies and alternatives. It is also relevant to Component 2 – through demand driven training and advisory services, use of new technologies, adherence to food safety and quality standards and development of linkages with producer organizations. The project will promote the use of good environmental and agricultural practices to contribute to climate adaptation and mitigation and to improve the technical knowledge and skills of beneficiaries in, among others, water and energy efficiency, pollution prevention and use of herbicides and pesticides in line with the best available technologies, international and FAO standards. Agricultural knowledge support will be provided in the form of group-based interventions (training) and individual technical assistance (advisory services). While developing the above trainings/practices and guidance notes, the Borrower will additionally draw on WBG EHS guidelines, national legislation and codes of good agricultural and engineering practice. The above documents will be referenced in ESMF and through a generic matrix indicated if/when relevant for various project-related activities. The information contained in the ESMF will then be used in developing site or activity-related ESMPs.

ESS4 Community Health and Safety

The project is likely to lead to increased use of fertilizers and farm pesticides as a result of enhanced farm productivity. Production units supported by the project will be required to follow EU guidelines for safe and sustainable farming and food processing and FAO guidelines on herbicide/pesticide use. Thus, increase in risks to community health and safety is not expected although accidental pollution releases are possible. Project targets small and medium (often family owned) farms that do not use security personnel.

ESS5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement

Under component 1, the project will encourage economic clustering of smaller production units to improve their competitiveness. Instead of consolidating land, the aggregation will take place at the product level while production will remain at the original farms. Although some farmers may choose to expand their production units by adding surface area to their holdings (either by buying or leasing land and with no involuntary acquisition of land or assets), the project’s grant scheme is mostly expected to enhance the productivity of already utilized agricultural land. Procedures for screening out transactions that are not willing-buyer willing-seller will be described in the Environmental and Social Management Framework (ESMF) prepared for the project.

Under component 2, there will be no need for new buildings to accommodate the hardware (and software) financed by the project to modernize the MoA’s information systems. Based on this initial screening of risks and impacts associated with ESS5, this ESS is not considered applicable.

ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources

The project area is the whole country, which includes several nationally and internationally recognized natural and critical habitats, protected areas, wetlands and Ramsar sites as well as hundreds of locally designated nature sites. At this point it is not known, but is assumed likely, that some of the project funded activities may include support to
small scale community agriculture that is undertaken within areas under some level of protection. The environmental and social screening criteria, to be developed during the project implementation for the agricultural grant scheme for small and medium farmers, will screen for the relevant risks and apply mitigation hierarchy. The environmental screening criteria will ensure that no activities with potential negative impact are eligible for funding in natural or critical habitats. In case of activities to be funded by the project and to be implemented in modified habitats (like mushrooms harvesting and honey production), the project-level ESMF will present requirements for the Borrower to avoid or minimize the respective impacts on biodiversity and implement mitigation measures as appropriate. Where the activities in modified habitats are considered, the project will incorporate consultations with protected area sponsors, national and local guardian institutions and relevant stakeholders, including local communities, and NGOs. Where necessary, a site-specific biodiversity management plans will be reviewed, updated and/or developed. Where the above plans are not existing, development of a site-specific ESMPs will be considered as a part of the screening and approval procedure.

ESS7 Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities
Serbia does not have distinct social and cultural groups as covered by ESS7. Thus, this standard is not applicable.

ESS8 Cultural Heritage
The project will aim to optimize production on already utilized agricultural land. As the project will not contribute to land use change, and the project will support only a very limited construction or rehabilitation of buildings within already existing agricultural processing complexes and/or operational agricultural farms, it is very unlikely that there will be any interaction with the known cultural heritage sites. However, in the event of chance finds, the Borrower will deal with it taking into account national legal requirements that are fully consistent with UNESCO and good international practice.

ESS9 Financial Intermediaries
The project will provide technical support to producers for using private loans for financing part of the business plans, to commercial banks for the use of to existing public guarantee funds to de-risk investments in small and medium agricultural producers, and to the Ministry on the needs assessment for a public guarantee fund to ensure financial sustainability of these investments. The project will not finance the on-lending/risk sharing activities of the funds, therefore this standard is not applicable.

B.3 Other Relevant Project Risks
At this stage, no other risks are envisaged.

C. Legal Operational Policies that Apply

OP 7.50 Projects on International Waterways

No
III. WORLD BANK ENVIRONMENTAL AND SOCIAL DUE DILIGENCE

A. Is a common approach being considered?  
No

Financing Partners
None

B. Proposed Measures, Actions and Timing (Borrower’s commitments)

Actions to be completed prior to Bank Board Approval:
1. Prepare project specific Environmental and Social Management Framework - assess current level of implementing agencies capacities, gaps and responsibilities for application of ESF and mitigation measures, and outline the environmental and social screening requirements for the agricultural grant scheme for small and medium farmers.
2. The Borrower will prepare, in consultation with the Bank and key stakeholders, a Stakeholder Engagement Plan (SEP) before Appraisal.
3. The Borrower will prepare Labor Management Procedures consistent with ESS2 as part of the ESMF.

Possible issues to be addressed in the Borrower Environmental and Social Commitment Plan (ESCP):
1. SEP integrated into project preparation as well as implementation stages as agreed with the Bank in terms of content and time framework.
2. Hiring of Environmental and Social Specialists with experience on IFI’s social and environmental standards.
3. Capacity development plan for the borrower implemented with the aim of reaching appropriate level of environmental and social risks management capacity at critical project junctions.
4. Ongoing screening of environmental and social risks of grants conducted in line with ESMF screening requirements.

C. Timing

Tentative target date for preparing the Appraisal Stage ESRS: 23-Aug-2019

IV. CONTACT POINTS

World Bank

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<thead>
<tr>
<th>Contact</th>
<th>Title</th>
<th>Email</th>
</tr>
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<tbody>
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Borrower/Client/Recipient

Aug 19, 2019
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VI. APPROVAL

Task Team Leader(s): Svetlana Edmeades, Olivera Jordanovic
Practice Manager (ENR/Social) Kevin A Tomlinson Recommended on 08-Aug-2019 at 16:20:44 EDT
Safeguards Advisor ESSA Surhid P. Gautam (SAESSA) Cleared on 19-Aug-2019 at 09:35:1 EDT