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April 11, 2017

**Closing Date: Friday, April 28, 2017
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FROM: Vice President and Corporate Secretary

Kosovo – Agriculture and Rural Development Project
Project Paper

Attached is the Project Paper regarding a proposed restructuring and additional credit to Kosovo for an Agriculture and Rural Development Project (IDA/R2017-0099), which is being processed on an absence-of-objection basis.

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Report No: PAD1875

INTERNATIONAL DEVELOPMENT ASSOCIATION
PROJECT PAPER
ON A
RESTRUCTURING AND
PROPOSED THIRD ADDITIONAL FINANCING
IN THE AMOUNT OF 20.80 EUR MILLION
(US\$ 22.0 MILLION EQUIVALENT)
TO THE
REPUBLIC OF KOSOVO
FOR THE
AGRICULTURE AND RURAL DEVELOPMENT PROJECT

April 5, 2017

Agriculture Global Practice
EUROPE AND CENTRAL ASIA

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CURRENCY EQUIVALENTS

(Exchange Rate Effective February 28, 2017)

Currency Unit = Euro

Euro = US\$1.0603

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ADA	Agency for Agricultural Development
AF	Additional Financing
ATSD	Advisory and Technical Services Directorate
CEFTA	Central European Free Trade Agreement
CPF	Country Partnership Framework
DANIDA	Danish International Development Agency
EA	Environmental Assessment
ERR	Economic rate of Return
ESMF	Environmental and Social Management Framework
EU	European Union
FA	Financing Agreement
FM	Financial Management
F&V	Fruits and Vegetables
GAP	Good Agricultural Practices
GDP	Gross Domestic Product
GIZ	German Agency for International Cooperation
GOK	Government of Kosovo
GPN	General Procurement Notice
GRS	Grievance Redress Service
IDA	International Development Association
IPARD	Instrument for Pre-Accession for Rural Development
IRR	Internal Rate of Return
KARDP	Kosovo Agriculture and Rural Development Project
M&E	Monitoring and Evaluation
MA	Managing Authority
MAFRD	Ministry of Agriculture, Forestry and Rural Development
MED	Ministry of Economic Development
MESP	Ministry of Environment and Spatial Planning
MIS	Management Information System
MoF	Ministry of Finance
NARDP	National Agriculture and Rural Development Plan
NGO	Non-governmental Organization
NPV	Net Present Value
PA	Paying Agency
PDO	Project Development Objective
POM	Project Operations Manual
PIU	Project Implementation Unit
RAS	Rural Advisory Services
RDGP	Rural Development Grant Program
SCADA	Supervisory Control and Data Acquisition
SME	Small- and Medium Enterprises

TA	Technical Assistance
TF	Trust Fund
USAID	United States Agency for International Development
WB	World Bank

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Country Director:	Ellen A. Goldstein
Country Manager:	Marco Mantovanelli
Senior Global Practice Director:	Juergen Voegele
Practice Manager:	Julian Lampietti
Task Team Leader:	Meeta Sehgal

REPUBLIC OF KOSOVO
AGRICULTURE AND RURAL DEVELOPMENT PROJECT

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ADDITIONAL FINANCING DATA SHEET

Kosovo

Kosovo Agriculture and Rural Development Project - Third Additional Financing (P158710)

EUROPE AND CENTRAL ASIA

GFA03

Basic Information – Parent										
Parent Project ID: P112526				Original EA Category: B						
Current Closing Date: 31-Jul-2017										
Basic Information – Additional Financing (AF)										
Project ID: P158710				Additional Financing Type (from AUS): Restructuring, Scale Up						
Regional Vice President: Cyril E Muller				Proposed EA Category: B						
Country Director: Ellen A. Goldstein				Expected Effectiveness Date: 15-Jul-2017						
Senior Global Practice Director: Juergen Voegele				Expected Closing Date: 30-June-2021						
Practice Manager/Manager: Julian A. Lampietti				Report No: PAD1875						
Team Leader(s): Meeta Sehgal										
Borrower										
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Ministry of Agriculture, Forestry and Rural Development			Kapllan Halimi		General Secretary		38649190463		Kapllan.halimi@rks-gov.net	
Project Financing Data - Parent (Agriculture and Rural Development-P112526) (in USD Million)										
Key Dates										
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date			
P112526	IDA-50050	Effective	14-Jun-2011	26-Jul-2011	03-May-2012	31-Jul-2017	30-Jun-2021			
P112526	TF-16235	Closed	06-Feb-2014	18-Mar-2014	18-Mar-2014	30-Dec-2016				
Disbursements										
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed	
P112526	IDA-50050	Effective	USD	20.15	20.15	0.00	16.34	2.10	81.07	

P112526	TF-16235	Closed	USD	6.79	6.79	0.00	6.79	0.00	100.00
Project Financing Data - Additional Financing Kosovo Agriculture and Rural Development Project - Third Additional Financing (P158710)(in Euro Million)									
<input type="checkbox"/> Loan <input type="checkbox"/> Grant <input type="checkbox"/> IDA Grant <input checked="" type="checkbox"/> Credit <input type="checkbox"/> Guarantee <input type="checkbox"/> Other									
Total Project Cost: 26.25				Total Bank Financing: 20.80					
Financing Gap: 0.00									
Financing Source – Additional Financing (AF)								Amount	
International Development Association (IDA)								20.80	
LOCAL BENEFICIARIES								5.45	
Total								26.25	
Policy Waivers									
Does the project depart from the CAS in content or in other significant respects?							No		
Explanation									
Does the project require any policy waiver(s)?							No		
Explanation									
Team Composition									
Bank Staff									
Name	Role	Title	Specialization	Unit					
Meeta Sehgal	Team Leader (ADM Responsible)	Senior Agricultural Spec.		GFA03					
Manjola Malo	Procurement Specialist (ADM Responsible)	Procurement Specialist		GGO03					
Jonida Myftiu	Financial Management Specialist	Financial Management Specialist		GGO21					
Ama Esson	Team Member	Program Assistant		GFA03					
Bekim Imeri	Safeguards Specialist	Senior Social Development Specialist		GSU03					
Christine Heumesser	Team Member	Economist		GFAGE					

Esma Kreso	Safeguards Specialist	Senior Environmental Specialist		GEN03
Hiroimi Yamaguchi	Team Member	Consultant		GFA03
Ivana Bojic	Team Member	Team Assistant		ECCKO
Lisa Lui	Counsel	Lead Counsel		LEGLE
Luis M. Schwarz	Team Member	Senior Finance Officer		WFALN
Pieter Waalewijn	Team Member	Senior Water Resources Mgmt. Spec.		GWA09
Trandelina Baraku	Team Member	Consultant		GSU03
Dilshod Khidirov	Team Member	Senior Agricultural Spec.		GFA03
Extended Team				
Name		Title	Location	
Locations				
The project will be implemented at the national level				
Institutional Data				
Parent (Agriculture and Rural Development-P112526)				
Practice Area (Lead)				
Agriculture				
Contributing Practice Areas				
Additional Financing Kosovo Agriculture and Rural Development Project - Third Additional Financing (P158710)				
Practice Area (Lead)				
Agriculture				
Contributing Practice Areas				
Water				
Consultants (Will be disclosed in the Monthly Operational Summary)				
Consultants Required? Consultants will be required				

I. INTRODUCTION

1. This Project Paper seeks the approval of the Executive Directors for a restructuring and additional Credit in an amount of Euro 20.80 million (US\$22.0 million equivalent) to the Republic of Kosovo for the Kosovo Agriculture and Rural Development Project (KARDP) (P112526; Credit number 5005-XK).
2. The AF will scale up existing activities as well as finance new activities under KARDP. It will expand the reach of the project and enhance its development effectiveness by contributing to increasing: (i) farm and agro-enterprise productivity and profitability; (ii) agricultural exports, especially in high-value products; (iii) employment in rural areas – both long-term and seasonal; (iv) rural incomes; and (v) economic opportunities for women and youth in the agriculture sector. This is envisaged to be achieved by support for ongoing activities with some modifications as well as the inclusion of a new component - Support for Irrigation.
3. Project savings, in the amount of approximately €0.99 million (US\$1.0 million equivalent), incurred due to exchange rate fluctuations and lower contract values and operating costs than estimated at preparation will be used to finance the development of a strategy and investment framework for the irrigation sector to guide future investments in the sector.
4. The restructuring and AF also comprise: (i) a reformulation of the Project Development Objective (PDO) to make it more concise and focused. The new PDO is to improve productivity of and access to markets by project beneficiaries in the horticulture and livestock subsectors of Kosovo and strengthen the institutional capacity of the Ministry of Agriculture, Forestry and Rural Development; (ii) modification to the Results Framework; (iii) application of two additional safeguard policies; (iv) revision to legal covenants to reflect current implementation arrangements and updated circumstances and components of the project; and (v) an extension of the project closing date.

II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

A. Country Context

5. **The declaration of independence in February 2008 gave a new impetus to Kosovo's development agenda.** Over the past few years, Kosovo's overall economic growth has been generally positive, averaging about 4-5 percent annually, driven mostly by massive donor-funded reconstruction efforts as well as remittances from its diaspora. The economy has demonstrated a considerable degree of resilience, with principal macro fiscal and financial indicators reflecting that the country has performed considerably better than any of its neighbors in the Western Balkans over the past decade. Kosovo is a potential European Union (EU) candidate country and economic reforms are largely driven by the prospect of eventual EU accession. The Stabilization and Association Agreement, the first formal step towards EU membership, was signed in October 2015 and went into force in April 2016.

6. **Despite the positive trend in growth and relatively stable and resilient economy, Kosovo remains one of the poorest countries in Europe.** Approximately 30 percent of the country's population of 1.8 million lives below the national poverty line of €1.72 a day and about 10.2 percent live in extreme poverty on less than €1.20 day. Unemployment is widespread, estimated at about 30 percent in 2013, the highest in Southeast Europe. Unemployment among women is estimated at 38.8 percent. Demographically, Kosovo is

Europe's youngest country, where the average age is estimated at 26 years. Unemployment among the youth is especially high, estimated at 61.0 percent in 2014.

7. **The main driver of Kosovo's economic growth has been consumption fueled by remittances rather than income earned domestically.** The steady consumption demand has been met mainly by imports given the country's narrow, undiversified, and uncompetitive production base. There is little export-orientation and imports remain large. Kosovo is one of the least integrated countries in the region, with exports of goods and services comprising less than 18 percent of Gross Domestic Product (GDP), which is considerably lower than for all other countries in South East Europe. The current growth model based on large financial inflows is unsustainable and the main challenge for the country remains the establishment of conditions conducive to promoting self-sustained growth founded on increased domestic productivity and export competitiveness, within the framework of reducing high unemployment, improving human capital and building physical infrastructure.

8. **Kosovo's location, EU membership prospects and free market access to the EU and Central European Free Trade Agreement (CEFTA) countries offer strong opportunities for sustained and rapid overall development.** The government is committed to instituting reforms to promote sustainable economic development and is working to put in place the policies, institutions and investments that will help unleash the country's growth and export potential. In this context, the National Development Strategy 2015-2020 emphasizes four priority pillars: (i) human capital and employment; (ii) good governance and rule of law; (iii) competitive industries; and (iv) infrastructure development.

B. Sector Context

9. **Agriculture plays a significant role in Kosovo's economy.** It is an important contributor to GDP, accounting for about 11.4 percent of GDP in 2014 (second only after wholesale and retail trade). Over 62 percent of the country's population lives in rural areas and depends, directly or indirectly, on agriculture for its livelihood. The sector is the largest private employer, accounting for about 35 percent of total employment, although primarily on an informal basis. Poverty in rural areas is especially high and over 40 percent of the rural population is unemployed. The lack of job perspective, especially among the rural young population is putting a strain on social cohesion and encouraging out-migration. Often, agriculture serves as a safety net for much of the population.

10. **The sector faces several diverse and inter-related challenges that prevent it from meeting its productive potential.** Before the 1990s, Kosovo was largely food self-sufficient with large quantities of agricultural products exported to the region. However, after the war, this trend was reversed so that today, agriculture is largely subsistent/semi-subsistent in nature. The sector is characterized by small, fragmented land holdings, with average land holding size ranging between 1.5 and 2.0 ha, often spread across an average of seven smaller plots. Lack of and/or limited access to, *inter alia*, modern technologies, good quality inputs, irrigation, post-harvest management and processing infrastructure, credit, and markets pose serious challenges to the development of the sector. In its current state, agriculture attracts limited private investments which effectively inhibits commercialization of the sector and the gains thereof.

11. **Kosovo is the largest importer of food per capita in Europe.** The country is highly dependent on imports to meet its food demands and the export/import ratio has been steadily increasing over the past decade. In 2011, the value of imports of agricultural products was approximately €561.4 million while the value of exports was €26.2 million. Exports of

agricultural products thus generated revenues to pay for only 4.6 percent of the cost of importing such products. Agricultural products account for about 10 percent of all imports; of this, 30 percent comprises food products.

12. Two areas that offer good opportunities for the development of Kosovo's agricultural sector include the horticulture and livestock subsectors. Horticulture and livestock farming are traditional economic activities in Kosovo, representing a rural cultural identity. There is a strong preference among the farming communities to remain engaged in these subsectors for their livelihood. Over 53 percent of Kosovo's territory is classified as good arable land and the country is endowed with generally good agro-climatic conditions highly suitable for horticultural production. Over the past decade, demand for high value horticulture products has surged more than any other food category and there is a strong consumer preference for locally grown fruits and vegetables, both for fresh consumption and processing. Livestock farming is predominant in the mountainous and remote areas of Kosovo where it often serves as the primary source of rural livelihood. With increased productivity there is good potential for: (i) decreasing imports - in 2014, imports of fruits and vegetables exceeded exports roughly eleven and five times respectively¹; currently, most of the domestic demand for milk, meat and meat products is met by imports and a high share of local production still serves subsistence purposes; (ii) boosting exports, especially to EU and CEFTA countries; (iii) generating employment in rural areas given the labor-intensive nature of these subsectors, particularly horticulture; (iv) creating economic opportunities for women in agricultural production and especially value-added processing activities - women are heavily involved in the value-added segment of the horticulture and livestock value chains through the production of, *inter alia*, jams, juices, pickles and cheese; and (v) providing opportunities for young farmers to be gainfully employed in these remunerative value chains.

13. To harness the potential of these subsectors, especially the horticulture subsector, there is a need for irrigation. Although total rainfall in Kosovo is on average sufficient to ensure reasonable yields for most staple crops, rainfall patterns show high variability. Uneven distribution of precipitation throughout the year, especially during critical growth periods, has affected agricultural productivity and supplementary irrigation is crucial, especially during drier spells. For fruits and vegetables, irrigation is essential for increasing yields as well as for ensuring produce quality and timely production. It is expected that with irrigation small farmers would move to more high-value crops and specialized markets and away from near-subsistence agriculture.

14. Ageing irrigation infrastructure and lack of maintenance are reducing the level of irrigation use and impacting development of agriculture. Most of the irrigation schemes were built in the 1970s and are showing signs of deterioration. Moreover, the war of the 1990s damaged or destroyed large sections of country's irrigation infrastructure. The area equipped for irrigation fell from approximately 71,000 ha before the war to about 43,900 ha in 2014. The expansion of urban and industrial areas in recent years, has also sharply reduced actual irrigable area so that the area of irrigation use is far lower today than in the past. Between 2006 and 2012, the average area irrigated was only about 12,000 ha - 4,000 ha in small schemes and 8,000 ha within the areas serviced by the country's three regional irrigation companies: Iber-Lepenc, Radoniqi-Dukagjini and Drini i Bardhe.

15. With the current low levels of utilization and consequently declining revenues, the irrigation service providers are struggling to sustainably finance irrigation Operation and Maintenance (O&M). The large irrigation schemes served by the three regional water

¹ "Green report" 2015, Ministry of Agriculture, Forestry and Rural Development, tables 82-83 and 94-95

companies operate as independent utilities and must meet all annual O&M costs and debt services from water charges. Water pricing is on the basis of hectares and determined by the users' ability and willingness to pay. The ageing system and diminished utilization are generating high operational costs and low fee collection rates. The Regional Irrigation Company – Radoniqi-Dukgajini is the only company that has been able to break even. Irrigation utilization is much higher in the Radoniqi and Dukagjini schemes and the cost recovery rates are better than other schemes. This is because the scheme is located in an area highly suitable for horticultural production, with most of the farming community engaged in production of high value crops and participating in irrigation.

16. Recognizing the significant role of agriculture in Kosovo's overall economic development, the government is undertaking critical measures to re-vitalize the sector.

The objectives of the National Agriculture and Rural Development Plan (NARDP) 2014-2020 are to undertake actions to overcome bottlenecks holding back sustainable rural development in the country and align Kosovo's rural sector with the axes of the EU Instrument for Pre-accession for Rural Development (IPARD). The NARDP lays out several measures for implementation support over the next five years, including *inter alia*, investments in the physical assets of agricultural holdings as well as processing and marketing of agricultural and fishery products; agri-environmental measures and organic farming; farm diversification and business development; improvements in training, advisory services and vocational training; land consolidation; and irrigation. On the institutional front, the government is building the capacity of important institutional structures, such as the Managing Authority (MA) and Agriculture Development Agency (ADA) (also known as the Paying Agency (PA)), for improved performance of the agriculture sector as well as to approximate their functioning with EU requirements. These efforts are being carried out with assistance from several donors, including EU, Danish International Development Agency (DANIDA), the United States Agency for International Development (USAID), Austrian Development Agency, German Agency for International Cooperation (GIZ) and the World Bank, through the ongoing International Development Agency (IDA)-financed Agriculture and Rural Development Project.

C. The Agriculture and Rural Development Project – Original IDA Credit

17. The development objective of the Kosovo Agriculture and Rural Development Project (KARDP) is to “assist the Recipient to promote competitiveness and growth in the livestock and horticulture sub-sectors over the next decade through the implementation of selected measures of its agricultural strategy and institutional development”. The project, a US\$20.15 million IDA Credit, was approved on June 11, 2011 and became effective on May 3, 2012. The closing date is July 31, 2017. The project supports the following activities:

(i) *Component 1: Transferring Knowledge to the Rural Sector (US\$2.18 million)* under which the project: (a) strengthens the knowledge of farmers and agro-processors to plan investments and prepare high quality grant applications for financial support available under Component 2 as well as the capacity of municipal advisors to provide such guidance to farmers and processors; (b) supports regional knowledge exchange through study tours for farmers and agro-processors; and (c) provides technical training and support to municipal advisors to enable them deliver effective services to the rural community.

(ii) *Component 2: Enhancing Investments to Promote Sustainable Rural Development (US\$16.86 million)*. This component supports the following activities: (a) *Rural Development Grant Program (RDGP)* of the Ministry of Agriculture, Forestry and Rural Development

(MAFRD) to foster development and modernization of agriculture production units (Measure 101) and processing facilities (Measure 103) in the livestock and horticulture subsectors. The RDGP is implemented at the national level and open to all farmers and processors residing on the territory of Kosovo. Grants are awarded on a competitive basis to farmers and processors that meet the eligibility criteria detailed in the Grant Manual; and (b) *Institutional Capacity* through which the project supports capacity building of the MA and PA to enable them function effectively as well as move towards EU accreditation. Towards this, the project supports the hiring of local consultants to help offset the staffing gap as well as the provision of training and equipment as necessary.

(iii) *Component 3: Project Management, Coordination, Monitoring and Evaluation (US\$ 1.1 million)*. A Project Implementation Unit (PIU) has been established within the MAFRD for the daily management, administration, and coordination of project activities, including procurement, financial management, monitoring and evaluation (M&E) as well as public awareness of project activities.

18. In December 2013, the Government of Denmark provided US\$9.28 million equivalent to scale up the reach and impact of the RDGP. These resources comprised the First Additional Financing to KARDP. The success of the project leveraged additional government support for the RDGP in the amount of US\$1.93 million equivalent which comprised the Second Additional Financing to the Project.

D. Summary of Project Progress

19. All components are progressing well and the project is on track towards achieving its overall PDO. Several end-of-project targets have already been achieved or exceeded. The mid-term review mission was undertaken in March 2015 and the Government was found to be in compliance with all legal covenants, safeguards, and fiduciary performance standards.

20. *Component 1: Transferring Knowledge to the Rural Sector*. All three Rural Advisory Services (RAS) contracts are on track. The project has trained over 2,500 farmers and agro-processors in preparing grant application proposals, of which 9.2 percent were women. Training has been provided to MAFRD and Municipal Advisory Officers, as well as Local Action Groups and non-governmental organizations (NGOs) and other private sector service providers to enable them help the farming and processing community in developing project proposals for application to future grant programs. A total of 159 trainers have been trained thus far, of which 21.4 percent were women. To improve the knowledge of the national and municipal advisory staff in advanced agricultural technologies a total of 303 participants have been trained, of whom 23.0 percent were women. Additionally, the project has supported seven study visits to several countries, including FYR Macedonia, Italy, Turkey, Croatia and Albania. A total of 122 farmers and agro-processors participated, of whom 44.0 percent were women.

21. *Component 2: Enhancing Investments to Promote Sustainable Rural Development*. Under the RDGP, the end-of-project target has already been exceeded. To date, the project has provided grants to over 700 beneficiaries. To assess results achieved under RDGP (years 2013 and 2014), an independent quantitative and qualitative study was undertaken in late 2015/early 2016 that assessed competitiveness, employment creation, income generation and increased productivity. Although results of investments supported under the project will be generally more fully evident after a time lag, i.e., once the investments have matured, preliminary findings indicate that the RDGP is: (i) having a significant positive effect on beneficiary the farmers' incomes and a positive effect on the profits of processing enterprises. The average farm income

of beneficiary farmers increased on average by 56 percent or in absolute terms by €10,981 per farm vis-à-vis the control group (non-beneficiary farms). RDGP support contributed to increasing gross profit per beneficiary enterprise by 16 percent; (ii) generating employment on farms and agro-food processing enterprises. RDGP increased the employment per beneficiary farm by on average 3.35 persons per farm or by 52 percent in 2015 (e.g., by hiring additional workers to man assembly lines improved by installation of new processing and handling equipment financed by RDGP); (iii) increasing productivity, both of labor and land; and (iv) catalyzing wide improvements in the value chains of the targeted sub-sectors.

22. Through the provision of staff, equipment and relevant training, the project has strengthened the institutional capacity and effectiveness of the MA and PA. The MA has been able to successfully develop the NARDP 2014-2020 and the related annual RDGPs. The enhanced capacity of the PA has enabled it to award over 2,000 grants since KARDP implementation. The increased capacity has also enabled the PA to implement MAFRD's program of direct payments in a sound manner.

23. The government has confirmed the transfer of the 27 consultants, financed under KARDP to enhance the functioning of the MA and PA, to the national budget as civil servants starting January 1, 2017. The absorption of these consultants is critical as it will serve to retain institutional memory as well as build long-term capacity within these two important entities that are imperative for the successful implementation of the RDGP. The PA is substantially under-staffed and the absorption of these consultants as permanent staff is a positive step in the Agency's efforts towards accreditation.

24. While a detailed impact analysis of the project is planned under the AF, it is evident that the RDGP is producing positive economic, environmental and social outcomes. Grant support is helping improve quality of life and standards of living among the rural population by putting additional incomes in the hands of project beneficiaries. As purchasing power rises and demand for goods and services increases, there is a high likelihood of strong local spillover effects. This has significant positive implications also for development of the non-farm rural economy which in turn can contribute to economic growth, rural employment, poverty reduction, and a more spatially balanced population distribution.

25. The grant program is having a direct impact on improving rural health, especially that of children. The increase in quantity and quality of milk and livestock products as well as fruits and vegetables, including organic produce, is contributing to improved diets and increased consumption of nutrient-rich foods. By promoting the EU cross compliance principles of integrating agriculture with environmental protection, the RDGP is also helping to provide better and healthier working conditions for the farming community. For e.g., by lowering exposure of workers to agro-chemicals as well as establishing better working conditions in animal barns that have been constructed / upgraded to EU standards of size and ventilation, project support has resulted in the positive externality of promoting improved health benefits among relevant project beneficiaries.

26. Through the promotion of EU cross compliance principles², the RDGP encouraged the implementation of environmentally friendly agricultural practices, such as reduction in soil erosion and increase in soil fertility and contributed to landscape preservation. Protection and maintenance of the rural landscape is likely to induce an increase in eco-tourism (there is a

² Under the EU Cross Compliance principle farmers are required to meet minimum basic standards concerning the environment, food safety, animal and plant health and animal welfare, as well as the requirement of maintaining land in good agricultural and environmental condition.

rising trend towards this in Kosovo). The project has also contributed to Kosovo's efforts towards building a climate resilient economy. Climate friendly activities, such as installation of solar panels on farms, use of biomass for production, optimal application of mineral and organic fertilizers and efficient storage of manure and slurry have served to protect local soil and water resources. The project has also promoted carbon sequestration by, for e.g., increasing acreage under orchards.

27. On the social front, the project is discouraging out-migration and contributing to social stability and cohesion, as well as cultural and heritage protection by providing economic opportunities in rural areas, including remote mountainous regions.

E. Rationale for Additional Financing

28. **Agriculture remains a critical sector of Kosovo's economy with strong potential for contributing to the achievement of the country's socio-economic agenda.** The Systematic Country Diagnostics (SCD) identifies it as an engine of growth in the short- to medium term. It is one of the few tradeable sectors that can contribute to achieving the country's overall socio-economic reform program of promoting self-sustained growth founded on increased domestic productivity and export competitiveness as well as stimulating employment, reaching women and youth and reducing poverty. Support to the sector is vital to consolidate the gains achieved and address challenges preventing sector development.

29. **Continued support for development of the horticulture and livestock subsectors is crucial for increasing exports, employment and rural incomes.** The Government has prioritized development of these subsectors as they are considered high economic impact subsectors. Both subsectors demonstrate strong competitive advantage with good potential for export markets and reduced imports, private sector appeal, high likelihood of attracting domestic and foreign direct investment, as well crosscutting thematic benefits related to employment creation, women's empowerment and poverty reduction.

30. **There is strong interest in horticulture and livestock farming and processing among farmers and processors, with demand for grant support far exceeding available funds.** In response to the success of the RDGP and continued high demand for grants by both farmers and agro-processors, the MAFRD has programmed RDGP support under its NARDP 2014-2020. However, government budget is limited and a considerable number of qualified grant applicants do not receive support. Under the 2015 RDGP, for example, MAFRD received €147 million worth of applications but was able to finance grants worth only €23 million due to its limited budget – 2,126 applications were received and only 300 could be financed. Through RDGP support, the AF will help to expand the reach of the program to a larger number of beneficiaries.

31. **Given the important need for irrigation to boost agricultural productivity, it is vital that Kosovo undertakes actions to revitalize the schemes that are currently operating, as well as strategically plan for expanding an economically, environmentally and financially sustainable irrigation sector.** This dual strategy is a clear priority for agricultural and rural development in Kosovo. The draft Kosovo National Water Strategy (2015-2034) highlights the importance of managing the use of water, and in particular irrigation, and recommends efficiency improvements in existing schemes, steady irrigation expansion, and greater value addition to irrigated production. It also calls for increasing financial sustainability of irrigation service provision. The absence of strategic planning and an irrigation investment framework to guide investments has resulted in discrete, sub-optimal interventions in the sector. In light of

this, it is proposed that the AF would support: (i) the rehabilitation and modernization of two existing schemes, i.e. the Radoniqi and Dukagjini irrigation schemes that have fewer resource constraints; and (ii) the development of a broad-based strategy and investment framework for the irrigation sector to guide future investments and management measures. The Radoniqi and Dukagjini irrigation schemes, that draw water from the Drini basin, are located in the Dukagjini region of Kosovo, an area characterized by good arable land and well known for its horticultural products. There is a strong potential for improving production of high value crops in the region with the provision of adequate and reliable irrigation. Despite the challenges faced by the irrigation sector as a whole, these are the best performing schemes in the country and provide for the largest share of actually irrigated area and most of the increase in high value crop production. Although the Regional Irrigation Company has been able to break even and fee collection rates have increased recently with improved enforcement options, it continues to face challenges with its ageing infrastructure, limited O&M budget, low fee recovery, lack of scheme operation information management and longer-term institutional management. In providing rehabilitation support to the schemes, the project will take a broader modernization approach and integrate managerial upgrading with the technical rehabilitation program to improve both resource utilization and water delivery service to users to ensure institutional and financial sustainability.

32. In Kosovo, irrigation is critical for mitigating climatic risks and contributing to a climate resilient agricultural sector. Recent research on climate change impacts in Europe project major changes in yearly and seasonal precipitation and water flows. Studies suggest that annual rainfall would decrease in the south, including the Western Balkans, and temperatures and trans-evaporation would rise throughout the continent. Higher temperatures will result in more winter precipitation falling as rain, rather than snow, with run-off occurring earlier in the year and a reduction/elimination of spring snowmelt peaks. Since the 1980s, there is growing evidence in Kosovo of higher temperatures, rising intensity and frequency of precipitation extremes such as heavy rain events as well as more severe droughts. Kosovo has been struck by droughts several times over the past two decades, with the most recent severe drought in 2013. It is estimated that in Kosovo, by 2025-2050, climate change could result in reducing precipitation by three percent to seven percent annually and by nine percent to 23 percent in summer.³ Agriculture is especially vulnerable to climate change impacts and the project will contribute to reducing the vulnerability of Kosovo to the impacts of climate change in the agricultural sector by building adaptive capacity through improvements in the irrigation sector and promoting water saving technologies (such as drip irrigation).

33. Improving the overall functioning of the agricultural sector will also require strengthening the human and technical capacity of key institutions within MAFRD to approximate their functioning to EU requirements. While KARDP and other donor projects have helped improve the capacity of key institutions such as the MA, PA, Kosovo Institute of Agriculture (KIA) and the Advisory and Technical Services Department (ATSD), these institutions remain severely understaffed, with existing staff often lacking the necessary knowledge and skills to effectively carry out their mandates. Accreditation of the MA and PA are necessary prerequisites to enable the country access the potentially vast funding support available under the EU-IPARD instrument and consequently transform the sector and bring it up to EU standards. The AF will help the government in its accreditation efforts through the provision of staff, training and equipment. KIA provides much-needed support to farmers and processors related to soil sampling, food safety standards/certification, etc.; ATSD provides regular advisory services to farmers and processors to help improve their operations. The

³ EU-IPA website

effective and efficient functioning of these institutes is crucial for the development of the sector and the proposed AF would contribute towards the achievement of this through a mix of technical assistance (TA) and capital investments.

34. **The AF is consistent with the proposed Country Partnership Framework (CPF) FY17-21 (currently under preparation) which seeks to assist the Government of Kosovo in its efforts towards rebalancing growth towards higher productivity and greater competitiveness.** The overarching aim of the CPF is to provide improved opportunities for a better life through accelerating export-oriented and sustainable growth. The CPF accords high priority to “increasing productivity in agriculture” and envisages Bank contribution towards this through portfolio engagement that will enhance commercial orientation of agriculture. The proposed AF responds to the objectives of the CPF as it seeks to promote growth and competitiveness in the agricultural sector by increasing productivity of beneficiary farmers and agro-processors and access to markets – both domestic and international as well as leverage private investments in the sector. Project design also responds to the CPF’s objectives of improving women and youth access to entrepreneurship as the grant program, for example, encourages participation of these groups in the project through additional targeted support. This includes additional points in the RDGP screening process for women applicants as well as an additional co-financing of five percent for beneficiaries (both men and women) under the age of forty. It also responds to the need for promoting climate resiliency by supporting climate-friendly activities at the farm level (by providing training as well as additional grant co-financing for such activities) as well as the provision of irrigation to counter risks of water shortages. The irrigation component provides opportunities for learning and strategic sector engagement for possible deeper engagement as foreseen in the CPF.

III. PROPOSED CHANGES

Summary of Proposed Changes	
The proposed restructuring and AF will scale up the reach and impact of KARDP in the livestock and horticulture subsectors of Kosovo. It will continue support for the well-functioning ongoing activities as well as include a new component on <i>Support for Irrigation</i> . The restructuring and AF also comprise: (i) reformulation of the PDO; (ii) revisions to the Results Framework; (iii) application of two additional safeguard policies that have been triggered due to the proposed support for irrigation, viz. OP4.37 Safety of Dams and OP7.50: Projects on International Waterways; (iv) revisions to legal covenants for the project to reflect current implementation arrangements and updated circumstances and components of the project; and (v) extension of the project closing date.	
Change in Implementing Agency	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Project's Development Objectives	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Results Framework	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Safeguard Policies Triggered	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change of EA category	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Other Changes to Safeguards	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Legal Covenants	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Loan Closing Date(s)	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Cancellations Proposed	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]

Change in Disbursement Arrangements	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Reallocation between Disbursement Categories	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Disbursement Estimates	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change to Components and Cost	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Institutional Arrangements	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Financial Management	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Procurement	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Implementation Schedule	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Other Change(s)	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Development Objective/Results	
Project's Development Objectives	
Original PDO	
The development objective of the project is to assist the Recipient to promote competitiveness and growth in the livestock and horticulture sub-sectors over the next decade through implementation of selected measures of its agricultural strategy and institutional development.	
Change in Project's Development Objectives	
Explanation:	
The PDO of the parent project is stated at a very high level which makes it challenging to attribute achievements in the sector directly to project interventions. The revised PDO simplifies the wording to make it concise as well as scale it down to make it commensurate with project activities.	
Proposed New PDO - Additional Financing (AF)	
The development objective of the project is to improve productivity of and access to markets by project beneficiaries in the horticulture and livestock subsectors of Kosovo and strengthen the institutional capacity of the Ministry of Agriculture, Forestry and Rural Development.	
Change in Results Framework	
Explanation:	
The Results Framework is being modified to include: (i) revised and new PDO-level indicators; (ii) revised and new intermediate indicators; and (iii) Corporate Results Indicators.	
Compliance	
Change in Safeguard Policies Triggered	
The inclusion of the new component: Support for Irrigation, triggers the application of two additional safeguard policies: (i) OP 4.37 - Safety of Dams and (ii) OP 7.50 - Project on International Waterways.	
OP 4.37- Although the project will not build any dams, the Radoniqi and Dukagjini Irrigation schemes depend upon the existing Radoniqi Dam for effective functioning as the schemes draw raw water directly from the Radoniqi reservoir controlled by a 61 meter high clay-core embankment dam. Several Dam Safety Assessments have been carried out in the recent past for	

Radoniqi Dam, including in 2000, 2002, and 2006 under the WB supported Pilot Water Supply Project, and most recently in 2012 by the Water Task Force as part of a countrywide Dam Safety Review. While none of these reviews raise any concerns on imminent dam safety they make recommendations for operation and maintenance procedures and safety-related measures that are required to ensure an acceptable standard of safety. More precisely, this includes the need for critical documentation and information on dam safety, including geotechnical information, an update on and improvement of status of control instruments (inclinometers and piezometers are reported as largely dysfunctional) and electrical installations. Also, it is observed that there is no dam safety (monitoring) plan, although a letter from the dam operator states that geodetic measurements have been carried out to some extent over the past years. Most of the recommendations have not been fully implemented since. The project proposes to adopt a composite of the 2005 and 2012 recommendations, to be confirmed by a dam safety panel to be established, and to finance those under the project. The following activities are envisaged to be included under the project: updated safety analysis, including full geodetic survey; rehabilitation of dam safety instrumentation; and an emergency preparedness plan.

OP 7.50 - The Project team assessed the components of the proposed AF in the context of OP 7.50 and concluded that OP 7.50 applies to the project, given the nature of the project and the international nature of the Drin Basin. However, since the proposed activities, involving the rehabilitation of existing scheme irrigation infrastructure will not either adversely affect the quality or quantity of water flows to the other riparians nor adversely be affected by other riparians' water use, no notification is required under OP 7.50. As the activities to be supported by the AF fall under the exception to the notification requirement in paragraph 7 (a) of the Policy, an Exception to Notification was granted on December 16, 2016 by the Europe and Central Asia (ECA) Vice President (VP).

Current and Proposed Safeguard Policies Triggered:	Current (from Current Parent ISDS)	Proposed (from Additional Financing ISDS)
Environmental Assessment (OP) (BP 4.01)	Yes	Yes
Natural Habitats (OP) (BP 4.04)	No	No
Forests (OP) (BP 4.36)	No	No
Pest Management (OP 4.09)	Yes	Yes
Physical Cultural Resources (OP) (BP 4.11)	No	No
Indigenous Peoples (OP) (BP 4.10)	No	No
Involuntary Resettlement (OP) (BP 4.12)	No	No
Safety of Dams (OP) (BP 4.37)	No	Yes
Projects on International Waterways (OP) (BP 7.50)	No	Yes
Projects in Disputed Areas (OP) (BP 7.60)	No	No

Covenants - Additional Financing (Kosovo Agriculture and Rural Development Project - Third Additional Financing - P158710)

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recur ren	Frequ ency	Action
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IDA	Schedule 2. Section I.A, para 4	Signing of Memorandum of Understanding between Regional Irrigation Company Radoniqi-Dukagjini, and Hydro-system Radoniqi, satisfactory to the Association to facilitate implementation of Component 3(a).	No later than ninety (90) days after effective date of project			
IDA	Schedule 2. Section I. A, para 5	Regional Irrigation Company Radoniqi-Dukagjini and Hydro-system Radoniqi provide input, as needed, on the preparation and implementation of, and properly supervise, the activities carried out under Component 3		<input checked="" type="checkbox"/>	Yearly	
IDA	Schedule 2. Section I. A, para 6	Establishment of an independent evaluation committee with terms of reference and staffing satisfactory to the Association to review the applications for the Horticulture Development Grants and make selections	No later than ninety (90) days after the Effective Date of the project			

IDA	Schedule 2. Section I.D, para 1	The Recipient shall provide Rural Development Grants to RDG Beneficiaries for RDG Subprojects in accordance with the eligibility criteria and procedures set forth in the Rural Development Grant Manual.		<input checked="" type="checkbox"/>	Yearly	
IDA	Schedule 2. Section I.D, para 2	The Recipient shall extend each Rural Development Grant under a Rural Development Grant Agreement with the respective RDG Beneficiary, on terms and conditions approved by the Association		<input checked="" type="checkbox"/>	Yearly	
IDA	Schedule 2. Section I.E, para 1	The Recipient shall provide Horticulture Development Grants to HDG Beneficiaries for HDG Subprojects in accordance with the eligibility criteria and procedures set forth in the Horticulture Development Grant Manual		<input checked="" type="checkbox"/>	Yearly	
IDA	Schedule 2. Section I.E, para 2	The Recipient shall extend each Horticulture Development Grant under a Horticulture Development Grant Agreement with the respective HDG Beneficiary, on terms and		<input checked="" type="checkbox"/>	Yearly	

		conditions approved by the Association				
IDA	Schedule 2. Section I.G, para 1	The Recipient shall establish, and thereafter maintain and periodically convene throughout Project implementation, a panel of independent dam safety experts (“Dam Safety Panel”), with qualifications, resources and experience satisfactory to the Association			<input checked="" type="checkbox"/>	Yearly
IDA	Schedule 2. Section I.G, para 2(b)	The Recipient shall update, as needed, and thereafter maintain for the Radoniqi Dam (i) an Instrumentation Plan, (ii) an Operations and Maintenance Plan, and (iii) an Emergency Preparedness Plan	No later than twenty (24) months from the Effective Date of project			

Covenants - Parent (Agriculture and Rural Development - P112526)

Ln/Cr/TF	Finance Agreement Reference	Description of Covenants	Date Due	Status	Recurrent	Frequency	Action
IDA-50050	Article IV, Section 5.1 (a)	The PIU is adequately staffed, including with a PIU Director, procurement specialist and financial management specialist, and operational, in a manner satisfactory to the Bank. Due Date: 03-May-2012		Complied with	<input type="checkbox"/>		No Change
IDA-50050	Article IV, Section 5.1 (b)	The Project Operations Manual (POM) has been finalized and adopted in a manner satisfactory to the		Complied with	<input type="checkbox"/>		No Change

		Association. Due Date: 29-Feb-2012					
IDA-50050	Schedule 2, Section I, A, para. 4.	The Recipient shall appoint, and thereafter maintain, a Coordinator for rural advisory services within the RAS Unit Due Date: 15-Jan-2013		Complied with	<input type="checkbox"/>		No Change
IDA-50050	Schedule 2, Section I.A, para 3	The Recipient shall ensure that the PIU, the RAS Unit, the Managing Authority, and the Paying Unit are adequately staffed, funded and operational, in a manner satisfactory to the Association. Frequency: Yearly		Complied with	<input checked="" type="checkbox"/>		Revised
IDA-50050	Schedule 2, Section I.A, para 3	The Recipient shall ensure that the PIU, the Managing Authority, and the Agency for Agricultural Development are adequately staffed, funded and operational, in a manner satisfactory to the Association		Complied with	<input type="checkbox"/>	Yearly	Proposed
IDA-50050	Schedule 2, Section I. B	The Recipient shall carry out the Project in accordance with the POM and shall not amend, suspend, abrogate, repeal or waive any provision of the POM without prior approval by the Association Frequency: Monthly		Complied with	<input type="checkbox"/>		No Change
IDA-50050	Schedule 2, Section I.C	The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines Frequency: Monthly		Complied with	<input type="checkbox"/>		No Change
IDA-50050	Schedule 2, Section I.D, para 1	The Recipient shall make Rural Development Grants to Beneficiaries for Sub-projects in accordance with the eligibility criteria and		Complied with	<input type="checkbox"/>		Revised

		procedures set forth in the POM Frequency: Yearly					
IDA-50050	Schedule 2, Section I.D, para 1	The Recipient shall provide Rural Development Grants to RDG Beneficiaries for RDG Subprojects in accordance with the eligibility criteria and procedures set forth in the Rural Development Grant Manual	Complied with	<input checked="" type="checkbox"/>	Yearly	Proposed	
IDA-50050	Schedule 2, Section I.D, para 2	The Recipient shall make each RD Grant under a RD Grant Agreement with the respective Beneficiary on terms and conditions approved by the Association. Frequency: Yearly	Complied with	<input type="checkbox"/>		No Change	
IDA-50050	Schedule 2, Section I.D, para 3	Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive any provisions of the RD Grant Agreement Frequency: Yearly	Complied with	<input type="checkbox"/>		Revised	
IDA-50050	Schedule 2, Section I.D, para 3	The Recipient shall take no action with respect to any Rural Development Grant Agreement or its provisions (including assignment, amendment, abrogation or waiver) that would be inconsistent with Rural Development Grant Manual	Complied with	<input checked="" type="checkbox"/>	Yearly	Proposed	
IDA-50050	Schedule 2, Section E.1	The Recipient shall carry out its obligations in accordance with the EMF shall not amend, suspend, abrogate, repeal or waive any provision of the EMF without prior approval by the Association. Frequency: Yearly	Complied with	<input type="checkbox"/>		Revised	

IDA-50050	Schedule 2, Section E.1	The Recipient shall carry out its obligations in accordance with the ESMF shall not amend, suspend, abrogate, repeal or waive any provision of the ESMF without prior approval by the Association.		Complied with	<input checked="" type="checkbox"/>	Yearly	Proposed
IDA-50050	Schedule 2, Section E.2	The Recipient shall ensure that no Sub-projects involve land acquisition or resettlement of population. Frequency: Yearly		Complied with	<input type="checkbox"/>		No Change

The original project will be restructured accordingly, and the financing agreement for which also will be amended as relevant.

Conditions

Source Of Fund	Name	Type
IDA		Disbursement
Description of Condition		
Approval of the Horticulture Development Grant Manual by the Association		

Risk

Risk Category	Rating (H, S, M, L)
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Substantial
7. Environment and Social	Low
8. Stakeholders	Moderate
9. Other	
OVERALL	Moderate

Finance

Credit Closing Date - Additional Financing (Kosovo Agriculture and Rural Development Project - Third Additional Financing - P 158710)

Source of Funds	Proposed Additional Financing Credit Closing Date
IDA	30-Jun-2021

Credit Closing Date(s) - Parent (Agriculture and Rural Development-P112526)

The extension of the closing date is needed to enable full disbursement of the funds under the parent project as well as the AF.						
Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)	
IDA-50050	Effective	31-Jul-2017	31-Jul-2017	30-Jun-2021		
TF-16235	Closed	30-Dec-2016	30-Dec-2016			
Change in Disbursement Estimates (including all sources of Financing)						
The disbursement estimates have been revised to reflect expenditures envisaged under each activity of the project until project closing on June 30, 2021.						
Expected Disbursements (in Euro Million) (including all Sources of Financing)						
Fiscal Year	2018 (July 1 2017- June 30 2018)	2019 (July 1 2018-June 30 2019)	2020 (July 1 2019- June 30 2020)	2021 (July 1 2020-June 30 2021)		
Annual	2.40	6.20	6.50	5.70		
Cumulative	2.40	8.60	15.10	20.80		
Allocations - Additional Financing (Kosovo Agriculture and Rural Development Project - Third Additional Financing - P158710)						
Source of Fund	Currency	Category of Expenditure	Allocation		Disbursement % (Type Total)	
			Proposed		Proposed	
IDA	Euro	Goods, works, consultants services, training and incremental operating costs	9.00		100.00	
IDA	Euro	RDGP Sub-projects	8.80		50.00	
		Horticulture Development Sub-projects	3.00		65.00	
		Total:	20.80			
BEN	Euro		5.45			
		Total:	26.25			
Components						
Change to Components and Cost						
<i>Component 1: Transferring Knowledge to the Rural Sector (Cost: €0.90 million) (Modified Component)</i>						
<i>Sub-component 1(a): Rural Advisory Service (RAS) Contracts (€0.56 million)</i>						

The AF will support *RAS Contract 1: Training Potential Applicants for the Rural Development Grant Program* to strengthen the knowledge of farmers and agro-processing enterprises to effectively plan investments and utilize financial support available under Component 2 of the project. The original RAS Contract 2: *Training of Trainers* will be discontinued under the AF. The successful implementation of this contract has resulted in a strong cadre of trainers equipped with the right mix of skills and knowledge to train potential applicants for future RDG Schemes. A considerable number of trainers trained under KARDP have already been engaged by the RAS Contract 1 consulting company in training potential grant beneficiaries.

The AF will continue support for *RAS Contract 3 (RAS Contract 2 under the AF) - Technical Training to Improve Effectiveness of Extension Staff* (originally RAS Contract 3) to improve capacity of national extension staff and municipal advisors to provide guidance and advice to the farming community for enhanced productivity and profitability, sound investment planning and preparation of high quality, fundable grant applications. Towards this the project would also include training towards certification of rural advisors (public and private) based on the recent Administrative Instruction, No.07/2015 dated June 11, 2015: “the form, content and procedures of passing the professional exam and certification for advisor for agricultural and rural development”.

As the government has confirmed the transfer of the RAS Coordinator to the national budget, AF support will be limited to the provision of training and incremental operating costs to enable the Coordinator implement project responsibilities effectively.

Sub-component 1(b). Regional Knowledge Exchange (€0.18 million). The proposed AF will support the organization of training visits to countries in the region to enable farmers and processors in the horticulture and livestock subsectors benefit from the knowledge and experiences of other agri-food producers and processors in the region.

Subcomponent 1(c): Institutional Strengthening of Rural Advisory Services (€0.16 million). The AF will continue to support the municipal advisory service centers in delivering effective services to the rural community through the provision of training, equipment and select operating costs.

Component 2: Enhancing Investments to Promote Sustainable Rural Development (Cost: €12.58 million) (Modified Component)

Sub-Component 2(a). Rural Development Grant Program (€8.80 million). Under the AF, the Rural Development Grant Program (RDGP) will support investments only in the livestock subsector while support for the horticulture subsector will be provided under new sub-component - 2(b). Under the RDGP, investments are ad hoc and diffused through the sector depending on the types of investment support demanded by potential beneficiaries. It is proposed to adopt a more holistic value chain approach to the development of the subsector to enhance commercialization and competitiveness, attract private investments, and stimulate export-oriented growth in the subsector.

The RDGP will be implemented at the national level. The Call for Proposals would be open to all farmers and processors, including minorities and marginal communities, in all municipalities of Kosovo. Implementation of RDGP would follow the same processes and procedures as detailed in the Grant Manual. This includes extra points for women applicants in the selection criteria to encourage their participation. The program will continue to provide five percent additional co-financing to beneficiaries (both men and women) under the age of 40 to incentivize young farmer/entrepreneur engagement in the agricultural sector as well as for investments in climate-

friendly agricultural practices.

Sub-component 2(b): Promoting Development of the Horticulture Subsector (New) (€3.0 million).

The objective of this component is to promote the development of the horticulture subsector by strengthening backward and forward linkages in the value chain of the subsector. The overall aim is to improve productivity, quality, value addition, and market linkages within the subsector to enhance its competitiveness towards increased exports and as well as job creation, improved beneficiary incomes and increased economic opportunities for women and youth in the rural sector. Sub-component design is expected to foster the integration of a greater number of smallholder producers that dominate the rural landscape in the performing and remunerative horticulture value chain, incentivize contract farming, strengthen horizontal alliances and encourage farmers to establish producer groups, strengthen vertical alliances by building trusted commercial partnerships between farmers and private agri-businesses and drive enterprise operations towards more lucrative domestic and export markets.

The entry point for project support will be the *aggregators*, i.e. private collection centers and agro-processors, handling and/or procuring horticultural produce. The project will provide matching grants to qualifying aggregators, who will promote and strengthen backward integration strategies through the provision of supply contracts for inputs and extension services to small-holder farmers, thereby enabling them to enhance their productivity as well as product quality (including meeting Global Good Agricultural Practices (GAP) certification requirements). As under RDGP, the grants will include the EU cross compliance principles to ensure the proposed agricultural investments protect the environment and conserve natural resources. Farmers will benefit from improved access to innovative technologies, such as new and better seed varieties, good quality fertilizers and pesticides, small-scale agricultural production equipment (such as seeders for sowing, sprayers, power tillers, mobile harvesters, etc.), drip irrigation, etc. to increase their farm productivity. Input support will be complemented with training and advisory services to assist farmers with sound implementation of the new technologies. This approach will also serve to guarantee farmers markets for their produce. Any surplus production through aggregator support, over and above the contracted amount, could be sold elsewhere for additional income.

The proposed activity will also exploit the value addition potential of the sector through improved postharvest management by providing aggregators a mix of investment and TA support to increase their capacity for handling and processing horticultural produce. The project will finance the rehabilitation or upgrading of product sorting, processing, storage, conservation/preservation infrastructure facilities as well as provide support for packaging and labeling. Thus the project will enable Aggregators to increase the intake of fresh produce from farmers upstream and increase their supply of fresh produce and processed products to domestic and export markets downstream.

Potential aggregators will be invited to prepare business plans and submit applications to enhance and expand their operations. The Call for Proposals would be open to aggregators residing in all municipalities of Kosovo. The submitted business plans will be reviewed, evaluated and scored by an independent Evaluation Committee against clearly defined criteria detailed in the Horticulture Development Grant Manual. The Grant Manual will clearly detail responsibilities of the grant recipients and include appropriate technical, fiduciary, environmental and social safeguards provisions to ensure that the grant funds will be used for intended purposes only. It will also include the Bank's Anti-Corruption Guidelines and consequences should the agreed commitments fail to be met. The approval of the Grant Manual by the Bank will be a condition of disbursements under this sub-component. The PIU will be responsible for administering the Grant Scheme.

Farmers and agro-enterprises receiving support under KARDP are also expected to benefit through the proposed ***Kosovo Competitiveness and Export Readiness Project*** (KICERP) currently under preparation. The US\$15.30 million IDA Credit aims to improve the country's business inspection system, national quality system and existing firms' export readiness. In addition to providing assistance to the government to reform the inspection system and improve the national quality infrastructure, the project would also provide direct support to SMEs to improve their export readiness. This is envisaged through a matching grant program for SMEs with export potential to assist them with: (i) meeting requirements to implement international standards and receive certifications required for export markets, (ii) the provision of relevant training for employees of individual firms or groups of firms, and (iii) gaining access to business development services, such as marketing and management skills.

During information campaigns under this component, the agricultural community will be informed of the potential support under KICERP. Training and investment support under KARDP is expected to improve the export potential of beneficiary farmers and enterprises who could subsequently leverage additional support under KICERP to enhance their export readiness.

Subcomponent 2(c): Institutional Capacity Strengthening (€0.78 million)

Capacity Building of MA and PA: To ensure effective preparation and implementation of the RDGP, the AF will continue to support capacity building of the MA and PA through the provision of training, personnel and equipment as needed. Project support will assist in approximating their functioning to EU requirements and contribute to their efforts towards EU accreditation. In this context, AF support would finance the hiring of 24 local consultants, at local civil service salary levels for key positions in both the MA and PA, for future absorption as civil servants within these entities. The 24 consultants will be transferred to the national budget no later than six months prior to the closing date of the AF.

Improving Capacity for Food Safety and Quality Standards – Support to Kosovo Institute of Agriculture. (New). The project will support capacity building within the Kosovo Institute of Agriculture (KIA) to enhance its ability to promote food safety and quality standards in the livestock and horticulture subsectors of Kosovo. The AF will contribute to developing the capacity of relevant laboratories within KIA (Soil Sampling, Water Sampling, Plant Protection, Quarantine, etc.) through the provision of select priority equipment. The project will also support training for relevant KIA staff to enhance their knowledge and skills for improved implementation of regulations/standards related to food safety and quality.

Component 3: Support for Irrigation (Cost: €6.99 million of which AF €6.0 million and project savings €0.99 million) (New Component)

Sub-component 3(a). Rehabilitation of Radoniqi and Dukagjini Irrigation Schemes (€6.0 million).

This sub-component will finance the following activities:

(i) *Feasibility Study (€0.40million):* The project will finance a feasibility study, including the preparation of comprehensive diagnostic reports on scheme status and performance, engineering designs for improvements in the scheme, preparation of supervision and bidding documents for selective rehabilitation and upgrading of the existing irrigation system as well as instructions and recommendations for system O&M.

(ii) *Rehabilitation Investments (€5.40 million).* Potential works for scheme rehabilitation

include *inter alia*: (a) lining and repair of main canal sections and replacement of parts such as valves, etc.; (b) rehabilitation of irrigation delivery in two secondary sub-schemes (Janosh and Doblbare); (c) minor works related to dam safety; and (d) Drini River aqueduct. In providing rehabilitation support to the scheme, the project will take a broader modernization approach to ensure both institutional and financial sustainability. Towards this the project will support: (a) a Management Information System (MIS) for supporting water management; (b) Supervisory Control and Data Acquisition (SCADA) for improved operations; (c) a strategic supply of spare parts and maintenance equipment; and (d) harmonization of planning and budgeting with municipal plans, including the integration of water users' demands.

(iii) *Implementation of Dam Safety Recommendations (€0.20 million)*. The project proposes to adopt a composite of the 2005 and 2012 recommendations, to be confirmed by a dam safety panel to be established, and to finance these under the project. The following activities are envisaged to be included for support: (a) updated safety analysis, including full geodetic survey; (b) rehabilitation of dam safety instrumentation; and (c) an emergency preparedness plan.

Subcomponent 3(b): Strategy and Investment Framework for the Irrigation Sector (€0.99 million to be financed through project savings). The project will support the preparation of a Strategy and Investment Framework to guide future investments and water management measures in the irrigation sector. The study will assess the baseline and challenges in the irrigation sub-sector, and recommend TA and investment measures for support in the short-, medium- and long-term for increasing water/agricultural productivity. In order to realize the objective of “increasing land surface under existing irrigation systems” as reflected in the National Water Resources Strategy (2015-2034), the Framework will recommend a program of measures for rehabilitation and modernization of the primary, secondary and tertiary irrigations systems as well as expansion of area and water resources development for irrigation. The Framework will also develop options for Public-Private Partnerships and institutional reforms, including measures to strengthen Water User Associations and existing irrigation companies to become more self-financing and sustainable.

Component 4: Project Management, Coordination, Monitoring and Evaluation (Cost: €1.0 million)

The original Component 3 will be renumbered Component 4. The existing PIU within MAFRD will continue to be responsible for the daily management, administration and coordination of the project's activities in accordance with Bank requirements. This will include activities related to procurement, financial management, M&E, and public awareness of project activities. Its capacity would be enhanced through the hiring of an irrigation specialist who will be responsible for the implementation of the irrigation activities. Short-term technical specialists will also be hired as needed to ensure effective implementation of project activities.

Current Component Name	Proposed Component Name	Current Cost (Euro million)	Proposed Cost (Euro million)	Action
Transferring Knowledge to the Rural Sector	Transferring Knowledge to the Rural Sector	1.55	2.45	Revised
Enhancing Investments to Promote Sustainable Rural Development.	Enhancing Investments to Promote Sustainable Rural Development	12.04	24.62	Revised
Project Management, Coordination,	Project Management, Public Awareness,	0.80	1.80	Revised

Monitoring and Evaluation.	Monitoring and Evaluation			
	Support for Irrigation	0.00	6.00	New
Contingencies			0.40	
	Total:	14.75	35.55	
Other Change(s)				
Implementing Agency Name	Type	Action		
Ministry of Agriculture, Forestry and Rural Development	Government Ministry	No change		
Change in Implementation Schedule				
The implementation period of the project has been extended to June 30, 2021 to enable effective completion of all proposed AF activities.				

IV. APPRAISAL SUMMARY

Economic and Financial Analysis

The financial and economic analysis includes: (i) a financial analysis to assess the financial viability of the investments promoted by the AF; (ii) an economic analysis of the AF, including sensitivity analyses by varying key assumptions of important variables; and (iii) an assessment of increased efficiency in public spending.

For the financial analysis, eight models were designed to reflect potential investments under Component 2 – RDGP. All models demonstrate the financial viability of the investments with an Internal Rate of Return between 16 percent (dairy farm) and 48 percent (dairy processing) which is well above the rural rate of borrowing at 10 percent. The economic analysis includes two benefit streams valued at economic prices – incremental net benefits derived from selected matching grant investments (Component 2), as well as benefits from rehabilitating the irrigation schemes (Component 3). Considering project’s economic cost of EUR 17.5 million, the analysis yields an Economic Net Present Value of EUR 23.2 million with an Economic Internal Rate of Return of 21 percent. Sensitivity analyses demonstrate the robustness of this result. Additionally, there is clear evidence that the efficiency of public spending had increased between 2012, when the project became effective, and 2015. This implies increased institutional capacity which is a favorable development in light of Kosovo’s bid for EU accession.

Technical Analysis

The agriculture sector of Kosovo demonstrates high potential for promoting inclusive growth and overall socio-economic development of the country. The horticulture and livestock subsectors offer particularly good opportunities for leveraging private investments in the sector and effecting sector commercialization. However, the sector continues to face constraints that will require substantial investments to enable the sector realize its potential. The ongoing KARDP results demonstrate the suitability and relevance of KARDP activities: project support has contributed to an increased number of farmers adopting improved technologies, increasing agricultural productivity, strengthening value chains, creating jobs and improving rural incomes. The proposed AF is therefore designed to continue

support for the ongoing activities of KARDP to enable a larger number of potential beneficiaries obtain TA and grant support for investments in modern agricultural technologies so as to consolidate KARDP gains and enhance its overall development effectiveness.

To further boost agricultural productivity, the AF will include a new component for irrigation support in the Radoniqi and Dukagjini schemes, located in an area of high horticultural productivity. The original schemes were well designed and robust; and the unique system of sled-mounted sprinklers is popular with water users. The schemes are relatively sustainable as the company managing the irrigation system has had a continuous presence of key personnel even in the immediate post-independence area when many schemes collapsed. Cost recovery rates have enabled adequate O&M. The rehabilitation will therefore focus primarily on necessary repairs, spare parts and incremental improvements (SCADA, improved metering, and improved MIS to capture scheme knowledge). This will ensure longer term viability of the scheme infrastructure and strengthen institutional capacity and sustainability.

Procurement. Procurement for the project will be carried out in accordance with the World Bank Procurement Guidelines. Specifically, procurement will be carried out in accordance with “Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers,” published in January 2011 and revised in July 2014; and with “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers,” published in January 2011 and revised in July 2014, and with the provisions of the Financial Agreement. “The WB Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit and Grants”, dated October 15, 2006, and revised in January 2011, will also apply to this project. Considering the risk encountered under the implementation of the project, as well as the country risk, the overall procurement risk is suggested as high but with adequate mitigation measures agreed, the procurement residual risk is rated substantial. The key risks and mitigation measures are provided in Annex 2. The Bank, together with other development partners, has been providing support to the Government in mitigating the risks through continued dialogue and provision of fiduciary workshops and training activities. Prior review of all major contracts in agreement with the thresholds provided in Annex 2 will be carried out by the Bank team.

Financial Management. A financial management (FM) assessment was carried out to determine the FM implementation risk and to ensure adequate FM arrangements are in place for the proposed AF. The FM arrangements in place for the implementation for the KARDP including accounting, financial reporting, staffing and internal controls, budgeting and planning, flow of funds, and audits are considered adequate ensure there is accurate and timely information regarding Project resources and expenditures. The Recipient, through the Ministry of Finance (MoF), MAFRD and PA should ensure continuity of the existing FM arrangements. In addition, the MAFRD would need to take actions to further strengthen areas where gaps have been identified as a result of the introduction of new activities such as (i) the documentation of new matching grant scheme guidelines and administration procedures for the new beneficiaries (aggregators) and adoption of the said manual before start of disbursements for this activity (disbursement condition), and (ii) the reflection of the new activities in the existing Project Operational Manual (POM). The new proposed matching grant scheme to aggregators will be implemented through the MAFRD and PIU, while the existing matching grant scheme will continue to be implemented by the PA. There is a critical need that the staffing of PA is adequate and the PIU staff is maintained during the AF period. Based on the FM assessment, the FM risk is assessed as Substantial

The line ministry’s budget would pre-finance Project (including AF) expenditures for the respective activities, which will be later reimbursed from IDA Credit proceeds based on statements of

expenditure documenting such expenditures. Other allowed disbursement methods will include direct payment. The risk pertaining to insufficient or untimely budgetary appropriation and allocations is substantial. To address the above, a realistic Project budget and forecast should be included in the Medium-Term Expenditure Framework (MTEF) and the Annual Budget Law, in the beginning of each year of project. Project budget appropriations should meticulously reflect the nature of expected expenditures, programs, source of funding, and implementing agency. The annual audit reports on the project financial statements, which will include AF, would be provided to the Bank within six months after the end of each fiscal year. The audit reports would be made publicly available, as per the WBG Policy on Access to Information. Interim Financial Reports will continue to be prepared on a quarterly basis and submitted no later than 45 days after the end of the quarter.

Retroactive Financing. Under the AF, retroactive financing in the amount of €400,000 will be used to finance Component 3(a)(i) which is the feasibility study for the rehabilitation works for the existing Radoniqi-Dukagjini Irrigation Schemes.

Social Analysis

Social Safeguards. No Social Safeguards will be triggered with the AF to the project. There are no adverse social impacts expected under Component 2. Given the nature of rehabilitation works under Component 3 (Irrigation), there will be no need for land taking under the project as well as no labor influx to undertake the rehabilitation works. There might be some crop damages for a temporary period of time while rehabilitation works are ongoing. The Radoniqi-Dukagjini Irrigation Company will hire a certified assessor who will assess losses that might be incurred during the rehabilitation works period. Before the signing of the contract for rehabilitation works, the Radoniqi-Dukagjini Irrigation Company and affected farmers will sign a contract against which funds will be transferred to the farmer for the expected crop damages. The Company will also be obliged to ensure that the land is returned to its original condition upon completion of the rehabilitation works.

Gender. The project provides economic opportunities to women both in the livestock and horticulture subsectors of Kosovo. In rural areas, women are heavily engaged in processing and marketing of traditional and local horticulture and livestock products such as juices, pickles, jams, rakia, cheese, ham and sausage. There is a high demand for such products in local markets as the Kosovar population has a preference for local food products. This cultural preference also presents tremendous opportunities for realizing additional value through packaging, branding and promotion at local and regional levels. By providing grant support for investments in such activities, the project is providing employment/income generating activities to women, which also has a significant social dimension, viz. women empowerment.

Under the AF, the project will continue to provide extra points for female applicants under the RDGP to incentivize their participation. Similarly, under sub-component 2(b), the project will give priority to women aggregators by assigning additional points in the application screening process. Additionally, aggregators will receive additional points if their applications indicate at least 25 percent contracted women farmers. The public awareness/information campaign under the project will have specific elements designed to target women to stimulate their participation in project activities. Culturally-appropriate and gender-friendly technical and extension support and training will be provided to maximize inclusion of women as project beneficiaries. Women's participation will be tracked and assessed under each component of the project during project M&E as well as the mid-term survey. Activities will be adjusted as necessary during project implementation to encourage maximum women's participation.

Civic Engagement. The project has built in mechanisms for ensuring effective participation of potential beneficiaries and that activities remain responsive to beneficiary needs. Each year's RDGP is prepared by the MA that forms Working Groups to identify measures for grant support. Representatives of farmers and agro-processors are included in the Working Groups to ensure that the RDGP responds to needs of the potential beneficiaries. Several consultations are held in order to adequately cover the agricultural community in all municipalities of Kosovo. Once the RDGP is finalized, the project finances information sessions to cover all municipalities where potential beneficiaries are informed of the finalized grant program, including application criteria and sources for assistance for grant application preparation. These sources of assistance are either the Municipal Agricultural Advisor or Ministry of Agriculture's advisory services department both of which serve as a permanent repository of information. In addition, the project supports meetings, organized after the completion of the grant-supported investments, where stakeholders provide feedback on the grant program. Lessons learned are fed into the following year's RDGP. The project will continue such civic engagement under the AF. For the irrigation rehabilitation sub-component, beneficiaries will be consulted from the start, i.e. the preliminary design phase. These consultations will feed into work designs. Such consultations will also continue during the implementation phase to ensure that the needs and welfare of the potential beneficiaries are adequately addressed.

Environmental Analysis

The AF will build on the original project, and will remain a Category B triggering OP 4.01 on Environmental Assessment, OP 4.09 on Pest Management, and additional triggering of OP 4.37 on Safety of Dams and OP 7.50 on International Waterways.

Potential environmental impacts are anticipated under Component 2: Enhancing Investments to Promote Sustainable Rural Development and Component 3: Support for Irrigation. The major portion of Component 2 remains the provision of grants which were also administered under the original project. The grants were awarded based on a screening criteria set forth in the Environmental and Social Management Framework (ESMF) prepared for the project in October 2010 and subsequently revised in 2015. This revision solely dealt with changes in the Kosovo environmental legislation and did not in any form alter the overall screening procedure within the ESMF.

The screening criteria as set forth in the ESMF helps to screen out project activities corresponding to a category A, and to provide adequate due diligence on a case-by-case basis for the rural grants. The ESMF underwent a slight revision in January 2017 to add the proposed irrigation activities in the project description and small changes were made to ensure that all activities even beyond grants are covered through the process in the ESMF. The screening and due diligence mechanisms remain the same as within the original ESMF from 2010. The approach outlined in the ESMF from January 2017 will apply to the rural grants, matching grants, irrigation rehabilitation and any activity that would be proposed to be financed under the project or subsequent AFs. Furthermore, any strategic and planning documents to be produced under Component 3(b) will also incorporate adequate safeguards requirements within the Terms of Reference for any proposed study or plan.

The environmental impacts associated with the grants program and irrigation rehabilitation should be readily mitigated through sound construction practices (dust and noise, waste management, material sourcing) while the operational impacts can be mitigated through environmentally friendly farming approaches (manure management, waste disposal, emissions from food processing facilities, improved water resource use). Under Component 3, rehabilitation of the Radoniqi and Dakagjini irrigation schemes will potentially cause minor construction-related impacts (noise, dust, waste generation). A

full and robust Environment and Social Management Plan (ESMP) will be prepared to address risks and impacts of implementation of this scheme, including assessing impacts to other water users.

Risk

The overall risk rating for the proposed AF is rated Moderate as assessed in the Systematic Operations Risk-rating Tool (SORT). The overall risk rating is similar to that of the original project.

The Political and Governance category is rated Substantial as Kosovo's legislature is polarized along party lines and the Parliamentary upheavals may affect timely ratification of the proposed AF. With regard to project-specific activities, there remains a risk of elite capture of grants and contracts. The Fiduciary category is rated Substantial given the perception of corruption in the country. To mitigate these risks, the team will ensure regular and close supervision of project activities. Implementation support missions will include field visits to sites of grant beneficiaries to assess first-hand quality of investment. The PIU M&E Specialist as well as procurement specialist (as necessary) will undertake site visits and findings of these visits will be incorporated in Project Progress Reports that will be shared with the Bank and Recipient. The Bank will continue to provide support to the PIU through fiduciary workshops and training activities to enhance their knowledge of procurement and financial management aspects under the project. The Bank will also conduct prior review of key packages and post review of selected contracts during regular supervision missions. In addition, the PIU will continue to organize training on procurement procedures for beneficiaries under the grant program. At the training sessions, beneficiaries will be informed of actions that may be taken and the sanctions that may be imposed in case of misuse of funds.

To offset stakeholder risk related to complaints under the RDGP, the project has put a Grievance Redress Mechanism in place to enable communities and individuals to submit complaints to be promptly registered and reviewed for mutually satisfactory resolution. The project will continue to support regular information campaigns and consultative meetings that will cover all municipalities to disseminate details of the project and RDGP so that stakeholders are well informed of the opportunities to participate and benefit under the project.

V. WORLD BANK GRIEVANCE REDRESS

Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring
KOSOVO: AGRICULTURE AND RURAL DEVELOPMENT PROJECT
RESTRUCTURING AND ADDITIONAL FINANCING

Project Development Objective (PDO): The development objective of the project is to improve productivity of and access to markets by project beneficiaries in the horticulture and livestock subsectors of Kosovo and strengthen the institutional capacity of the Ministry of Agriculture, Forestry and Rural Development.													
PDO Level Results Indicators	Corporate Results Indicator	UOM	Baseline	Progress to Date	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2017	2018	2019	2020	2021				
Indicator One: Yields of key crops supported by the project ⁴	□	Tons/ha	0	23		24.2	26.4	28.0	30	Annual	Aggregators /PIU Reports	Aggregators / PIU	Target values to be updated before end of Project Year 1
Indicator Two: Yields of milk production per animal on livestock farms supported by the project ⁵		Liters/cow	0	11.2		11.7	12.3	12.8	13.4	Annual	FADN/Green Report Monitoring Reports	Paying Agency PIU	Liters of milk per cow on farms supported under RDGP is expected to go up by 20% by Project end
Indicator Three: Sales of milk increased to processing companies		Liters	-	100	-	105	110.2	115.7	121.4	Annual	Paying Agency/ PIU Progress Reports	Paying Agency/ PIU	Increased volume of daily sales (5 % each year for an end of

⁴ Given the demand-driven nature of the project, the actual crops supported will be evident and subsequently the increase in yields of these crops will be measured in the latter stage of Project Year 1. Preliminary analyses demonstrate that vegetables and fruits that are of potential support include peppers, tomatoes, cucumbers, apples and berries

⁵ Project support is provided only to those semi-commercial/commercial livestock farmers that own 10 or more cows

													project value of 20%)
Indicator Four: Sales of horticulture production from farmers supported by the Aggregators		Tons	24	0	0	25.2	26.4	27.6	28.8		Aggregators' Reports / PIU Progress Reports	Aggregators / PIU	
Indicator Five: Farmers adopting improved agricultural technologies	<input checked="" type="checkbox"/>	Number	0	656	0	1043	1491	1524	1537	Annual	PIU Progress Reports	PIU	Beneficiaries supported by RDGP + Aggregators and CF
Indicator Six: Preparation of Rural Development Grant Program (RDGP) sub-measures for investment support in line with EU-IPARD Guidelines	<input type="checkbox"/>	Y/N	N	Y	Y	Y	Y	Y		Annual	PIU Progress Reports	PIU	
Beneficiaries													
Farmers reached with agricultural assets or services	<input checked="" type="checkbox"/>	Number	0	3667	4182	5209	6297	6970	6983	Annual	Paying Agency /PIU Reports	PIU	
Of which female	<input type="checkbox"/>	Number	0	550	627	781	944	1045	1047	Annual	Paying Agency /PIU Reports	PIU	15%
Intermediate Results and Indicators													
Intermediate Results Indicators	Core	UOM	Baseline Original Project	Progress to Date	Cumulative Target Values					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Comments
					2017	2018	2019	2020	2021				
Intermediate Result (Component 1): Transferring Knowledge to the Rural Sector													
<i>Intermediate Result Indicator 1:</i> Client days of training provided	<input type="checkbox"/>	Number	0	1967	0	2265	2563	2861	2861	Annual		RAS Coordinator	

											RAS contractor / PIU Reports	PIU	
<i>Intermediate Result Indicator 2:</i> Farmers, entrepreneurs, and association members trained for grant applications	<input type="checkbox"/>	Number	0	3088	0	3588	4088	4588	4588	Annual	RAS contractor PIU Reports	RAS Coordinator PIU	
<i>Of which women</i>		Number	0	334	-	538	613	688	688				15%
<i>Intermediate Result Indicator 3:</i> Increased number of extension staff trained in agricultural technical topics	<input type="checkbox"/>	Number	0	200	0	270	340	410	410	Annual	RAS contractors Reports	PIU RAS Coordinator	
<i>Of which women</i>		Number		30		40	51	62	62				15%
<i>Intermediate Result Indicator 4:</i> Number of extension staff receiving certificates		Number	0	0	0	40	80	120	120		RAS / Contractors' Reports	PIU / RAS Coordinator	
<i>Of which women</i>		Number	0	0	0	6	12	18	18				15%
Intermediate Result (Component 2): Enhanced Investments to Promote Rural Development													
<i>Intermediate Result Indicator 5:</i> Livestock farmers adopting improved agricultural technologies under Measure 101	<input type="checkbox"/>	Number	0	260		283	313	338	348	Annual	Paying Agency/PIU Progress Reports	Paying Agency/ PIU	
<i>Intermediate Result Indicator 6:</i> Livestock farmers adopting improved agricultural technologies under Measure 103		Number	0	39		46	56	64	67	Annual	Paying Agency/PIU Progress Reports	Paying Agency/ PIU	
<i>Intermediate Result Indicator 7:</i> Farmers adopting improved agricultural technologies for improved horticulture production		Number	0	318		675	1083	-	1083	Annual	Aggregator Reports/PIU Progress Reports	PIU	Target values will be number of farmers receiving

													support from Aggregators
<i>Of which women</i>		Number		47		101	160	-	162				15%
<i>Intermediate Result Indicator 8: Increase in investments by farmers and enterprises in improved products and/or techniques</i>	<input type="checkbox"/>	Number of grants financed	0	656		686	726	759	772				
<i>Intermediate Results Indicator 9: Grant applications screened and approved for project aggregators</i>		Number	0	0	0	7	8		15		PIU Progress Reports	PIU	
<i>Of which women</i>		Percentage	0	0		1	1		2				10%
Intermediate Result (Component 3): Support for Irrigation Development													
<i>Intermediate Result Indicator 10: Area provided with improved irrigation services</i>	<input checked="" type="checkbox"/>	Ha	0	-	0	0	2500	5848	6833	Annual	Radoniqi-Dukagjini Irrigation Company / PIU Progress Reports	Radoniqi-Dukagjini Irrigation Company / PIU	Area in Radoniqi and Dukagjini irrigation schemes
<i>Intermediate Result Indicator 11: Fee collection rate towards scheme Management, Operation and Maintenance</i>		%	55	-	60	65	70	80	90	Annual	Radoniqi Irrigation Company / PIU Progress Reports	Radoniqi Irrigation Company / PIU	Baseline is average for both schemes over past 5 years. Targets are collection rates of actual irrigators
<i>Intermediate Result Indicator 12: Radoniqi dam safety plans prepared and adopted</i>		(No/Yes)	No		N	N	Y	Y	Y	Annual	Radoniqi Water Company/ PIU progress Reports	PIU	

Other													
<i>Intermediate Results Indicator 13: Grievances registered and responded to within agreed specified time</i>		(No/Yes)	No	Y	Y	N	Y	Y	Y	Annual	Paying Agency Reports	Paying Agency	
<i>Intermediate Results Indicator 14: Beneficiary participation in the Working Groups for the preparation of RDGP Measures</i>		(No/Yes)	No	Y	Y	N	Y	Y	Y	Annual	Managing Authority	Managing Authority	The indicator is one measurement of civic engagement under the project

**Annex 2 :Kosovo Agriculture and Rural Development Project
Additional Financing**

Project Description

I. Project Development Objective

1. The development objective of the project is to improve productivity of and access to markets by project beneficiaries in the horticulture and livestock subsectors of Kosovo and strengthen the institutional capacity of the Ministry of Agriculture, Forestry and Rural Development.
2. The PDO Level Results Indicators comprise the following:
 - Increased yields of key crops supported by the project – tons/ha
 - Increased yields of milk production per animal on livestock farms supported by the project – liters/cow
 - Increased sale of milk to processing companies
 - Increased sales of horticultural products from farmers supported by aggregators
 - Increased number of farmers adopting improved agricultural technologies
 - Preparation of Rural Development Grant Program (RDGP) sub-measures for investment support in line with EU-IPARD Guidelines

II. Project Description

A. Project Components

3. The project will support the following activities:

Modified Existing Components

Component 1: Transferring Knowledge to the Rural Sector

Total Cost: €0.90 million

4. This component aims to strengthen the knowledge of farmers and agro-processing enterprises to effectively plan investments and utilize financial support available under Component 2 of the project as well as the capacity of national extension staff and municipal advisors to provide guidance and advice to the farming community for enhanced productivity and profitability, sound investment planning and preparation of high quality, fundable grant applications. The AF will continue support for the following sub-components:

Subcomponent 1(a): Rural Advisory Service (RAS) Contracts

5. *RAS Contract 1: Training of Potential Applicants for the Rural Development Grant Program (RDGP).* The AF would continue to provide training and advice to: (i) potential grant

applicants such as farmers, agro-processors, local action groups, and rural entrepreneurs for the preparation of high quality business plans and related grant proposals; and (ii) municipal advisors to assist the farming community and other rural entrepreneurs in the preparation of such grant proposals and business plans.

6. *RAS Contract 2: Technical Training to Improve Effectiveness of Extension Staff* (originally RAS Contract 3). The AF will continue support to enhance the knowledge and skills of extension staff within the Advisory and Technical Services Department (ATSD), the national extension department and municipal advisors through training on a variety of technical topics, including *inter alia*, primary crop and livestock production; farm planning, management and analysis; post-harvest handling; agricultural marketing; agro-processing and diversification; agricultural produce transport and agricultural trade. Training in ‘energy efficiency in agriculture’ is also being provided to promote climate friendly agricultural measures among farmers and agro-processors. This contract will also include training towards certification of rural advisors (public and private) based on the Administrative Instruction “the form, content and procedures of passing the professional exam and certification for advisor for agricultural and rural development”, No. 07/2015, dated June 11, 2015

7. The original *RAS Contract 2: Training of Trainers* will be discontinued under the AF. The successful implementation of this contract has resulted in a strong cadre of trainers equipped with the right mix of skills and knowledge to train potential applicants for future RDG Schemes. A considerable number of trainers trained under RAS 2 have already been engaged by the RAS 1 contracted company to deliver trainings on the preparation of business plans. The project’s effective support towards building local capacity for such training has ensured a strong likelihood of high absorption of grant funds under future grant schemes. Given that the project has already achieved the objective of this activity, the AF will not support a separate contract related to Training of Trainers.

8. As the government has confirmed the transfer of the RAS Coordinator to the national budget, AF support will be limited to the provision of training and incremental operating costs to enable the Coordinator implement project responsibilities effectively.

Sub-component 1(b): Regional Knowledge Exchange

9. The project will support the organization of study tours and site visits to countries in the region to enable farmers and processors in the horticulture and livestock subsectors to learn and benefit from the knowledge and experiences of other agri-food producers and processors in the region. These exchanges will focus on introducing the beneficiaries to advanced practices for improving productivity, profitability and sustainability of their operations and increase their competitive potential in the sector.

Subcomponent 1(c): Institutional Strengthening of Rural Advisory Services

10. The AF will continue to support the municipal advisory service centers in delivering effective services to the rural community through the provision of: (i) training; (ii) small pieces of equipment considered essential to the functioning of an effective advisory service; and (iii) financial support to the travel and subsistence budgets of municipal advisors to enable staff to undertake field visits as necessary to advise/train farmers. Some support would also be

provided to improve their capacity for public awareness and outreach for the rural development grant program under Component 2.

Component 2: Enhancing Investments to Promote Sustainable Rural Development
Total Cost: €17.43 million (of which IDA €12.58 million; and Beneficiaries: €5.45 million)

11. The overall objective of this component is to promote inclusive growth and competitiveness in the livestock and horticulture subsectors of Kosovo as well as build institutional capacity within MAFRD to foster such growth. Activities under this component seek to leverage private investments in the sector and incentivize farmers and small- and medium-sized agro-enterprises to adopt modern agricultural technologies towards improved productivity/production and food safety and quality standards.

12. The component will support the following activities:

Sub-component 2(a): Rural Development Grant Program (€13.65 million; of which IDA € 8.80 million and Beneficiaries – €4.40 million)

13. Under the AF, the Rural Development Grant Program (RDGP) will support investments only in the livestock subsector while support for the horticulture subsector will be provided under new sub-component - 2(b). This will allow more targeted support to the horticulture subsector as under the RDGP, investments are ad hoc and diffused through the sector depending on the types of investment support demanded by potential beneficiaries. The aim is to adopt a value chain approach to the development of the horticulture subsector to promote commercial export-oriented growth, enhance its competitiveness and leverage private investments in the subsector.

14. The RDGP is implemented at the national level – for potential beneficiaries in all municipalities of Kosovo. The Call for Proposals is open to all farmers and processors residing on the territory of Kosovo. Grants are awarded on a competitive basis to beneficiaries that meet the eligibility criteria detailed in the Grant Manual.

15. Investments will be fully pre-financed by beneficiaries under Measure 101 who will be reimbursed 60 percent of the total cost of the investment, of which IDA 50 percent and MAFRD 10 percent. Beneficiaries under Measure 103 will receive an advance of 50 percent of the value of the grant upon sub-project signing and will be reimbursed 50 percent of the total value of the investment upon sub-project completion. Project grants will range in value from €15,000 to €200,000. Under the AF, the minimum value of sub-project grants will be reduced from €30,000 to €15,000 as implementation experience has demonstrated that there is a high demand for grant support below €30,000.

16. The AF will continue to assign two additional points under the screening/evaluation criteria for applications from women to encourage their participation.

17. The AF will also continue to provide an additional co-financing of five percent of the total value of the grant in the following cases:

- (a) potential beneficiaries under 40 years of age (both men and women) to encourage participation of young farmers,
- (b) for investments in climate-friendly activities such as installation of solar panels on farms, use of biomass for energy production, optimal application of mineral and organic fertilizers to encourage investments in such activities; and
- (c) beneficiaries from Less-Favored Areas.

Subcomponent 2(b) (New Activity): Promoting Development of the Horticulture Subsector (€4.50 million of which IDA - €\$3.0 million; Beneficiaries €1.05 million)

18. The objective of this sub-component is to promote the development of the horticulture subsector by strengthening backward and forward linkages in the Fruits and Vegetables (F&V) (particularly vegetables) value chain of the subsector. The overall aim is to improve productivity, quality, value addition, and market linkages within the subsector to enhance its competitiveness towards increased exports. Support to the subsector would also result in job creation, improved beneficiary incomes and increased economic opportunities for women and youth in the rural sector.

19. The sub-component seeks to leverage private investments in the sector for the development of a more commercially oriented horticulture sector. It will target support to commercial and semi-commercial agro-enterprises to drive their operations towards more lucrative domestic and export markets while simultaneously providing small holder farmers that dominate Kosovo's rural landscape, opportunities for increasing agricultural productivity for improved livelihoods.

20. The entry point for project support will be the aggregators, i.e. private collection centers and agro-processors, handling or procuring horticultural produce. The project will provide matching grants to qualifying aggregators, who will promote and strengthen backward integration strategies through the provision of supply contracts for capital inputs and extension services to small-holder farmers, thereby enabling them to enhance their productivity while improving quality (including meeting Global GAP certification requirements) and guaranteeing farmers markets for their produce. Downstream, the sub-component will exploit the value addition potential of the sector through improved postharvest management by increasing Aggregators' capacity for handling and processing, including rehabilitation or upgrading of product sorting, processing, storage, conservation / preservation infrastructure facilities as well as packaging and labeling.

21. Thus the project will enable aggregators to increase the intake of fresh produce from farmers (upstream) and increase their supply of fresh produce and processed products to domestic and export markets (downstream). The proposed approach is expected to foster the integration of a greater number of smallholder producers in the performing and remunerative horticulture value chain and the benefits thereof is expected to incentivize farmers to establish producer groups and strengthen horizontal alliances. By creating and establishing trusted commercial partnerships between farmers and private agri-businesses, the project is also expected to build and deepen sustainable vertical alliances in the value chain.

22. The project will implement a Matching Grant Scheme as a means to stimulate private sector investment in Kosovo's agricultural sector. This will help to address investment

constraints due to limited access to credit as banks have low appetite to venture into rural lending for small and medium enterprises. Potential aggregators will be invited to prepare business plans and submit applications to enhance and expand their operations. Funding for selected subprojects would be allocated through a competitive bidding process. The maximum size of the grant would be €200,000. Each subproject would receive project co-financing of no more than 65 percent of the total value of the investment. The submitted business plans will be reviewed, evaluated and scored against clearly defined criteria, including *inter alia*, (i) the increase in handling/processing capacity in physical terms (tons) and investments required; (ii) increase in sales of fresh produce/processed products (Euro); (iii) the incremental number of sub-contracted farmers; (iv) number of additional jobs created or employees hired (to be verified through official payroll sheets, actual contracts); (v) willingness to support farmers through provision of discounted inputs (seed, fertilizer, drip irrigation, pesticides, sprayer etc.) through bulk purchase from the input suppliers; (vi) availability of legally binding contracts with the sub-contracted farmers (to the extent possible) and supermarkets/collection centers/processors/exporters specifying varieties of crops, quantities to be delivered, prices for agricultural produce and quality requirements; (vii) have sound financial and business history; and (viii) have no debts, unpaid loans, disputed assets, unsettled and pending court cases. As under RDGP, the grants will include the EU cross compliance principles to ensure that the proposed agricultural investments protect the environment and conserve natural resources.

23. Each aggregator would also have to demonstrate willingness to support farmers through provision of technical assistance through a full time dedicated agronomist on staff. Technical Advisor(s) will be recruited by the Aggregators on a competitive basis to provide extension advice to farmers. The cost of maintaining the Technical Advisors will be borne by the project during year 1, co-shared in year 2 (50-50) and fully borne by the aggregator subsequently.

24. Eligibility criteria and detailed arrangements for implementation of the Matching Grant Scheme will be elaborated in the Horticulture Development Grant Manual. The PIU will be responsible for administering the Grant Scheme in accordance with the Grant Manual. The Grant Manual will clearly detail responsibilities of the Aggregators and include appropriate technical, fiduciary, environmental and social safeguards provisions to ensure that the grant funds would be used for intended purposes only. It will also include the Bank's Anti-Corruption Guidelines and consequences should the agreed commitments fail to be met. The approval of the Grant Manual by the Bank will be a condition of disbursements under the sub-component.

25. Support to Farmers. Farmers will benefit from improved access to innovative technologies, such as new and better seed varieties, good quality fertilizers and pesticides, small-scale agricultural production equipment (such as seeders for sowing, sprayers, power tillers, mobile harvesters, etc.), drip irrigation, etc. to increase their farm productivity. Input support will be complemented with training and advisory services to assist farmers with sound implementation of the new technologies. The details of required training, extension advice and inputs required for farmers will be outlined in the Business Plan to be prepared by the Aggregator based on their needs of volume and quality standards. Training will be provided by the technical advisor mentioned above. Thus firms will provide support services that will allow the horticulture value chain to grow, be more efficient, and enhance its competitiveness. Beneficiary farmers will also benefit from study tours/fairs domestically and abroad, financed under Component 1(b) to learn of the best experiences and technologies for growing highly

profitable horticulture crops from the countries with similar farming and production systems, cropping patterns, and agro-climatic conditions.

26. Support to Aggregators. The Aggregators and other downstream value chain actors will also benefit from the provision of a mix of investment and TA support. Investment support would include *inter alia*, infrastructure and equipment for processing and postharvest management - upgrading or construction of processing facilities, cold storage equipment, calibrating/sorting/grading machines, etc. TA support would include improved knowledge through technical assistance and training (to be provided under Component 1 RAS Contract 2) related to quality and safety standards, packaging and labeling, sorting and grading, etc. The Aggregator and other value chain actors will also benefit from study tours/fairs both domestically and abroad to learn of the best experiences and technologies in handling and processing horticulture produce from the countries with similar scales of handling/processing, marketing infrastructure and the like. Thus the project will help to improve the depth and breadth of services currently being provided and enable beneficiary enterprises to become commercially oriented and sustainable.

27. The PIU will be responsible for administering this activity in accordance with the Horticulture Development Grant Manual which will be prepared in a manner satisfactory to the Bank. Any changes to the Grant Manual during project implementation will require prior Bank approval. The project will establish an independent Evaluation Committee to screen aggregators' applications for project support based on the evaluation criteria in the Grant Manual. Two rounds of calls are envisaged, so that lessons learned from the first round could be fed back as improved practices in the second round.

28. Synergies with the Kosovo Competitiveness and Export Readiness Project (KCERP). Project-supported farmers and agro-enterprises are also expected to benefit from the implementation of the proposed **Kosovo Competitiveness and Export Readiness Project** (KCERP) currently under preparation. The US\$15.30 million IDA Credit aims to improve business inspection system, National Quality System and existing firms' export readiness.

29. A pressing constraint to private investments is the prevailing inspection regime marked by a lack of coordination and multiple overlaps. Kosovo has the highest number of individual inspections among all its neighboring countries which poses a significant regulatory and compliance burden on businesses. Additionally, exports are significantly hampered by the lack of access to product certification and related services at affordable prices. Exporters cannot use testing reports from domestic laboratories or certificates from domestic product certification bodies when they export their products abroad, such as to the EU, since the accreditation of these laboratories and certification bodies is not internationally recognized. For these accreditations to be recognized internationally, the accreditation organization has to be recognized internationally. Meanwhile, firms that need accreditation must go abroad, which increases the cost of Kosovar products.

30. While providing assistance to the government to reform the inspection system and improve the national quality infrastructure, KCERP will also provide direct support to SMEs to improve their export readiness. Through a matching grant program, the project will target SMEs with export potential, to: (i) fulfill requirements to implement international standards and receive certifications required for export markets, (ii) receive relevant training for employees

of individual firms or groups of firms, and (iii) gain access to BDS, such as marketing and management skills.

31. During information campaigns as well as call for applications under this component, the agricultural community will be informed of the potential support under KECRP. Training and investment support under KARDP is expected to boost export potential of select livestock and horticultural enterprises and these beneficiaries could subsequently qualify for and leverage additional support under KECRP to enhance their export readiness.

Subcomponent 2(c): Institutional Capacity Strengthening (€0.78 million)

32. Capacity Building of MA and PA (€0.24 million): To ensure effective preparation and implementation of the RDGP, the AF will continue to support capacity building of the Managing Authority and Paying Agency through the provision of training, personnel and equipment as needed. Project support will assist in approximating their functioning to EU requirements and contribute to their efforts towards EU accreditation. In this context, AF support would finance the hiring of 24 local consultants, at local civil service salary levels, for key positions in both the MA and PA for future absorption as civil servants within these entities no later than six months before closing date of the AF.

33. Improving Capacity for Food Safety and Quality Standards – Support to Kosovo Institute of Agriculture (New Activity) (€0.54 million). The project will support capacity building within the Kosovo Institute of Agriculture (KIA) to enhance its ability to promote food safety and quality standards in the livestock and horticulture subsectors of Kosovo. The Institute works closely with farmers, providing training and advice through all stages of fruit and vegetable production and processing, including soil and fertilizer training, plant protection training and training on application of Global GAP standards

34. Meeting recognized food safety and quality standards is not just a condition for market access but a powerful way to compete for market share and higher unit values. To move the agricultural sector towards harnessing such benefits, the project will contribute to developing the capacity of relevant laboratories within KIA (Soil Sampling, Water Sampling, Plant Protection, Quarantine, etc.) through the provision of select priority equipment. (total budget: 0.50 million euros).

35. The project will also support training for relevant KIA staff to enhance their knowledge and skills for improved implementation of regulations/standards related to food safety and quality. The project will finance short staff training programs at regional institutes, such as the International Center for Advanced Mediterranean Agronomic Studies (CIHEAM) in Italy (KIA has a Memorandum of Understanding with CHEAM to benefit from its experts). It will also provide support for regional experts to visit KIA to train relevant staff on site. (total budget: 40,000 euros)

New Component

Component 3: Support for Irrigation

Total cost: €6.99 million (of which AF €6.0 million and project savings €0.99 million)

36. Kosovo has limited water resources and it is vital that Kosovo protect, conserve, develop, and make efficient use of its water. The country is divided into three main agro-ecological zones, where the two main plain areas are most developed in terms of irrigation. These are the Dukagjini plain in the west and the Kosovo plain in the east. The Dukagjini plain accounts for 43% of the total area and has a more Mediterranean climate and annual rainfall of around 780 mm and up to 225 frost free days. Common crops such as lucerne, maize and sugar beet require irrigation nine years out of ten. The Kosovo plain has a more continental climate and annual rainfall of 600-650 mm and is even more dependent on irrigation. The Kosovo National Water Strategy (2015-2034) highlights the importance of managing the use of water and in particular irrigation and recommends efficiency improvements, steady irrigation expansion and greater value addition to irrigated production. It also calls for increasing financial sustainability of irrigation service provision. An inter-ministerial task force has been established to support inter-sectoral collaboration. MAFRD's role is to develop policy and strategy on irrigation in line with the water resources policy of the Ministry of Environment and Spatial Planning (MESP).

37. Overcoming the serious challenges in the irrigation sector requires both short term actions to revitalize the schemes that are currently in operation, as well as strategically plan for establishing an economically, environmentally and financially sustainable irrigation sector. This dual strategy is a clear priority for agricultural and rural development in Kosovo. Strategic planning in light of water resources and land constraints will be important as well as gaining a better understanding on how to reverse low utilization rates and support a more market-oriented irrigated agriculture sector. The MAFRD is supporting on-farm irrigation investments and it is fitting that backbone investments in irrigation build on successes in private agriculture, rather than aim to restore or expand non-viable farm models and infrastructure. In that light, it is proposed that the AF supports the modernization of the irrigation system supporting the vibrant agricultural system in the Radoniqi and Dukagjini schemes that have fewer natural resources constraints and that KARDP savings be used for supporting the development of a broad-based strategy and investment framework for the irrigation sector in Kosovo to guide future sector measures and investments.

Sub-component 3(a). Rehabilitation of Radoniqi and Dukagjini Irrigation Schemes (€6.00 million).

38. The AF would support rehabilitation and revitalization of the Radoniqi and Dukagjini Irrigation Schemes – Phase I which was established in the 1970-80s (phase II relates to expansion of the scheme which has not yet been implemented by the government). These schemes, located in the Drini River Basin in the west of the country, draw their water from the multipurpose Radoniqi Reservoir.

39. Despite the challenges faced by the irrigation sector as a whole this is the best performing scheme in the country and it provides for the largest share of actually irrigated area and most of the increase in high value crop production. The scheme's main features are a very dense pressurized irrigation system currently serving about 8,500 hectares through sprinkler irrigation from a multipurpose storage dam. The scheme is unique because of its sled-mounted sprinklers supplied through flexible hoses. This equipment has proven to be well suited and adapted to the small and fragmented farms (farms of 1-1.5 ha divided over 4-5 plots). Such a system helps to fully provide and meet on-demand water supply at the farm level, thus

comprising a very high level of irrigation service delivery (which is very rare), and allows easy farmer management.

40. The scheme is managed by the Regional Irrigation Company - Radoniqi-Dukagjini. This company is located in Gjakova and has been established by Kosovo Trust Agency (KTA) on January 1st, 2003, based on the reorganization of the irrigation sector in Kosovo. The Joint Company operates on two working units: Radoniqi and Dukagjini. The main duty of the Radoniqi-Dukagjini Irrigation Company is to supply the 6,000 farmers in the area with water for irrigation, as well as maintenance of the irrigation and drainage system. As is the case for all irrigation in the country, the scheme suffers from ageing pipes, pumps and canals; backlog in maintenance; unavailability of critical spare parts. However, the determination and creativity in managing the infrastructure by the company and farmers is enabling the scheme to continue to perform reasonably well.

41. The project will finance the following activities:

42. *Sub-component 3(a)(i) - Feasibility Study (€0.40 million):* The project will finance a feasibility study, including the development of comprehensive diagnostic reports on scheme status and performance, engineering designs for improvements in the scheme, preparation of supervision and bidding documents for selective rehabilitation and upgrading of the existing irrigation system as well as instructions and recommendations for system operation and maintenance.

43. *Sub-component 3(a)(ii) - Rehabilitation Investments (€5.40 million).* Potential works for scheme rehabilitation include the following: (a) lining and repair of main canal sections and replacement of parts such as valves, etc.; (b) rehabilitation of irrigation delivery in two secondary sub-schemes (Janosh and Doblbare); (c) minor works related to dam safety; and (d) Drini River aqueduct. In providing rehabilitation support to the scheme, the project will take a broader modernization approach and integrate managerial upgrading with the technical rehabilitation to improve both resource utilization and water delivery service to users, ensuring both institutional and financial sustainability. Towards this, the project will support: (i) a Management Information System for supporting water management; (ii) Supervisory Control and Data Acquisition (SCADA) for improved operations; (iii) a strategic supply of spare parts and maintenance equipment; and (iv) harmonization of planning and budgeting with municipal plans, including the integration of water users' demands.

44. While the irrigation company has done well in breaking even and in managing the scheme's old infrastructure, this has been a precarious balancing act due to challenges with (i) low fee recovery; (ii) inappropriate price setting; (iii) limited management and budgeting for routine and major maintenance; (iv) lack of spare part management as part of scheme asset management; and (v) lack of scheme operational information management as well as longer term institutional management. In providing rehabilitation support to the scheme, the project will take a broader modernization approach and integrate managerial upgrading with the technical rehabilitation to improve both resource utilization and water delivery service to users. In order to support institutional and financial sustainability, the project will support a functional review with the Radoniqi-Dukagjini Irrigation Company and carry out a capacity institutional enhancement needs assessment on critical functions. This includes the support to a Management Information System for supporting management, staffing review, potential pilots with

volumetric metering and charging, SCADA for improved operations, support to maintaining a strategic supply of spare parts and maintenance equipment, harmonization of planning and budgeting with municipal plans and integrating these with water users' demands. This institutional support will be integrated with the technical design improvements and is intended to initiate a process of institutional strengthening and where necessary reform. The primary objective is to improve service delivery sustainably, and the secondary objective is to learn lessons for the wider irrigation sector in Kosovo, which may be integrated into the wider investment framework (subcomponent 3(b)).

45. *Sub-component 3(a)(iii) - Implementation of Dam Safety Recommendations (€0.20 million).* Although the project will not build any dams, the Radoniqi Irrigation scheme depends upon the existing Radoniqi Dam for its effective functioning as the scheme draws its raw water directly from the Radoniqi reservoir controlled by a 61 meter high clay-core embankment dam. Several Dam Safety Assessments have been carried out in the recent past for the Radoniqi Dam, including in 2000, 2002, and 2006 under the WB-supported Pilot Water Supply Project, and most recently in 2012 by the Water Task Force as part of a countrywide Dam Safety Review. While none of these reviews raise any concerns on imminent dam safety, they make recommendations for operation and maintenance procedures and safety-related measures that are required to ensure an acceptable standard of safety. More precisely, this includes the need for critical documentation and information on dam safety, including geotechnical information, an update on and improvement of status of control instruments (inclinometers and piezometers are reported as largely dysfunctional) and electrical installations. Also, it is observed that there is no dam safety monitoring plan, although a letter from the dam operator states that geodetic measurements have been carried out to some extent over the past years. Most of the recommendations have not been fully implemented. The project proposes to adopt a composite of the 2005 and 2012 recommendations, to be confirmed by a dam safety panel to be established, and to finance these under the project. The project is envisaged to finance: (i) updated safety analysis, including full geodetic survey; (ii) rehabilitation of dam safety instrumentation; and (iii) an emergency preparedness plan.

Subcomponent 3(b): Strategy and Investment Framework for the Irrigation Sector (Cost €0.99 million to be financed through project savings)

46. Project savings will support the preparation of a strategy and investment framework to guide investments and management measures in the irrigation sector. The (re)development of available potential acreage requires logical planning and investment. There have been some studies conducted in the country on irrigation development interventions but they have been inadequate in scope and territorial coverage to constitute a comprehensive irrigation planning and investment framework. The absence of an irrigation investment framework has led the government to support isolated feasibility studies for specific irrigation investments resulting in delays in developing irrigation schemes and sub-optimal investment decisions.

47. The proposed study will assess the baseline and challenges in the irrigation sub-sector, and recommend technical assistance and investment measures for support in the short-, medium- and long-term for increasing water/agricultural productivity. In order to realize the objective of "increasing land surface under existing irrigation systems" as reflected in the National Water Resources Strategy (2015-2034), the framework will recommend a program of measures for rehabilitation and modernization of the primary, secondary and tertiary irrigations

systems; as well as expansion of area, water resources development for irrigation. The Framework will also develop options for Public-Private Partnerships and institutional reforms, including measures to strengthen Water User Associations and existing irrigation companies to become more self-financing and sustainable.

48. The Investment Framework would be scalable and comprise a composite of sub-project implementation on a rolling basis within the planning framework, based on an elaboration of a typology of irrigation categories, prioritization scorecards, implementation arrangements and required capacities, general guidelines for investment planning and environmental and social safeguards. It would assess the broad spectrum of irrigation possibilities, from large-scale developments, such as the Lepenc scheme (which is currently undergoing feasibility studies) to small-scale rainwater harvesting techniques in upper catchments. The framework would: (i) be based on previous and ongoing water resources assessments and agriculture diagnostics; (ii) map out all identified potential lands for irrigation and establish the linkages that could enhance the profitability of the proposed irrigation interventions and assess the land resources in Kosovo; (iii) include time bound action plans and strategies for use by government and development partners as well as private sector and non-state actors; (iv) be founded on stakeholder demand and market potential; (v) differentiate between types of productive opportunities with appropriate strategies for each, to be used for project identification and implementation; (vi) be costed, with short-, medium- and long-term investments identified to appropriate level of detail; and (vii) include a first set of detailed technical studies to create the immediate investment pipeline based on criteria mentioned above. The plan would be nationwide and comprehensive, technically, economically, financially justified, environmentally and socially sustainable. This study is most likely to be conducted in three iterative phases, with a first broad strategic phase setting out the boundary conditions and strategic directions based on a situational analysis and broad stakeholder consultation; to be followed by a phase of developing the actual investment framework; and finally the development of technical studies and measures to advance priority investments/actions identified by this exercise.

Component 4: Project Management, Coordination, Monitoring and Evaluation
Total cost: €0.99 million

49. The existing Project Implementation Unit (PIU) within MAFRD will be responsible for the daily management, administration and coordination of the project's activities in accordance with Bank requirements. This will include activities related to procurement, financial management, monitoring and evaluation. Its capacity would be enhanced through the hiring of a full-time irrigation specialist who will be responsible for the implementation of the irrigation activities.

50. The component will finance PIU staff salaries and training, short-term technical specialists as needed; audits; office equipment and operating costs. It would also finance a nationwide public information campaign to inform the farming/rural community of potential project benefits and opportunities for investments under the project. The project will support the use of a variety of media channels to disseminate project information, such as radio, T.V. broadcasts, posters, brochures and maintenance of the project website.

51. Support would also be provided for undertaking social/results/impact surveys at AF's midterm as well as completion. Additional periodic surveys will also be supported for

improved project implementation, for e.g. to assess and improve women and youth participation in the project. The mid-term survey would help provide critical feedback and lessons learned to improve future project implementation, especially of the new activities. The final survey to be undertaken close to project completion will inform the Project Impact Assessment Report to measure overall project results and outcomes of KARDP.

B. AF Cost and Financing

52. The total project cost is estimated at approximately €26.25 million. This includes an IDA allocation of €20.80 million and beneficiary contribution of €5.45 million (approx.). Beneficiary contribution is towards grants supported under RDGP and Horticulture Subsector Development.

C. Implementation Period

53. The project would be implemented over a period of four years. The expected closing date of the project is June 30, 2021.

D. Implementation Arrangements

54. The Ministry of Agriculture, Forestry and Rural Development (MAFRD) will continue to have the primary responsibility for overall project implementation.

55. A Project Steering Committee (PSC) will be established for the purpose of monitoring and ensuring the proper implementation of the project. The MoF and MAFRD will appoint representatives to, and periodically convene and ensure the appropriate functioning of the PSC. The terms of reference and composition of said committee will be determined by the MoF and MAFRD, and will be to the satisfaction of the Bank.

56. The PIU, headed by the General Secretary, will continue to be responsible for the day-to-day management and coordination of project activities. For the new activity on horticulture development under sub-component 2(b), the PIU will be responsible for administering this activity in accordance with the Horticulture Development Grant Manual which will be prepared in a manner satisfactory to the Bank. Any changes to the Grant Manual during project implementation will require prior Bank approval.

57. For the new component: *Support for Irrigation*, the PIU will have overall responsibility for the management and coordination of component activities. The capacity of the PIU will be enhanced through the hiring of a full time irrigation specialist. Given the involvement of several ministries and agencies in the use, management and protection of Kosovo's water resources, the Recipient, through MAFRD, Ministry of Economic Development, and Ministry of Environment and Spatial Planning, will enter into a memorandum of understanding with the Regional Irrigation Company Radoniqi-Dukagjini, and Hydro-system Radoniqi to facilitate smooth implementation of the activities envisaged under this component

58. For Component 3(b), all design and works supervision will be outsourced to an engineering consultancy firm that will act as site engineer on GoK's behalf. The installations and works will be implemented by a consulting company. All consulting companies will be

competitively recruited. While the formal client for the works is the KARDP, represented through the PIU, the Radoniqi-Dukagjini Regional Irrigation Company shall maintain day-to-day supervision of the consultant and works. They shall be involved in all stages of ToR development, consultant report reviews, bidding and contractor supervision. The design and management improvements shall be designed in a participatory manner involving water user representatives. This shall ensure full ownership of the process and results of the modernization effort, in terms of irrigation hardware and linked institutional support. Incremental Operating Costs for the Radoniqi-Dukagjini Irrigation Company to carry out its role will be supported by the project against work plans to be agreed with the PIU.

59. The dam safety interventions for the Radoniqi dam will be contracted to a consultancy firm and supervised by a steering committee comprised of the MAFRD (as the client), the Hydro-system Radoniqi (as the dam operator), the Radoniqi-Dukagjini Irrigation Company (as one of the beneficiaries) and the Ministry of Environment and Spatial Planning (responsible for dam safety in the country). The ToRs and draft outputs for the consultancy will be reviewed by an independent panel of dam experts. This panel of experts could be harmonized with the panel that is to be established for dam safety assessment on Gazivoda reservoir under the IDA-financed Water Security Project.

E. Procurement

60. Procurement for the project will be carried out in accordance with the World Bank Procurement Guidelines. Specifically, procurement will be carried out in accordance with “Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers,” published in January 2011 and revised in July 2014; and with “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers,” published in January 2011 and revised in July 2014, and with the provisions of the Financial Agreement. “The WB Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credit and Grants”, dated October 15, 2006, and revised in January 2011, will also apply to this project.⁶

61. Considering the risk encountered under the implementation of the project, as well as the country risk, the overall procurement risk is suggested as high but with adequate mitigation measures agreed, the procurement residual risk is rated substantial. The Bank, together with other development partners, has been providing support to the Government in mitigating the risks through continued dialogue and provision of fiduciary workshops and training activities. Prior review of all major contracts in agreement with the thresholds given at the end of this Annex will be carried out by the Bank team.

62. Key risks identified during the procurement capacity assessment include: (i) weak capacity in the MAFRD, in preparing Terms of Reference for some of the required consulting services and also for the rehabilitation of irrigation works contract; (ii) poor quality of TORs and technical specifications that may lead to delays in contract implementation; (iv) lack of expertise that may lead to delays in completing evaluation of bids and proposals; and (v) delays

⁶ As the Project Concept Review meeting for the AF was undertaken before July 1, 2016, the Bank’s new procurement guidelines will not apply under the AF.

in contract award due to complaints. Another encountered risk was the enactment of Regulation of MoF No. 01/2016, “On borrowing funds management” which stipulates that PIU’s staff will be hired and paid based on the legal framework applied to civil servants.

63. To mitigate these risks the following are recommended: (i) a clear division and segregation of duties will be agreed upon and reflected in the revised POM; (ii) the Bank will continue to provide support to the PIU through fiduciary workshops and training activities; (iii) the Bank will closely monitor the application of the new Regulation of MoF and evaluate its implication for the existing staff of PIU and (iv) the Bank will conduct prior review of key packages and post review of selected contracts during the supervision mission. The Procurement Plan (PP) is prepared and will be reviewed and approved at appraisal.

64. The various procurement actions under different expenditure categories are described in general below. For each contract to be financed under the AF, the various procurement or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame have been agreed between the MAFRD and the Bank in the Procurement Plan (PP).

Advertisements: A General Procurement Notice (GPN) will be published after project negotiations in UNDB on-line. Specific Procurement Notices (SPN) will be published for all International Competitive Bidding (ICB) and National Competitive Bidding (NCB) procurement as well as for all consulting services contracts as required under the respective procurement and consultants guidelines.

Debarments: The Recipient will respect debarment decisions by the Bank and will exclude debarred firms and individuals from the participation in the competition for Bank-financed contracts. Current listing of such firms and individuals is found at the following web site address: <http://www.worldbank.org/debarr>

65. The procurement procedures and SBD to be used for each procurement method, as well as model contracts for works and goods procured will be described in the Project Operational Manual.

66. The existing Project Implementation Unit (PIU) within MAFRD will be responsible for conducting procurement activities. The overall procurement activity under the project is rated satisfactory and there were no issues encountered. The PIU is equipped with an experienced procurement specialist who will continue to provide the adequate expertise. There is an evaluated risk regarding procurement of large works such as irrigations, but that will be mitigated through the hiring of an irrigation specialist who will be responsible for the implementation of the irrigation activity as well as additional short-term technical specialists as needed.

Table 1: Summary Risk Assessment

ITEM	RISK	MITIGATION
1	(a) Potential risk of delays in the implementation of the project due to the complexity of procurement processes	(a) Enhancement of the PIU capacity with an irrigation specialist and additional short term technical specialist as needed; Revision of the project POM to update the procurement

	and decision-making that involves different government agencies. (b) Enactment of Regulation of Ministry of Finance No. 01/2016 “On borrowing funds management” may result in lack of interest from experienced procurement consultants.	section, detailing procurement arrangements and an independent complaint handling mechanism, including contract management; Review of all TORs to ensure selection of qualified consultants; Provision of additional fiduciary training to staff; Publication of procurement notices and contract award information as required by the Bank Procurement and Consultant Guidelines including publication on the respective agency’s website. (b) Closely monitoring of the applicability of the Regulation and its implication to the actual staff of the PIU
4	Feasibility and Design studies do not provide all data to permit early drafting of Design bidding documents, construction/rehabilitation documents	TORs to focus on design parameters for construction works contracts; and All TORs subject to the Bank’s prior review.
5	Insufficient number of qualified and capable contractors (local).	Advertise contract opportunity widely and set realistic qualification criteria.
7	MFARD could come under political and/or commercial pressure related to the outcome of bid evaluations and contract award and are inclined to disregard provisions regarding evaluation procedures or reluctant/slow to make decisions	Bank team will follow very closely early collaboration between Consultants and clients and will attempt to intervene with a view to resolve or remove obstacles hindering or slowing down implementation

67. The POM will be revised by the MAFRD to accommodate all additional activities and to further define the steps, service standards, responsibilities and accountability of team staff and management for carrying out project activities. In addition, technical staff from MFARD, Payment Agency or KIA could be appointed as members of the evaluation committee depending on the expertise required for the procurement package to be reviewed.

68. **An Initial Procurement Plan** will be made available on the MFARD web site (without the cost estimates). It will also be made available on the Bank's external website (without cost estimates). It will be updated by the MAFRD (PIU) in agreement with the Bank annually or as required, to reflect actual project implementation needs and improvements in institutional capacity.

69. The PIU will use Bank’s new **Procurement Planning and Tracking System (STEP)** which will help the Bank and the Recipient to streamline the procurement processes. In these setting, hands on training will be provided to the procurement consultant and other members of PIU as needed

70. **Frequency of Procurement Supervision:** In addition to the prior review supervision to be carried out by the Bank team, the capacity assessment of the Implementing Agency recommends supervision missions biannually.

71. **Post reviews** will be carried out regularly with a minimum sampling of two into ten.

72. **Procurement methods and thresholds:** The Financing Agreement (FA) will define the procurement methods available for use for various procurement actions. Thresholds for procurement methods and prior review requirements are indicated below on the basis of the Bank's assessment of the capacities of the agency responsible for procurement. The PP will specify for each procurement action whether it will be subject to prior or post review.

73. It has been agreed that if a particular invitation for bid (IFB) is comprised of several packages, lots or slices, and invited in the same invitation for bid, then the aggregate value of the whole package determines the applicable threshold amount for procurement and also for the review by the Bank.

Table 2: Procurement Methods

Expenditure Category	Contract Value (USD)	Procurement Method	Bank Prior Review
Civil Works	>= 5,000,000	ICB	All >=US\$10 million contracts
	< 5,000,000	NCB	
	<200,000	Shopping	
	NA	DC	All
Goods	>= 1,500,000	ICB	All >=US\$ 1 million contracts
	<1,000,000	NCB	
	<100,000	Shopping	
	NA	DC	All
Consultant Services	NA	QCBS, QBS, FBS, LCS and CQS*	>= USD 500,000 ; >=all SSS >=US\$200,000 for IC
	NA	SSS	
	NA	IC	
<p>Notes: ICB – International Competitive Bidding NCB – National Competitive Bidding DC – Direct Contracting QCBS – Quality and Cost Based Selection QBS – Quality Based Selection FBS – Fixed Budget Selection LCS – Least Cost Selection *CQS – Selection Based on Consultants’ Qualification below \$300,000 depending on the nature of assignment SSS – Single (or Sole) Source Selection IC – Individual Consultant selection procedure</p>			

NA – Not Applicable

74. The prior review thresholds will be periodically reviewed and revised as needed during the project implementation period based on implementation of risk mitigation measures, reports from procurement post-reviews, and improved capacity of the implementing agency.

75. The procurement planning under the grants scheme will be governed by the provisions of the Grant Manuals and POM. The procurement chapter should cover all procurement aspects such as procurement implementation arrangements; procurement planning and reporting; procurement methods and thresholds; responsibilities of procurement staff and evaluation committees; and procurement process, including contract monitoring, procurement control procedures, and complaints-handling procedures.

76. Procurement under the project will include the following categories: goods, works, and consulting services. Goods will include equipment for advisory staff of the MFARD and Municipality advisors. Works will include rehabilitation of Radoniqi-Dukagjini irrigation scheme. Consultant services will include technical assistance to support the design and implementation of project activities and transfer of knowledge to the rural sector. The threshold for procurement methods and Bank prior review applied for procurement are mentioned in the Procurement Plan.

77. Records keeping and filing. The PIU will keep procurement documentation safe and filed at their premises for each contract funded under the project.

F. Financial Management

78. A financial management (FM) assessment was carried out to determine the FM implementation risk and to ensure adequate FM arrangements are in place for the proposed AF to KARDP (the project). The FM arrangements in place, including accounting, financial reporting, staffing and internal controls, budgeting and planning, flow of funds, and audits, are considered adequate for project implementation and ensure there is accurate and timely information regarding project resources and expenditures. The Recipient, through MoF, MAFRD and PA should ensure continuity of the existing FM arrangements. In addition, MAFRD will need to take actions to further strengthen areas where gaps have been identified as a result of the introduction of new activities such as (i) the documentation of new matching grant scheme guidelines and administration procedures for the new beneficiaries (aggregators) and adoption of the Grant Manual before start of disbursements for this activity (disbursement condition) and (ii) the reflection of the new activities with clearly delineated roles and responsibilities in the POM. Based on the FM assessment, the FM risk is assessed as Substantial.

Use of the country systems

79. **The Project (including AF) would rely extensively on the various elements of Kosovo's public FM systems, including (i) planning and budgeting, (ii) internal control, (iii) flow of funds and payments, and (iv) accounting and reporting.** Kosovo has participated in a number of detailed reviews of its public financial management (PFM), among

them a series of central government PEFA assessments (2007, 2009, and 2015); a municipal PEFA (2011); a country fiduciary review (2012); annual EU-SIGMA reviews; and other analyses by the World Bank. The various reviews have plotted the significant progress Kosovo has made in improving PFM. The Country Fiduciary Assessment conducted in March 2012 showed that key strengths include the sound legal framework, the integrated central Treasury system, and an increasingly effective external audit office. The strengths are offset by limited professional capacities and gaps in implementation. There is considerable scope for improving budget planning and preparation, internal financial control, audits, debt management, and capital investment management. The authorities are aware of these limitations, and progress is occurring with support from international bodies. Lagging areas include (i) limited coordination of budgets, MTEF, sector plans, and budget ceilings; and (ii) FM control and audits that are not fully effective.

80. MTEF and the Annual Budget Law are the two main documents presented for assembly review and approval. Public FM in Kosovo is highly centralized in relation to budget policy and institutional control. The annual budget at the beginning of 2016 covered 16 ministries, 8 agencies, approximately 30 independent institutions, reserved powers, and 38 municipalities (although 3 municipalities only partially participate)—excluding resources and activities funded by Serbia.

81. Budget execution is controlled by setting allocation limits, which are based on forecasts of available resources and the individual needs of the spending institution, with due regard for seasonality of revenues and expenditures. Treasury manages allocations through the year and controls budget execution and cash management, based on the cash plan submitted by budget organizations themselves. The Kosovo Financial Management Information System (KFMIS) is an important tool in executing the budget. In general, internal control procedures are well understood. The Treasury is serviced through the Single Treasury Account (STA) with the Central Bank of Kosovo (CBK), through which all government revenues and expenditures are recorded. Reconciliations between CBK and Treasury records are performed on a daily basis. The financial information is entered into the KFMIS, which produces reports. Records and information are produced, maintained, and disseminated to meet decision-making control, management, and reporting purposes, as needed. Budget execution reports are by structure of the budget and present fund balance commitment on a monthly and quarterly basis for each category.

Implementing agencies and the financial management staff

82. The project's financial management will be the responsibility of the Division of Budget and Finance (DBF) in the MAFRD and its Paying Agency, supported and advised by the PIU. The ministry and the PA were serviced by the MAFRD's DBF. The DBF will continue to be responsible for Project planning and budgeting, commitment and payment request, verification of supporting evidence, and reporting. The division follows policies and procedures established by the Law on Public Financial Management (LPFM) and financial rules on public fund expenditure. The FM specialist, part of the PIU, will continue to support MAFRD's DBF on complying with additional requirements from the Bank. Such support will consist of the preparation of withdrawal applications, compilation of planning and budgets, support for preparation of the interim financial report, support in Project audits, ex ante controls on payment documents, and post review, as applicable; correspondence with the Bank, advising on Project

FM matters, and financial contract monitoring. Roles and responsibilities of the FM staff and those of the finance and budget division are defined in the POM. The new matching grant scheme to aggregators proposed under AF will be implemented by MAFRD supported by the PIU.

83. The PA, supported by PIU, has the overall responsibility for monitoring implementation of sub-projects. Responsibilities are described in Rural Development Grant Manual, which elaborates measures design, and detailed procedures on the application selection and approval process, payment authorization processes, payment execution process and field controls. The ADA has prepared detailed and comprehensive manuals and guidelines that cover the above areas, as required by the EU for the accreditation process for IPARD grants.

84. The agency has six directorates (Approval of projects, Authorization of payments, Direct payments, Control, Archive and Finance) and three sections (Legal, Internal Audit, and Procurement). The structure of the PA ensures proper segregation of duties and workflow, however it remains understaffed. The PA has been supported by full time and temporary technical staff whose salaries have been covered by the project. There is a critical need that the staffing of the PA is adequate to meet the demands of their work and that the PIU staff is maintained during the AF period. Continuous training in FM and disbursements will be provided during the implementation period of the AF to PIU and existing finance staff in the implementing ministry.

85. **Budgeting.** The mechanisms for budgeting and opening the budget (release of funds) are considered adequate for the needs of the AF. The budget instructions issued by MoF would guide the MAFRD budget planning and execution processes. These instructions provide nominal ceilings for the various budget categories at the planning stage and approved allocations for the budget execution stage. To facilitate reporting and planning activities, a unique project code has been assigned, and all project activities are captured by this code. The approved procurement and implementation plan are the basis for preparation of the initial draft of the forecast. Project budgets and forecasts reflect technical inputs from the technical departments and concerned agencies involved with the project. These budgets form the basis for allocating funds for project activities, and after expenditures are paid, for requesting funds from the Bank.

86. The ministry's budget would pre-finance project expenditures for the respective activities, which will later be reimbursed from IDA Credit proceeds, based on statement of expenditure documenting such expenditures. Given characteristics of the pre-financing mechanism, the risk pertaining to insufficient or untimely budgetary appropriation and allocations is substantial. To address the above, a realistic project budget and forecast should be included in the Medium Term Expenditure Framework (MTEF) and the Annual Budget Law, beginning in the year the Project is expected to become effective. Project budget appropriations should meticulously reflect the nature of expected expenditures, programs, source of funding, implementing agencies, and the Project implementation plan.

87. **Internal controls.** The MAFRD will continue to maintain an internal control system to ensure that project expenditures are properly verified and authorized; supporting documents are maintained; accounts are reconciled periodically; and Project assets, including cash, are safeguarded. General government regulations for processing transactions and approving

contracts, KARDP grant manuals, PA procedure manuals and POM already exist; however, there are areas, such as new forms of subsidies and transfers proposed under the AF (matching grants to aggregators), for which the design, administration and financial management rules are not provided in existing the regulations.

88. The POM, elaborates the FM, disbursement, and internal controls policies and procedures, and is intended to guide staff and minimize the risk of errors and omissions, as well as delays in recording and reporting. The existing POM has been revised to reflect roles and responsibilities of institutions for the new component 3, since a new entity (Irrigation Company) would be involved. RDGP Grant manual describes financial management requirements of the matching grants. These written standards also clarify segregation of duties and responsibilities, including level of authority and clear control over funds and assets; and they ensure timely and accurate financial reporting.

89. As referred above, the MAFRD, supported by PIU, should prepare a manual describing design, administration and financial management requirements of the new proposed matching grants to the aggregators, which are not provided in the existing legislation and program manuals, and on establishing clarity on roles and responsibilities during implementation. Key internal controls and procedures that need to be in place with respect to matching grants mechanism should include *inter alia*:

- clear description of eligibility criteria for beneficiaries;
- clear description of eligibility criteria for activities;
- procedures relating to evaluation and selection of grants, including determining and describing responsibilities for this process;
- procedures relating to the budget mechanisms and timely transfers of funds to beneficiaries;
- procedures and processes of monitoring of grants implementation, including reporting on the use of funds and technical progress and maintaining appropriate accounting records and supporting documentation;
- procurement process for the grants.

90. The preparation and adoption of the above mentioned manual, acceptable to the Bank would be a Disbursement condition. For this purpose a separate disbursement category will be established for this part of the project.

91. **Accounting system.** Project financial records, including AF, (budget appropriations, allocations, commitments, and actual expenditure) would be maintained by the budgetary institution for its respective part of the projects in the KFMIS (free balance system) on a cash basis. The effective use of KFMIS enables the generation of financial reports. The project chart of accounts would be based on the KFMIS. Project funds would continue to be accounted separately and identified by the unique Project code. KFMIS is able to generate project reports by the nature of expenditure, institution, and program. The PIU FM specialist would be required to maintain parallel contract monitoring financial data. The data would be cross-checked periodically to KFMIS generated statements.

92. **Financial reporting.** Based on Project financial information maintained by MAFRD, the Interim unaudited Financial Reports (IFRs) would continue to be prepared on a quarterly

basis, containing at least the following: (i) statement of sources and uses of funds (with expenditure classified by disbursement category), (ii) statements of sources and uses of funds (with expenditure classified by component), (iii) contract monitoring, and (iii) KFMIS budget execution reports. The IFRs, prepared as above and including AF activities, will be submitted for Bank review within 45 days from the end of the quarter. Annual project financial statements would be prepared for project and will be based on IPSAS cash basis. The financial statements would cover the government’s fiscal year, which coincides with the calendar year. The functional and reporting currency is Euro. The format and content of IFRs is acceptable. Support will be provided by the PIU FM specialist in preparation of IFRs.

93. **Audit.** The project’s financial statements, as described above, would be audited annually under terms of reference acceptable to the WB. The terms of reference will be prepared in accordance to International Standards on Auditing. The audit scope will include the audit of annual project financial statements, and disbursements made on basis of Statements of Expenditure (SOEs). The annual audit scope would be extended to include a relevant sample of sub-projects (matching grants). The audit report with accompanying audited project financial statements, and management letter issued by the auditor for each such period should be presented to the Bank no later than six months after the end of the fiscal year.

94. The project would be audited under the existing auditing arrangements in Kosovo, whereby the MoF contracts out an independent audit firm to audit all WB–financed projects. WB procurement procedures would be followed for the selection of the auditors. However, during project implementation, the Bank may take into consideration the option of using the Recipient’s National Audit Office (NAO) to serve as the auditor for the project financial statements. This decision will be based on NAO’s agreement and willingness and Bank’s analysis and assessment of the available information of NAO’s capacity and performance based on available reviews and its willingness to receive training if needed.

An action plan was agreed during Project appraisal.

Table 3.1 Financial Management Action Plan

Action	Responsible	Completion date
Finalize and adopt Horticulture Development Grants Manual (new grant scheme)	PIU	Disbursement Condition

Disbursements

95. The AF would be financed entirely by an IDA Credit. The GoK’s preferred method of disbursement is reimbursement of funds pre-financed from the budget to finance project expenditures. The other preferred methods are direct payments and special commitments to third parties (consultants, suppliers, and contractors).

96. All payments would be made by the MAFRD from their own sources of funds, and no designated account would be needed. The FM expert would prepare all relevant documents in support of applications for withdrawal. MAFRD and MoF authorized official would act as authorized signatures.

97. Bank funds disbursed using the reimbursement method would be documented by statements of expenditure [SOEs], summary sheets, and records. Withdrawal applications would be sent to the Bank at least every three months. Upon receipt of each application for withdrawal from the credit account, the Bank shall, on behalf of the borrower, withdraw from the credit account and deposit into the single Treasury account an amount equal to the amount requested.

98. For direct payments, the Bank would require either copies of the original documents evidencing eligible expenditures in such form and substance specified in the Disbursement Letter. Records include such documents as invoices and receipts or a SOE summarizing eligible expenditures paid during a stated period. MAFRD is required to maintain original documents evidencing eligible expenditures, making them available for audit or inspection. These documents should be maintained for at least two years after receipt by IDA of the audit report and for a period required by local legislation.

99. Retroactive Financing. Under the AF, retroactive financing in the amount of €400,000 could be used on or after April 1, 2017 to finance Component 3(a)(i) of the project which is the feasibility study for the rehabilitation works for the existing Radoniqi-Dukagjini Irrigation Schemes.

Table 3.2 Expenditure Categories

Category	Amount to be financed by the Credit (in EUR)	Percentage of expenditures to be financed
(1) Goods, consulting services, consultants' services, training, and operating costs for the Project, including audit	9.00	100
(2) Sub-projects under part 2(a)	8.80	50
(3) Sub-projects under part 2(b)*	3.00	65
Total	20.80	

*Disbursement condition linked to category 3.

Annex 3 :Economic and Financial Analysis

1. INTRODUCTION

1. The development objective of the AF *is to improve productivity of and access to markets by project beneficiaries in the horticulture and livestock subsectors of Kosovo and strengthen institutional capacity of the Ministry of Agriculture, Forestry and Rural Development*. At the national level, the AF will continue to build the capacity within the MAFRD to implement selected measures of its ARDP. At the local level, the AF will continue supporting farm operators as well as commercial and semi-commercial agro-processing enterprises in Kosovo. Through the provision of rural advisory services and grants, the AF will continue seeking to promote growth and competitiveness in Kosovo's agricultural sector, thereby stimulating improved productivity, value chain development, incomes and quality of life within rural communities.

2. The financial and economic analysis of the AF follows the recommendations for good practices and is based on the experiences of similar projects in Kosovo and other countries. It is structured as follows: (i) overview of project benefits; (ii) financial analysis to assess the financial viability of the investments promoted by the AF; (iii) economic analysis, including sensitivity analysis; and (iv) assessment of public sector spending efficiency comparing the situation before and after original project implementation.

2. POTENTIAL PROJECT BENEFITS

1. It is expected that project benefits accrue from: (i) supporting the adoption of modern agricultural practices and technologies which will increase productivity, strengthen competitiveness and efficiency. A recent study found that there is considerable scope to increase productivity through the use of hybrid seeds and new technologies (greenhouses and drip irrigation), which can lead to a doubling or even tripling of production. On average farmers attain pepper yields of 20-25 t/ha, which could be increased to 50-70 t/ha if greenhouses, drip irrigation and improved hybrid seed varieties were used; (ii) investments along the value chain, that will improve on-farm/in-factory quality and hygiene standards, improve processing and marketing of agricultural produce, thus increasing efficiency and competitiveness; (iii) creating and improving employment opportunities in rural areas – permanent, long-term and seasonal and increasing economic opportunities for women and youth in agriculture. The horticulture sector is labour intensive. Pepper is one of the leading crops in terms of output and area, and requires one full time equivalent per hectare. As the project supports pepper production, it has the potential to create additional full time jobs; (iv) supporting and improving rural incomes for farmers and rural dwellers, and increasing living standards and working conditions in rural areas. For instance, a gross margin analysis for the horticulture sector, pepper, apples and raspberries, shows high returns of ca. 4,100 – 5,350 Euros/ha compared to other lower value crops such as wheat or maize⁷; (v) in addition, the AF will promote exports by increasing crop productivity and production, especially in high-value and niche products.

⁷ IFC report “Kosovo’s Competitiveness and regulatory Assessment of Selected Horticulture Value Chains Projects” IFC Report, July 2014.

2. A recent impact evaluation of the Rural Development Grant Program confirms these expected benefits and demonstrated that project support in 2013-2014 for Measure 101 and Measure 103 had a significant positive effect on incomes and employment. Similar positive benefits are expected under the AF.

3. FINANCIAL ANALYSIS (Component 2)

1. The objectives of the financial analysis are: (i) to assess the financial viability of the improved technologies and systems promoted by the AF and the increase in incomes and benefits for farm households and enterprises for six indicative farm and enterprise models; and (ii) to set a basis for the economic analyses for the AF.

2. Under Component 2: (a) *Rural Development Grant Program (RDGP)* the AF will support livestock farmers and processors towards increased profitability and sustainability of their operations. The AF would provide grant support to Measure 101 - Investment in physical assets of agricultural holdings and Measure 103 - Investment in physical assets of processing and marketing of Agriculture Products and Fisheries. The financial analysis includes three indicative enterprise models to illustrate the potential returns from the investments (with matching grant co-financing): (i) expansion of a dairy farm; (ii) establishment of a beef farm; (iii) expansion of a dairy processing enterprise.

3. Component 2: (b) *Promoting Development of the Horticulture Subsector* will target support to small holder farmers through aggregators, e.g. private collection centres and agro-processors. They will engage in commercial partnerships with farmers and facilitate farmers' access to technical assistance and improved technologies. The financial analysis is conducted from the viewpoint of farmers in the horticulture sector: (i) improving horticulture production due to improved inputs and advisory services; and from the viewpoint of a processing company: (ii) small-scale fruit and vegetable (F&V) processing facility; (iii) a medium-sized F&V company, which will engage in packaging and exporting.

4. **Key Assumptions.** The parameters for the farm and enterprise models are based on the information gathered during the design missions: interviews with the project stakeholders, farmers and entrepreneurs, a review of available documents and statistics as well as the information from the ongoing project. Information on labor and input requirements for various operations, capital costs, prevailing wages, yields, market prices of fruits, vegetables and livestock produce, and equipment costs were collected. Conservative assumptions were made for both inputs and outputs. Yield increases are phased, with full development in year 3.

5. **Prices.** Commodity/input prices reflect the annual average and were collected from the national statistics, feasibility studies, FAOSTAT and the World Bank's Global Commodity Price Projections and during the project design missions. Estimates for equipment costs were based on those of similar types made under the ongoing project. A list of the financial and economic prices used in the analysis can be found in project files.

6. **Evaluation criteria.** The financial analyses are conducted over a period of 20 years with a discount rate of 10 percent, reflecting the rural rate of borrowing. The Net Present Value (NPV) of incremental net benefits, achieved in the "with project" (WP) scenario compared to the "without project" (WOP) scenario, is assessed, as well as the Internal Rate of Return (IRR).

The IRR demonstrates the viability and robustness of the investments in financial terms. The selection criterion for the IRR is to accept all projects for which the IRR is well above the opportunity cost of capital, which is assumed at 10 percent. Benefit-Cost ratios and switching values for cost and benefits are calculated to show by how much benefits/cost have to decline/increase before the NPV becomes zero.

7. Detailed description of the financial models and a summary of the results are presented below and in Table 1 - 4.

3.1.Rural Development Grant Models (Component 2)

(i) Expansion of a dairy farm

8. The model assumes a dairy farm that increases its number of cows from 5 to 30 during the first four years. The total investment amount is EUR 57,500, including the farmer's contribution of EUR 23,000 (40 percent) and the matching grant of EUR 34,500 (60 percent). The investment covers the machinery, equipment and construction. The operating cost include feeding, veterinary services, artificial insemination and labour cost for ca. 72 person days/year. It is assumed that quantity and quality of feed is improved and is available at a market price of EUR 0.30 per kg. The model records an NPV of incremental net benefits of EUR 29,904, and IRR of 18.9 percent and switching values for benefits and cost of -15 and 17 percent.

(ii) Establishment of a beef farm

9. This model assumes the establishment of a beef farm for fattening of 50 cattle and assumes that no business had been carried out before the project. Farmers can apply for matching grants without owning cattle, but need to demonstrate ownership of at least 20 cattle when the project closes. The total investment cost will be EUR 35,000 for the construction of a cattle stable, which includes farmer's contribution of EUR 14,000 (40 percent) and the matching grant of EUR 21,000 (60 percent). The beef farm would have 25 steers, 20 heifers and 5 cows sold every year. The operation cost include maintenance, animal acquisition, improved feed and fattening, pasturing, veterinary services and all labour cost for 2 full-time employees. Financial results of the model demonstrate an NPV of the incremental net benefits of EUR 14,550 and an IRR of 17.6 percent. The analysis of switching values shows that, if capital cost are included, the model tolerates only small changes in benefits and before the NPV becomes negative. If switching value for cost only consider operating cost without investment cost, cost could increase to 18 percent and benefits decline by 15 percent before the NPV becomes zero.

(iii) Expansion of a dairy processing enterprise

10. The model presents the expansion from a small- to medium-size milk processing enterprise which expands from a capacity of about 200 to 1,000 tons of fresh milk a year. It is assumed that the enterprise will invest EUR 250,000 in cheese and butter production and the investment would be financed through the beneficiary's own contribution of EUR 125,000 (50 percent) and a matching grant of around EUR 125,000. The investment would lead to an incremental production of about 50 tons of cheese and 9 tons of butter at full development, which are sold at EUR 6.5 and EUR 4 per kg, respectively. The IRR is 47 percent and the NPV of the incremental net benefits EUR 444,600. Switching values for benefits and cost of -13

percent and 15 percent. This type of investment would create a market for small dairy farmers. About 350 primary dairy farmers could serve the processing plant, taking advantage of the newly arisen market opportunity. Additional employment at the enterprise level is expected to occur.

Table 1. Summary results of financial models of Component 2: Rural Development Grants

	Yield (t/ha)		Annual net benefits (EUR)			NPV (10%, EUR)	BC	Switching values		IRR (%)
	WOP	WP	WOP	WP	Increment			Benefits	cost	
Rural Development Grants										
Dairy farm	3,500 litre	5,000 litre	95	11,228	11,133	22,550	1.06	0.06	0.06	16%
Beef farm	-	50 cattle	-	5,425	5,425	14,550	1.05	0.05	0.05	18%
Dairy processing	200 liters	1,000 liters	14,825	96,124	81,299	444,632	1.15	0.15	-0.13	48%

3.2. Promoting Development of the Horticulture Subsector (Component 2)

(i) Improved vegetable production

15. It is assumed that aggregators engage with horticulture farmers to expand their enterprise. Aggregators will provide technical assistance, subsidize inputs such as improved seeds and demonstrate innovative technologies (e.g. new varieties, drip irrigation) through extension services, training, study tours/fairs to be implemented under the Rural Advisory Services component of the ARDP. The financial viability for horticulture farmer to adopt these improvements are assessed for pepper, tomato, cornichon, and cabbage production on 1 hectare. Compared to the without project scenario following changes are assumed: improved seeds which cost up to 50 percent more per kg, increased harvesting time by 20 percent approved fertilizer application (same quantity as in the WOP scenario), which leads to a yield increase of ca. 20 percent and subsequent NPV of incremental net benefits between EUR 1,309 and 4,087. Results are presented in Table 2.

Table 2. Summary results of financial models
(Component 2: Horticulture Development Program)

	Yield (t/ha)			Annual net benefits (EUR)			NPV (10%, EUR)	BC	Switching values		IRR (%)
	WOP	WP	Increment	WOP	WP	Increment			Benefits	cost	
Horticulture Development											
Pepper	23	28	22%	996	1,287	291	1,309	1.19	-0.16	0.19	29%
Tomatoes	66.4	80	20%	1,104	1,312	208	1,771	1.19	-0.16	0.19	-
Cornichon	59.5	70	18%	1,439	1,919	480	4,087	1.36	-0.27	0.36	-
Cabbage	47.6	56	18%	1,954	2,167	213	1,812	1.72	-0.42	0.72	-

(ii) Expansion of small-scale F&V processing enterprise

16. The model presents the expansion of a small F&V processing plant with a processing capacity of about 70 tons of fresh vegetables/fruits per year, which it doubles to 140 tons with the project. To apply for a grant, it is required that the entrepreneur has been in business at least 2 years. It is assumed that a rural entrepreneur invests ca. EUR 90,000 in enhancing buildings and equipment. The investment will be financed through the beneficiary's own contribution

and a matching grant, both 50 percent. The plant would purchase vegetables from local farmers and produce pickled vegetables in jars. The production volume increases by 50 percent, improved marketing and quality translate in a price increase of 10 percent. The model includes operating cost including skilled/unskilled labour, ingredients for processing, O&M cost of the building and equipment, transport and marketing. The model demonstrates that the investment could generate an IRR of 23 percent, and a positive NPV of incremental net benefits of EUR 55,698. The model is quite sensitive to the changes in benefits and cost, leading to switching values of ca. -12 and 14 percent for benefits and cost respectively.

(iii) Medium-scale F&V processing enterprise

17. Following model assumes an enterprise that plans to expand from a small-scale F&V processing enterprise (see (iii)) to a medium-scale enterprise. This agribusiness applies for a grant of EUR 200,000, matches 50 percent and increases overall investment sum to 300,000. This enterprise aims to enhance its handling/processing capacity by investing in modern technologies, infrastructure, equipment, and providing technical assistance and improved inputs (e.g. seed, support for irrigation) in both upstream and downstream segments of the value chain. The aggregators increase the intake of fresh produce and diversify from peppers to also include tomatoes, cornichon and cabbage, and provide fresh and packaged and processed products to the domestic and export markets.

18. The information and assumptions for the financial model stem from a feasibility study conducted in the course of project preparation. The medium sized F&V processing plant expands to a collection and processing capacity of about 2,000 tons of fresh vegetables/fruits per year. The processing plant produces pickled vegetables and supplied to the domestic and export markets. It is assumed that about 28 smallholder farmers will produce pepper, tomatoes, cabbage and cornichon (see related farm models, Table 3). It is assumed that the average farm size is 2 ha. On average about 45 percent of the vegetables are processed (31 percent) and collected, sorted, graded and packaged (15 percent); the remaining 54 percent would be supplied to the domestic market in bulk and without proper sorting (Table 3a,b).

19. On average, one third of the processed vegetables is exported and two thirds sold on the domestic market. Of the fresh vegetables, which are sold packaged or fresh approximately 5 percent are packaged and prepared for the export market and 15 percent are packaged and prepared for the domestic market by the processing company. The remaining 80 percent would be supplied by farmers and intermediaries directly to domestic market without proper sorting and packaging (Table 2b). These estimates take into account the findings of the impact assessment study and field observation that only around 25-30 percent of the vegetable and fruit produce is processed. Based on observations, varying processing rates are assumed for different types of vegetables: pepper – 30 percent, tomato – 25 percent, cabbage – 20 percent and cornichon – 90 percent (while processing rate for cucumbers in general is about 10 percent -15 percent)

Table 3a: Medium-scale F&V Processing Enterprise
Production and transformation of vegetables

	Total production, 2,084 tons		
	F&V Processing company, 957 t; 46 %		Unsorted, fresh vegetables in bulk
	Processed products	Packaged vegetables 15 %	

					31 %				54 %	
Farms	Yield, t/ha	farm size, ha	Nbr. of farms	Total production, tons	Total, tons	Share, %	Total, tons	Share, %	Total, tons	Share, %
Pepper	28	2	21	1,176	352	30%	246	21%	576.5	49%
Tomato	80	2	2	320	80	25%	36	11%	204	64%
Cabbage	56	2	4	448	89.6	20%	25.1	6%	333.3	74%
Cornichon	70	2	1	140	126	90%	1.8	1%	12.2	9%
Total			28	2,084	648	31%	309.4	15%	1,125	54%

Table 3b: Medium-scale F&V Processing Enterprise
Production and transformation of vegetables

	fresh vegetables (for packaging and selling in bulk)												
	Processed products 31 %						Packaged vegetables 15 %					Unsorted, fresh vegetables in bulk 54 %	
	Share, %	Sub-total, tons	Export		Domestic market		Sub-total, tons	Export		Domestic market		Domestic market	
			%	tons	%	tons		%	tons	%	tons	%	tons
Pepper	30%	352	40%	141	60%	211	823	10%	82.5	20%	164	70%	576
Tomato	25%	80	20%	16	80%	64	240	5%	12	10%	24	85%	204
Cabbage	20%	89.6	10%	9	90%	80.6	358.4	2%	7.2	5%	17.9	93%	333
Cornichon	90%	126	10%	12.6	90%	113	14	3%	0.4	10%	1.4	87%	12.2
Total	31%	648	28%	178	73%	469	1,435	7%	101	15%	207.3	80%	1,125

20. The expanded F&V enterprise would purchase 957 tons from the local farmers, thus 46 percent of total production, as presented in Table 2. About 308 tons of the collected fresh vegetables would be sorted by grades, put into plastic and carton boxes and sold on domestic and export markets. The remaining 648 tons of the collected fresh vegetables would be processed to pickled vegetables in jars, out of which 73 percent would be sold on the domestic market and another 27 percent exported. Export prices are ca. 10 percent higher than domestic prices. The variable cost include transformation and packaging of products, marketing, O&M, transportation, and skilled and unskilled labour.

21. Results of the model demonstrate an IRR of 30 percent, which is well above the 10 percent opportunity cost of capital, and a positive NPV of the incremental net benefits of EUR 566,898. The benefit cost ratio is relatively low with 1.13 and switching values of benefit and cost of -11 and plus 13 percent, indicating that this business is sensitive to the changes and thus sound management is needed. The summary of results is presented in the Table 4 below.

Table 4. Summary results of financial models
Component 2: Horticulture Development Program

Yield (t/ha)	Annual net benefits (EUR)	NPV (10%,	BC	Switching values	IRR (%)

	WOP	WP	Increment	WOP	WP	Increment	EUR)		benefits	cost	
Horticulture Development											
Small scale F&V				16,366	34,923	18,558	55,698	1.14	-0.12	0.14	23%
Medium scale F&V				34,923	167,338	132,414	566,330	1.13	-0.11	0.13	30%

4.

5. ECONOMIC ANALYSIS

1. The economic analysis is conducted for over a period of 20 years to assess the cost and benefits of the project to society. The economic analysis is an ex ante analysis, thus indicative, therefore the scenarios presented in the economic analysis are based on conservative assumptions and estimates. In addition, it needs to be acknowledged that the project is demand-driven and exact interventions not known in advance.

2. **Economic prices.** Financial prices were converted to economic prices for tradable commodities, which are not produced and traded domestically. The estimation of prices for tradeable commodities is based on the World Bank's Global Commodity Price Projections. All local costs were converted into their approximate economic values using a Standard Conversion Factor (SCF) of 0.85 and a Shadow Wage Rate Factor of 0.8 for labor. A summary of economic prices is provided is available on project files. All values are given in constant 2016 prices.

3. **Project economic cost.** The economic project costs were calculated by the removal of price contingencies, exchange rate premium and taxes/duties. The financial project cost are EUR 20.8 million, which translates in economic cost of approximately EUR 17.5 million. The analysis considers the phasing of project cost as indicated in the cost table. Recurrent cost of 5 percent of investment cost are assumed from year six to 20.

4. **Benefit Streams.** The analysis identified quantifiable benefits that relate to activities that could be potentially implemented under matching grants for farmers and agribusinesses and can be attributed to the project's implementation. The analysis considers two benefit streams: (a) Benefits from support to irrigation (Component 3); and (b) aggregated incremental net benefit derived from illustrative models from Component 2: dairy farm, beef farm, dairy processing and small and medium scale F&V enterprises. Benefit streams are expected to realise from year two onwards.

5. **(a) Benefits from irrigation rehabilitation activities (Component 3).** The project supports the rehabilitation of 6,883 hectare, thereof approximately 985 hectares are currently not irrigated but under rainfed production. Currently, the area is mainly covered by vegetable production, where pepper has the largest production and market potential. It is assumed that with stable water supply, producers are incentivized to invest in improved seeds and receive technical assistance. Currently pepper productivity is ca. 23 t/ha, which would decrease by 5 percent without irrigation scheme, but can increase by 20 percent, to 28 t/ha with improvements in the irrigation scheme. An increase of 20 percent is considered conservative. Farmers bear higher irrigation fees, instead of EUR 130/ha/year, EUR 250/ha/year and harvest and irrigation labor requirements and thus production cost increase. They receive a farm gate price of EUR 0.25 / kg of pepper. At full development, the economic net incremental benefits are EUR 302

per ha/year for improved pepper production. For areas that were previously under rainfed wheat, the increment is EUR 1,055 per ha/year. Aggregated over 6,883 ha, 20 years and accounting for the economic investment cost of EUR 5.25 million, a discount rate of 6 percent, this results in an NPV of incremental net benefits of EUR 13 million and EIRR of 19.35 percent. The incremental net benefits enter the economic analysis.

6. **(b) Benefits from Rural Development Grant program and Promoting Development of the Horticulture Subsector (Component 2).** It is assumed that the models presented in the Financial Analysis are illustrative examples of models that are likely to be implemented. Each model was converted in economic terms and an average incremental annual net benefit per 1 EUR of investments calculated. The incremental annual benefits per euro invested from matching grants show values between 0.11 for milk processing, and 0.43 for dairy processing enterprise (Table 5).

Table 5. Summary Results of Economic Models supported through Component 2

	Estimated Investment Costs (EUR)			Annual Net Benefits at Full Development (EUR)			Incremental annual net benefits per 1 EUR of investment (EUR)	IRR (%)	NPV (EUR)
	Grant	Beneficiary Contribution	Total	Without Project	With Project -Full Development	Incremental			
Rural Development Grants									
Milk Processor	106,250	106,250	212,500	15,000	38,505	23,681	0.11	13%	90,992
Dairy farm	34,500	23,000	57,500	583	14,738	14,155	0.24	22%	81,632
Meat farm	21,000	14,000	35,000	0	6,713	6,713	0.19	23%	43,973
Average							0.18		
Horticulture Development Program									
Small scale F&V	43,750	43,750	87,500	9,781	21,154	11,373	0.13	9%	13,946
Medium Scale F&V	100,000	200,000	300,000	21,154	147,366	126,992	0.42	1%	81,391
Average							0.28		

7. **Results and sensitivity analysis.** Given the above benefit and cost streams over 20 years and a discount rate of 6 percent, the base case Economic Rate of Return (ERR) of the AF is estimated at 21 percent, with an Economic Net Present Value (ENPV) of net benefit streams of EUR 23.2 million (Table 6). Economic returns were tested against changes in benefits and costs and for lags in the realisation of benefits to confirm the robustness of the results. The sensitivity results are presented in the Table 7.

Table 6: Summary of Economic Analysis of the AF ARDP

from rehabilitating the irrigation schemes under Component 3. Considering project's economic cost of EUR 17.5 million, the analysis yields an Economic Net Present Value of EUR 23.2 million with an Economic Internal Rate of Return of 21 percent. Sensitivity analyses demonstrate the robustness of this result; and (iv) evidence of increased efficiency of public spending between 2012, when the project became effective, and 2015. This implies increased institutional capacity which is clearly a favourable development in light of Kosovo's bid for EU accession.