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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO

BOSNIA AND HERZEGOVINA

FOR THE

LIVESTOCK AND RURAL FINANCE DEVELOPMENT PROJECT



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CURRENCY EQUIVALENTS

| | | |
|---------------|---|------------------------|
| Currency Unit | = | Convertible Mark (BAM) |
| USD 1.00 | = | BAM 2.0 |
| BAM 1.00 | = | USD 0.5 |
| BAM 1.00 | = | DM 1.00 |

WEIGHTS AND MEASURES

| | | |
|----------------------------------|---|--------------------------------------|
| 1 kilogram (kg) | = | 2.204 pounds (lb) |
| 1 000 kg | = | 1 metric tonne (t) |
| 1 kilometre (km) | = | 0.62 miles (mi) |
| 1 metre (m) | = | 1.09 yards (yd) |
| 1 square metre (m ²) | = | 10.76 square feet (ft ²) |
| 1 acre (ac) | = | 0.405 ha |
| 1 hectare (ha) | = | 2.47 acres |

ABBREVIATIONS AND ACRONYMS

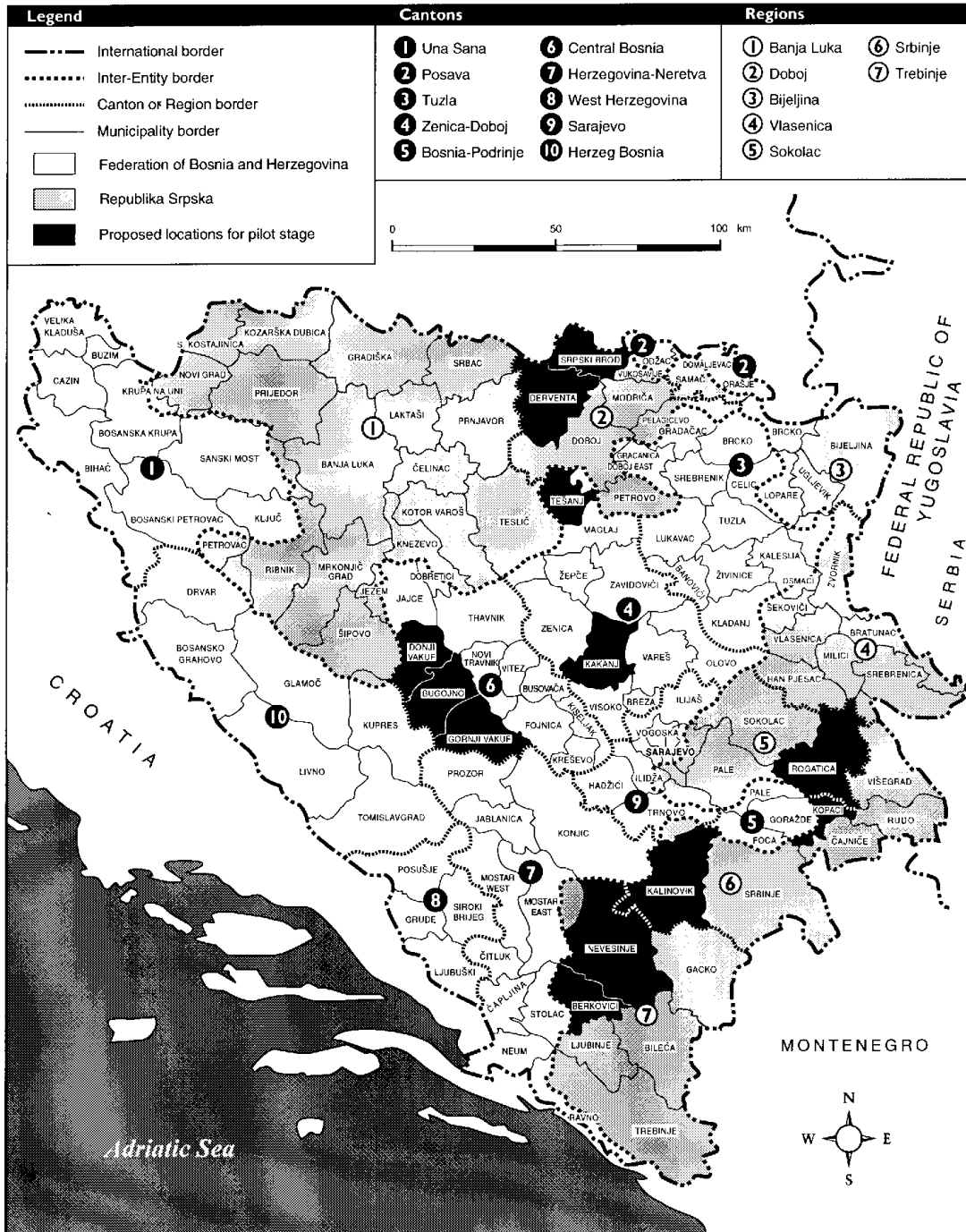
| | |
|-------|---|
| AWP/B | Annual Work Plan and Budget |
| DIF | Development Initiatives Fund |
| EU | European Union |
| FBiH | Federation of Bosnia and Herzegovina |
| GTZ | German Agency for Technical Cooperation |
| M&E | Monitoring and Evaluation |
| NGO | Non-Governmental Organization |
| OPEC | Organization of the Petroleum Exporting Countries |
| PA | Producers' Associations |
| PCUs | Project Coordination Units |
| PSC | Project Steering Committee |
| RS | Republika Srpska |
| SCAs | Savings and Credit Associations |

GOVERNMENT OF BOSNIA AND HERZEGOVINA

Fiscal Year

1 January - 31 December

MAP OF THE PROJECT AREA



Source: IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.



BOSNIA AND HERZEGOVINA
LIVESTOCK AND RURAL FINANCE DEVELOPMENT PROJECT
LOAN SUMMARY

| | |
|---------------------------------------|---|
| INITIATING INSTITUTION: | IFAD |
| BORROWER: | Bosnia and Herzegovina |
| EXECUTING AGENCY: | Ministry of Agriculture, Forestry and Water Management |
| TOTAL PROJECT COST: | USD 25.5 million |
| AMOUNT OF IFAD LOAN: | SDR 9.55 million (equivalent to approximately USD 12.0 million) |
| TERMS OF IFAD LOAN: | 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum |
| COFINANCIERS: | Organization of the Petroleum Exporting Countries Fund for International Development (OPEC Fund) |
| AMOUNT OF COFINANCING: | USD 5.0 million |
| TERMS OF COFINANCING: | 20 years, including a grace period of five years, with an interest rate of 1.5 percent and a service charge of 1% per annum on amount disbursed |
| CONTRIBUTION OF BORROWER: | USD 5.6 million |
| CONTRIBUTION OF BENEFICIARIES: | USD 2.9 million |
| APPRAISING INSTITUTION: | IFAD |
| COOPERATING INSTITUTION: | United Nations Office for Project Services (UNOPS) |



PROJECT BRIEF

Project objectives. The overall objective of the project will be to develop a replicable model of sustainable, small-scale commercial livestock production, which will demonstrate the income-earning potential of the livestock sector and contribute to the revival of the rural areas. To achieve this, the project will seek to help the rural poor, men and women, in the development of small-scale, private-sector, market-oriented livestock production with a view to generating sustainable increases in household incomes, ensuring food security and contributing to the social stability and prosperity of rural communities. Specific objectives are to: (i) support the development of smallholder livestock production through the provision of credit; (ii) provide farmers with access to appropriate technical support services; (iii) develop and improve linkages with the market with special reference to dairy marketing; (iv) develop complementary/alternative non-farm income-earning opportunities that support the provision of backward and forward linkages for the livestock producers and contribute to the revival of rural services; and (v) reconstruct essential rural infrastructure to provide an environment for people to return and pursue economic activities.

Profile of project beneficiaries. Around 21 000 households in 16 localities will benefit from the increase in incomes, enhanced food security and an improved rural environment. Women will benefit from access to credit, previously unavailable to them, thereby helping them to better provide for their families and to achieve a measure of economic independence; their knowledge and skills will be increased; and their recognition and influence in the community will be enhanced through their role as demonstration farmers and their involvement in the management of producers' associations and savings and credit associations (SCAs).

Targeting mechanism. The target group will comprise small farmers, among the resident and returnee populations, on average farming an area of 3-5 ha and with less than two cows. It will include previous IFAD borrowers within the project area, particularly those who require further assistance to be able to service their loans. Special efforts will be made to ensure the extensive inclusion of women who are major contributors to livestock production. The target group for livestock development activities will comprise a core group of presently undercapitalized, specialized small-scale commercial farmers, part-time farmers wanting to make the transition from subsistence to semi-commercial production and previous IFAD borrowers.

Beneficiary participation. The project will be implemented through a flexible, participatory, process-oriented approach, through which project design will be revised, adjusted and improved based on lessons learned from ongoing implementation experience. Annual stakeholder review workshops and a system of ongoing process evaluation will facilitate this process. Participatory approaches will be particularly evident in the formation of the producers' associations, the processes for identifying entrepreneurs in small and medium enterprises and the formation of SCAs.

Risks. Risks include: (i) increased competition from imports could undermine the profitability of local dairies if they are unable to develop niche markets; (ii) lack of appreciation and commitment to the realities of economic change among certain sections of government risks the project's being taken off course; (iii) rapid economic and socio-political change risks the project's getting out of step with the economic environment; (iv) the dependency attitudes engendered by many years' of international assistance could undermine the attempt to establish a strong and effective rural credit mechanism; and (v) the inability to reverse the urbanization process and maintain a young, active labour force in rural areas could undermine efforts to develop the smallholder sector.



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO
BOSNIA AND HERZEGOVINA
FOR THE
LIVESTOCK AND RURAL FINANCE DEVELOPMENT PROJECT**

I submit the following Report and Recommendation on a proposed loan to Bosnia and Herzegovina for SDR 9.55 million (equivalent to approximately USD 12.0 million) on highly concessional terms to help finance the Livestock and Rural Finance Development Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. The agro-ecological conditions of the country, characterized by a mountainous topography and scarce good agricultural land, favours livestock production. Part-time farmers dominated the pre-war agricultural sector. Of the farmers who owned cattle before the war, 60% had only one cow. The development of the rural economy has been disrupted in recent years, first by the transition process and second by the impact of the war, which resulted in the loss of 50-60% of the livestock. The present need, to which the project will contribute, is to address the underlying problems of the livestock sector and to focus on supporting the process of transition to the market economy, which was stalled by the war. This requires fostering structural changes in the agricultural sector in order to generate greater agricultural incomes through encouraging the development of the smallholder sector, which was seriously neglected under the previous regime. This involves rebuilding the herds of the few existing small commercial farmers and providing an environment in which part-time farmers, now faced with the loss of wage income, can begin to make the transition to small-scale commercial production.

B. Lessons Learned from Previous IFAD Experience

2. IFAD's two previous projects in Bosnia and Herzegovina – the Farm Reconstruction Project – Re-stocking Activities and the Small Farm Reconstruction and Development Project – were designed to deal with the immediate post-war situation. The IFAD-funded parts of both projects focused on livestock restocking through the importation of high-quality cows from Western Europe and the local purchase of sheep and goats. These animals were distributed on a credit in-kind basis in the form of “subsistence” (one cow) and “commercial” (three cows) packages. The credit was to be paid back in cash through an administrative bank arrangement. Under the Farm Reconstruction project, which was implemented in only one Entity² of the country, the Federation of Bosnia and Herzegovina (FBiH), all municipalities were included in the livestock restocking. Under the Small Farm project, only six out

¹ See Appendix I for additional information.

² Under the Dayton Peace Agreement, signed on 14 December 1995, Bosnia and Herzegovina is made up of two political Entities – the Federation of Bosnia and Herzegovina and Republika Srpska. Both Entities have parliamentary assemblies and governments. In addition, there is a State-level presidency, government and parliament, with joint representation of the two Entities.



of the 10 cantons in FBiH were included; furthermore, only municipalities that achieved a repayment rate of more than 50% under the Farm Reconstruction project were eligible. In the Republika Srpska (RS) some municipalities in the south and north-west were included.

3. The projects made an important contribution to the survival of many families in the immediate post-war recovery period, but deficiencies in the overall economic environment, stemming both from the aftermath of the war and from the stalled transition process, impacted on the performance of the livestock re-stocking programmes. These outcomes have been reflected in the low repayment rate (20-25%), which has resulted from a number of interrelated factors, notably:

- (a) in order to reach the maximum number of families with the basic means of survival, most cows were provided as the “subsistence” one-cow package, which, in the circumstances, did not generate adequate marketable surplus beyond the needs of the household.
- (b) Farmers who were able to produce surplus milk faced difficulties in selling their milk due to the lack of linkage with markets due to the collapse of pre-war collection systems.
- (c) Although in the circumstances no alternative to importing animals existed, the result was a mismatch between highly productive animals and the capabilities of farmers to feed and manage them.
- (d) Lack of adequate extension and animal health services prevented the production potential of these high-quality animals from being reached.
- (e) In order to satisfy the need for cash and due to the lack of market opportunities and therefore the absence of incentives to increase herds, farmers slaughtered many female calves, which should have formed the basis of the re-generation of the dairy herds.
- (f) Due to the undeveloped state of the banking sector, it was not possible to base the projects on normal credit arrangements. However, the credit arrangements established, based on the administrative bank arrangement, were not conducive to providing the correct environment for establishing credit discipline – the banks were not involved in beneficiary appraisal or selection of borrowers, they bore no risk and were not adequately remunerated (1% of interest) to provide the incentive and means to follow up the collection of repayments. In addition, the scattering of beneficiaries did not allow for peer pressure, while inappropriate messages given to farmers in some instances resulted in the assimilation of credits as grants by the borrowers. In addition, the whole environment at the time was dominated by grant assistance, and this generated a “hand-out” mentality among recipient communities.

4. These points have been taken into account in the design of the present project, which emphasises the shift from emergency assistance to a focus on development. Project design incorporates measures to ensure that the difficulties experienced under the previous projects are avoided.

C. IFAD’s Strategy for Collaboration with Bosnia and Herzegovina

5. While reconstruction has led to increased incomes, most Bosnians remain worse off than before the war. Moreover, despite the high post-war growth rates, Bosnia and Herzegovina remains the second-poorest country in the region (after Albania). With a lack of comprehensive household survey data, there are no accurate figures on the incidence of poverty, with different estimates suggesting that the overall incidence of poverty ranges from 27 to 60%. Nonetheless, consultations with focus groups have concluded that the combined pressure of transition and wartime devastation has placed many people on the margins of economic existence with their current privations contrasting sharply with a relatively comfortable pre-war normal life. In a country whose pre-war economy was based predominantly on wage employment, the lack of employment opportunities, demonstrated by



registered unemployment rates of around 36%, is a major cause of poverty particularly in the rural areas where part-time farmers rely on a wage to complete the household income. Other major poverty groups include displaced persons, and some 25% of the employed whose low wage rates keep them below the poverty line. As a result, the geographic concentrations of poverty tend to be in the cantons and regions, which include the major cities where large numbers of displaced persons are to be found, thereby masking the situation in the rural areas.

6. Pre-war, the most disadvantaged areas were the remote and resource-poor areas, which were predominantly the more mountainous parts of the country. In the aftermath of the war, these areas are likely to remain the poorest areas, particularly the war-stricken areas.

7. The Government of Bosnia and Herzegovina is developing a comprehensive poverty reduction strategy paper that addresses the complex human and social deprivation many Bosnians face. With the constraints of poor data, this strategy will be completed in 2002 after the basic living standards measurement survey and poverty assessment has been undertaken.

The Poverty Eradication Activities of Other Major Donors

8. **Agriculture.** The European Union (EU) and the World Bank have been the principal donors providing assistance in the agricultural sector. EU has complemented IFAD activities by supporting the importation and distribution of livestock (heifers and sheep) following the same guidelines as the IFAD projects and confronting similar problems (see below). Other donors, including The Netherlands and the Saudi Fund, have also supported smaller programmes for livestock importation. In addition, EU has provided technical assistance for the pilot development of machinery rings, supplying crop and fodder production machinery to farmers on rent and for the formation of advisory services for farmers on a pilot basis. EU support for extension will continue with the National Extension Services Project, which is about to be launched and which aims to develop sustainable government-supported agricultural extension services. EU is also providing support to disease control through an advisory mission on the control of the recent outbreaks and the development of contingency plans for disease emergencies. Furthermore, EU is at the tendering stage for a national-level animal identification programme to bring animal identification in line with systems used in EU countries. Through its support to the Agricultural Strategy and Programming Units, EU is advising the Ministries of Agriculture in FBiH and RS on the development of their agricultural policies. A number of donors have been involved in the provision of farm machinery including the World Bank, in collaboration with the two previous IFAD projects, and the Government of Japan. EU is also currently initiating a rural credit programme, which will be implemented nationwide in collaboration with commercial banks.

9. **Small enterprises development.** The main donors supporting the development of the small and medium enterprises sector have been the United States Agency for International Development, the World Bank, the European Bank for Reconstruction and Development and the International Finance Corporation. They have provided lines of credit through commercial banks supported by advisory services for business development. A new World Bank credit line for RS is currently under preparation. All these projects have supported the expansion of existing businesses, and the lack of credit facilities for new start-ups, although more risky, is now a major gap in the credit market.

NGO Sector

10. **Livestock development.** The Dutch Relief and Rehabilitation Agency (DRA) is the principal non-governmental organization (NGO) involved in livestock development through the provision of credit for the purchase of cows, the establishment of dairy producers' associations, and support to the Goradze dairy, which is being organized on a cooperative basis. DRA's activities are concentrated in Goradze and neighbouring municipalities in RS.



11. **Producers' associations (PAs).** NGOs are also playing a leading role in promoting producers' associations. There are now a number of examples of the successful establishment of PAs by NGOs such as CARE, World Vision, *Action contre la Faim*, Partners in Development, although they are still in their infancy and their sustainability has yet to be proven. Several of these are milk producers' associations. Other associations concern beekeepers, vegetable production and handicraft activities. Some are women's associations (e.g. greenhouse farmers), while women are also members of mixed associations. The experience to date is that the establishment of these associations requires considerable time to convince members to develop mutual trust and to work together for a common objective. Most of the NGO efforts have been focused on returnee communities, and NGOs feel that progress could be swifter where the focus was on resident communities.

12. **Infrastructure rehabilitation.** NGOs have also been major actors in the reconstruction of rural infrastructure, both with their own private resources and as implementers on behalf of the United States Department of Agriculture and EU. Due to the need for speedy implementation of projects, most of the reconstruction work to date has been implemented by contractors with little involvement of the community. However, some NGOs, e.g. CARE and World Vision, have more recently undertaken some reconstruction works in a more participatory manner, with communities implementing the works and contributing to the costs in labour and materials. The responsiveness of communities to this approach has tended to be variable.

13. **IFAD's strategy in Bosnia and Herzegovina.** IFAD's strategy for Bosnia and Herzegovina focuses on developing an integrated approach in which project activities are interrelated and complement each other to bring added-value impact. Within this overall framework, emphasis will be placed on:

- (a) **Participation.** IFAD's strategy will emphasize the effective participation of beneficiaries in project management so that the participatory approach to community development becomes the nucleus around which the whole concept of empowering the poor can grow. Effective participation will require the decision-makers to relinquish gradually part of the decisions to the village communities, enabling them to plan their own priority activities within the framework of criteria and resource constraints set by the project management;
- (b) **Improving access to finance.** Since increasing productivity is largely dependent on access to input, improving the access of the rural poor to credit becomes crucial. Given the level of distrust in commercial banks and the existing top-down cooperatives, the focus will be on establishing a network of self-managed rural financial intermediaries, such as credit unions or savings and credit associations (SCAs), through which rural savings can be mobilized and targeted assistance channelled, to fill the financing gap; and
- (c) **Generating income from off-farm incomes.** In response to the limited resource base, IFAD's strategy will emphasize opportunities to generate income from off-farm activities through increasing the productivity of livestock activities and the promotion of microenterprises in production and services, taking particular care to ensure that women have access to the proposed investments.

14. **Linking the private sector with the rural poor.** IFAD's strategy will build on the experience gained by NGOs in mobilizing and empowering communities by encouraging NGOs to be associated with IFAD interventions to provide a sustainable link between the private sector and the rural poor in such areas as input supply and marketing and in facilitating the use of modern technologies.

PART II - THE PROJECT

A. Project Area and Target Group

15. The project localities for the pilot phase have been carefully selected to ensure a conducive environment for the establishment of commercial, smallholder livestock production through focusing on traditional livestock production areas and selecting communities within the catchment areas of small private dairies to ensure market linkages. The initial project areas provisionally identified for FBiH are Tesanj and Kakanj in Canton 4 and the Gorni Vakuf-Bugojno-Dorni Vakuf area in Canton 6. In RS, the areas selected are categorized as extremely underdeveloped or underdeveloped municipalities, which represent a mix of agro-economic zones and a mix of dairy cattle and sheep production regions. The localities selected for the pilot phase include: (i) Nevesinje, Kalinovik and Berkovic; (ii) Rogatica and Srpska Goradze; and (iii) Derventa and Srpska Brod.

16. The target group will comprise small farmers, on average farming an area of 3-5 ha and with less than two cows, among the resident and returnee populations, including previous IFAD borrowers within the project area, particularly those who require further assistance to be able to service their loans. Special efforts will be made to ensure the extensive inclusion of women, who are major contributors to livestock production. The target group for livestock development activities will comprise a core group of presently undercapitalized, specialized small-scale commercial farmers, part-time farmers wanting to make the transition from subsistence to semi-commercial production and previous IFAD borrowers. The project will adopt a differential system of targeting whereby different sections of the target group will be eligible to participate in different project activities as shown in Table 1.

Table 1: Targeting matrix

| Project Activity | Previous IFAD Borrowers | | New Client farmers | Women | Private Entrepreneurs | Returnees |
|--|-------------------------|----------------|--------------------|-------|-----------------------|-----------|
| | Delinquent | Non-Delinquent | | | | |
| Membership of producers' association | X | X | X | X | | X |
| Extension advice | X | X | X | X | | X |
| Access to formal credit line for livestock purchases | | X | X | * | | X |
| Access to SME credit line | | X | | * | X | X |
| Access to business and technical advisory services | | X | | X | X | X |
| Membership of SCAs | * | X | X | X | | X |
| Rural infrastructure reconstruction | X | X | X | X | X | X |

X = Assured access to activity

* = Possible access to activity

SME = Small and medium enterprises

SCA = Savings and Credit Association

B. Objectives and Scope

17. **Project rationale.** The transition process and the destruction wrought by the war have disrupted the development of the rural economy. The key to revival lies in developing attractive income-earning opportunities and providing improvement in the overall rural environment in order to encourage people to stay in the countryside. This requires rebuilding the herds of the few existing small commercial farmers, providing a more conducive environment in the rural areas through the reconstruction of much-needed rural infrastructure, supporting services and access to capital to enable the development of small businesses to ensure the ancillary backward and forward linkages to support livestock development.

18. The lack of short- and medium-term finance is a further constraint. Since the commercial banks presently do not provide agricultural and rural lending, impulse needs to be given to the formal



financial sector through the demonstration that agricultural and rural lending can be provided in a profitable and sustainable way. The project will play a significant role in reorienting the credit institutions and developing rural credit facilities for the long-term benefit of the agricultural sector.

19. This approach will complement the support being provided by other donors and in so doing provide a niche and identity for IFAD. Most other support to the country is still mostly focused on dealing with the consequences of the war and providing assistance principally to the returnees. The value added in the IFAD approach lies in its focus on development and dealing with the consequences of the transition process and its willingness to address the needs of the resident communities and in so doing to create a better environment in which returnees can also participate.

20. **The overall objective** of the project will be to develop a replicable model of sustainable, small-scale commercial livestock production, which will demonstrate the income-earning potential of the livestock sector. To achieve this, the project will seek to help the rural poor, men and women, in the development of small-scale, private-sector, market-oriented livestock production with a view to generating sustainable increases in household incomes, ensuring food security and contributing to social stability. Specific objectives are to: (i) support the development of smallholder livestock production through the provision of credit; (ii) provide farmers with access to appropriate technical support services; (iii) develop and improve linkages with the market with special reference to dairy marketing; (iv) develop complementary/alternative non-farm income-earning opportunities that support the provision of backward and forward linkages for the livestock producers and contribute to the revival of rural services; and (v) reconstruct essential rural infrastructure to provide an environment for people to return and pursue economic activities.

21. The project approach is to implement a revival strategy for rural areas by establishing and sustaining appropriate linkages to input and output markets, facilitating the establishment and empowerment of participatory farmers' grass-roots organizations such as producers' associations and building their capacities in order to provide effective and demand-driven services to their members. Other aspects of this strategy will be the creation of viable economic entities through improvement of land-leasing terms, approach, promotion and support of microenterprises. To facilitate the implementation of this approach, the project will introduce a flexible rural finance system, which will respond to short-, medium- and long-term credit needs of livestock owners, small enterprises and income-generating activities. PAs and SCAs will be established with equal access to women.

C. Components

22. **Livestock and enterprise development.** The project will: (i) support the establishment of PAs to facilitate access to markets through the management of milk collection centres and to provide services to members such as extension advice, contracting of veterinary services, renting of fodder production machinery, assistance with land rental and bulk inputs supply; (ii) improve extension advice to smallholder farmers through training of demonstration farmers/resource persons among the members of the PAs and training of trainers at the municipality and entity level; (iii) provide a line of credit through a commercial bank for the provision of cash loans for the purchase of livestock and for supporting enterprise development; and (iv) assist the development of small private dairies with advice in marketing strategies, product development, dairy management and access to credit to build the capacity of a dairy development support group in each Entity to support the dairy sector.

23. **Microfinance.** The project will promote the development on a pilot scale of self-managed village-based SCAs providing men and women access to several cycles of small loans for working capital and for developing supplementary income-generating activities. Once the appropriate legislation is in place, the mobilization of savings will be encouraged. In the meantime, the project will provide an initial equity grant to augment the members' own resources for providing loans to members. The project will provide a line of credit for on-lending to the SCAs once they have demonstrated their ability to manage credit operations prudently. An experienced NGO or local



microfinance institution will be contracted to promote and support the SCAs through the establishment of an independent project microcredit organization, which the SCAs could eventually own themselves through a federal structure.

24. **Rural infrastructure reconstruction.** The project will support the reconstruction of community infrastructure such as water and electricity supplies, village roads, schools and health facilities in order to restore an environment in which the rural population is able to pursue their economic and social lives. Infrastructure reconstruction will be based on community participation in the identification of needs and in planning and implementation. In addition, communities will be expected to contribute to the cost of reconstruction, mainly in the form of labour and local materials. The communities themselves will implement small-scale works, while contractors will implement larger works. An NGO will be mobilized to manage the participatory approach.

25. **Development initiatives fund (DIF).** The base cost of the DIF will be USD 2.3 million: USD 1.2 million for FBiH and USD 1.1 million for RS. The project makes provision for a DIF to provide flexibility to move funds to areas of demand and to those components where good results have been achieved. These funds are available to be allocated to any of the project components after review of the project by the mid-term review in the third project year (PY). The proposed criteria for DIF use will be:

- (a) allocations from DIF will be available for expansion of existing activities or for relevant activities identified through participatory processes, e.g. demands generated by producers' associations;
- (b) each proposed activity will be reviewed in the light of the past performance of the relevant project component; and
- (c) each activity will be assessed in terms of its impact on poverty alleviation and the improvement of the well-being of the beneficiaries.

26. **Project management.** The project will support the incremental staff and operating costs of project coordination units to be established in each Entity.

27. Animal health has become a major concern of all donors involved in the livestock sector, particularly after the latest outbreak of brucellosis and Q fever. Consequently, several major donors are sponsoring animal health-related programmes and projects, notably EU (programmes focusing on animal identification and animal health diagnosis and control) and the German Agency for Technical Cooperation (GTZ) (privatization support to the veterinary profession). The GTZ-sponsored project, initiated in 1999, will continue at least until the appropriate legislation is finalized and adopted.

28. The project will support strategies for improvement of the animal health situation, emphasizing three important elements: (i) to be supportive of and in harmony with the other programmes in order to avoid duplications and poor allocation of resources; (ii) to rely on NGOs and private service providers for direct implementation of this project in order to ensure application of transparent targeting procedures, establishment of participatory working plans and monitoring systems; and (iii) to provide direct, demand-driven self-help-based interventions to the beneficiaries in the project area through:

- (a) improvement of animal husbandry practices;
- (b) provision of a line of credit, through commercial banks, to support GTZ efforts in the privatization of the veterinary profession through the creation of small, private village-based veterinary clinics;
- (c) provision of a line of credit through commercial banks for working-capital credit needs;

- (d) establishment of SCAs at the village level to provide their members with a reliable source of short-term credit for, among other things, the purchase of medicines and payment of veterinary services; and
- (e) establishment of PAs, with the assistance of qualified NGOs to promote self-help among farmers; provide them with training and better and organized access to appropriate information and technology; expose them to innovative procedures through demonstration trials; and improve their bargaining positions in their dealings with input and output markets.

D. Costs and Financing

29. The total cost of the project over six years is estimated at USD 25.5 million (USD 16.5 million for FBiH and USD 9.0 million for RS). The proposed IFAD loan of USD 12.0 million will finance 47% of the total project costs, with USD 6.0 million allocated to FBiH and USD 6.0 million to RS. The Organization of the Petroleum Exporting Countries for International Development (OPEC Fund) already approved in November 2000 a contribution of USD 5.0 million as parallel financing solely for rural infrastructure reconstruction in FBiH, amounting to 20% of the total project cost. The FBiH government will contribute USD 3.5 million and the RS government will contribute USD 2.1 million. The beneficiaries will contribute USD 2.9 million. A cost summary is presented in Table 2 and a financing plan in Table 3.

TABLE 2: SUMMARY OF PROJECT COSTS^a
(USD '000)

| Component | Federation of Bosnia and Herzegovina | | | Republika Srpska | | | Total Bosnia and Herzegovina | | | % Foreign Exchange | % Base Cost |
|--|--------------------------------------|--------------|---------------|------------------|--------------|--------------|------------------------------|--------------|---------------|--------------------|-------------|
| | Local | Foreign | Total | Local | Foreign | Total | Local | Foreign | Total | | |
| Livestock and Enterprise Development | 4 265 | 291 | 4 557 | 2 966 | 210 | 3 177 | 7 232 | 502 | 7 733 | 6 | 31 |
| Microfinance | 1 556 | 135 | 1 691 | 1 562 | 135 | 1 697 | 3 117 | 271 | 3 388 | 8 | 14 |
| Rural Infrastructure Reconstruction | 5 137 | 2 244 | 7 381 | 1 032 | 466 | 1 497 | 6 169 | 2 710 | 8 879 | 31 | 36 |
| Project Management and Coordination | | | | | | | | | | | |
| Project Management | 1 003 | 268 | 1 271 | 991 | 260 | 1 250 | 1 993 | 528 | 2 521 | 21 | 10 |
| Development Initiatives Fund | 764 | 470 | 1 234 | 683 | 420 | 1 103 | 1 446 | 890 | 2 336 | 38 | 9 |
| Subtotal Project Management and Coordination | 1 767 | 738 | 2 505 | 1 673 | 680 | 2 353 | 3 440 | 1 418 | 4 857 | 29 | 20 |
| Total Base Costs | 12 725 | 3 409 | 16 134 | 7 233 | 1 491 | 8 724 | 19 957 | 4 900 | 24 857 | 20 | 100 |
| Physical Contingencies | 66 | 71 | 137 | 48 | 43 | 91 | 113 | 114 | 228 | 50 | 1 |
| Price Contingencies | 157 | 76 | 233 | 127 | 44 | 171 | 284 | 120 | 404 | 30 | 2 |
| Total Project Costs | 12 947 | 3 556 | 16 503 | 7 408 | 1 578 | 8 986 | 20 355 | 5 134 | 25 489 | 20 | 102 |

^a Discrepancies in totals are due to rounding.

TABLE 3: FINANCING PLAN^a
(USD '000)

| Components | Government | | IFAD | | OPEC | | Beneficiaries | | Total | | Foreign Exchange | Local (Excl. Taxes) | Duties and Taxes |
|--|--------------|-----------|---------------|-----------|--------------|-----------|---------------|-----------|---------------|------------|------------------|---------------------|------------------|
| | Amount | % | Amount | % | Fund | % | Amount | % | Amount | % | | | |
| A. Livestock and Enterprise Development | 2 570 | 33 | 4 994 | 63 | - | - | 338 | 4 | 7 902 | 31 | 554 | 7 276 | 72 |
| B. Microfinance | 308 | 9 | 2 299 | 66 | - | - | 863 | 25 | 3 470 | 14 | 297 | 2 866 | 308 |
| C. Rural Infrastructure Reconstruction | 1 279 | 14 | 1 010 | 11 | 5 000 | 56 | 1 706 | 19 | 8 995 | 35 | 2 799 | 5 321 | 875 |
| D. Project Management and Coordination | | | | | | | | | | | | | |
| 1. Project Management | 1 315 | 47 | 1 471 | 53 | - | - | - | - | 2 786 | 11 | 595 | 1 532 | 659 |
| 2. Development Initiatives Fund | 111 | 5 | 2 225 | 95 | - | - | - | - | 2 336 | 9 | 890 | 1 335 | 111 |
| Subtotal Project Management and Coordination | 1 426 | 28 | 3 696 | 72 | - | - | - | - | 5 122 | 20 | 1 485 | 2 867 | 770 |
| Total Disbursement | 5 582 | 22 | 12 000 | 47 | 5 000 | 20 | 2 907 | 11 | 25 489 | 100 | 5 134 | 18 330 | 2 024 |

^a Discrepancies in totals are due to rounding.



E. Procurement, Disbursement, Accounts and Audit

30. **Procurement.** Procurement of goods and services financed by the IFAD loan will observe IFAD procurement guidelines while procurement under the OPEC Fund loan will observe the OPEC Fund guidelines. Procurement of goods and equipment worth USD 20 000 or less will be on the basis of local shopping, with quotations from at least three sources. Direct purchase procedures will be followed for contracts totalling less than USD 5 000. Procurement of goods and equipment costing between USD 20 000 and 100 000 will be on the basis of local competitive bidding. Procurement of goods and services with the value of USD 100 000 and above will be subjected to international competitive bidding. Due to the need for local capacity-building, NGO services and civil-works contracts will be based on national competitive bidding, although this will include international NGOs operating in the country. Short-term technical assistance will be recruited through direct contracting on the basis of shortlists and according to procedures of IFAD and the cofinancier, with terms of reference, qualifications and service satisfactory to IFAD and the cofinancier. It will be the intention, wherever appropriate, to undertake joint procurement for items such as vehicles and equipment in the interests of greater cost-effectiveness.

31. **Disbursement.** The proposed IFAD loan of SDR 9.55 million will be disbursed over a period of six years starting from the effective date of the loan. Disbursements by IFAD will be made in accordance with the conditions as stipulated in the loan agreement and the General Conditions.

32. **Accounts.** Project coordination units (PCUs) will maintain a full set of accounts in accordance with IFAD's requirements and internationally accepted accounting standards. Each service provider will maintain separate accounts. PCUs will submit consolidated financial records on a semi-annual basis to IFAD for review. A special account, in foreign currency, of an amount not exceeding USD 500 000 will be established for each Entity in a commercial bank or any other bank acceptable to IFAD.

33. **Audit.** A local auditor and/or an internationally recognized auditor acceptable to IFAD will audit annually the project accounts and all separate accounts of its service providers. The local auditor will audit all statements of expenditure and the movements of the special account. The internationally recognized auditor will provide a specific opinion on the procedures of contracting to service providers, the accountability of such providers and the management of programme resources by them. The annual audit report will be submitted to the Government and to IFAD within six months of the close of the fiscal year.

34. **Reports.** Service providers will prepare and submit quarterly financial and physical progress reports to PCUs. PCUs will develop reporting formats for service providers, and such reporting will form part of the conditions of the contract. The PCUs will prepare and submit consolidated six-monthly and yearly financial and physical progress reports to the project steering committees (PSCs), the State Ministry of Economic Relations and Foreign Trade, IFAD and the cooperating institution.

F. Organization and Management

35. **Pre-implementation phase.** IFAD will finance pre-implementation activities over three to six months in both FBiH and RS through a special operating facility grant, which will be used primarily to assist in the launching of the project until the PCUs are fully operational. Specifically, and with the assistance of an experienced international project expeditor, the following will be prepared/drafted: (a) annual workplan and budget (AWP/B) for the first year; (b) draft contracts for: (i) tender documents for initial procurement of goods and services including technical assistance and service providers; (ii) subsidiary agreements with various commercial banks; and (c) monitoring and evaluation (M&E) system. The pre-implementation activities will also include the organization of the project start-up workshop.



36. The Ministries of Agriculture in each of the Entities will be directly responsible for implementing the project. In FBiH, the Ministry of Agriculture, Water Management and Forestry will delegate responsibility to a PCU, which will be based on restructuring of the existing project implementation unit to bring in staff with the appropriate experience required for managing the new project. In RS, the Ministry of Agriculture, Forestry and Water Management will delegate responsibility to the existing umbrella PCU established for the Reconstruction Assistance Project, which will re-establish a separate agricultural PCU for managing the project.

37. **Joint Coordination Committee.** The Federal Ministry of Agriculture, Water Management and Forestry in FBiH and the Ministry of Agriculture, Forestry and Water in RS have agreed to establish a joint coordination committee to be chaired, on a rotating basis, by the respective Ministers for Agriculture. The committee will meet twice a year. The objective of such committee is to coordinate the efforts of the two entities to harmonize the implementation activities of their respective parts of the project: specifically, and to the extent possible, aspects relating to procurement, livestock breeding, animal health, and monitoring and evaluation. To this effect, a memorandum of cooperation between FBiH and RS has been signed. Both parties have agreed to use this project as a platform to initiate policy dialogue with a view to synchronizing their respective livestock development policies and strategies.

38. **Project steering committees.** A PSC will be established in each Entity, chaired by the Ministry of Agriculture and composed of representatives of the Ministry of Finance and other relevant ministries, the state-level Ministry of Economic Relations and Foreign Trade, the Banking Supervisory Agency and representatives of the stakeholders including women's representatives. The PSC will meet twice a year to provide conceptual, strategic and policy guidance, review project performance, review and approve the AWP/B, ensure cohesion in planning and budgeting and resolve any implementation problems.

39. **Project coordination units.** The PCUs will be coordinating rather than implementing agencies. The role of the PCUs will be annual programming, financial management, contracting and supervision of implementing agencies, monitoring of implementation, reporting and evaluation. To undertake this role, PCU will require a broad range of skills and will comprise a director/livestock specialist, a business development officer, an economist/M&E officer, an accountant/procurement officer, a secretary/translator and a driver. A rural engineer will be engaged on a consultancy basis to supervise and monitor the implementation of the rural infrastructure programme as well as additional short-term consultants as required to support project activities.

40. **Implementation workshops.** To promote cooperation between the two PCUs, inter-Entity implementation workshops with the participation of all project implementation agencies of both Entities will be convened yearly to share experiences of progress in implementation, to learn about best practices being developed in each Entity and to monitor project impact.

41. **Participatory monitoring and evaluation.** The project will establish procedures that provide for periodic feedback from its clientele on the efficacy of the project activities. This feedback will be incorporated into the annual review process, which in turn will lead to adjustments and revisions of the implementation process. At least once a year, men and women farmers from a selection of project villages will meet with representatives of the PCU, the NGO(s) and major technical service providers to review the progress and performance of each component, focusing on: difficulties and constraints met; degree of responsiveness of project and implementing agency staff; usefulness of technical messages; solutions found to overcome problems; progress made in achieving physical and financial objectives; and outstanding problems not being adequately addressed by project activities. The outcome of these reviews will be incorporated into the agenda of the planning process for the next year's AWP/B.



42. A part of the participatory M&E exercise will be devoted to women's focus groups to ascertain the extent of women's participation in project activities, the benefits gained and the impact on women's status in the family and their involvement in community affairs regarding both economic and social issues.

43. **Impact assessment.** To ensure that project activities can adapt to the realities of changing opportunities, the project will establish a dynamic planning and implementation process. This will provide a mechanism to ensure that project activities are responsive to needs and alert to implementation performance. The key elements in the process will be the logical framework and the AWP/B. The annual cycle of the planning process will comprise the four sequential steps outlined below:

- (a) **Planning.** The AWP/B will define the activities, targets, outputs and inputs in line with the objectives outlined in the logical framework. The activities will in turn be derived from the workplans of the implementing agencies. This ensures that project activities reflect the needs and aspirations of the project clientele – both community institutions and individuals.
- (b) **Monitoring.** Monitoring will be impact-oriented in order to capture, on an ongoing basis, the efficacy and continuing relevance of project activities. Monitoring will be geared to early detection of signals allowing, where necessary, for modification of project design.
- (c) **Feedback and reality check.** A series of community-level review workshops will provide the opportunity for all stakeholders to evaluate the adequacy of the overall project design to continue to meet the needs of the project clientele; to assess implementation performance; and to disseminate best practices enabling them to be integrated into project design and implementation. The organization of inter-Entity workshops will enable best practices in each Entity to be captured and integrated into the project design across the Entities. The gender studies will enable modifications to be made to the project's gender strategy.
- (d) **Fine-tuning of project design.** Information gained from the previous stages will form the basis of the next round of planning, allowing for fine-tuning of the project design, including modifications of the logical framework to bring it into line with changing circumstances and implementation experience.

G. Economic Justification

44. Around 21 000 households in 16 project localities will benefit from the increase in incomes, enhanced food security and an improved rural infrastructure. Women will benefit from access to credit, previously unavailable to them; their knowledge and skills will be increased; and their recognition and influence in the community will be enhanced through their role as demonstration farmers and their involvement in the management of PAs and SCAs.

H. Risks

45. **Competition from imports.** Continued or increased volumes of imports of dairy products could undermine the local dairies if they are unable to develop niche markets. At present, local milk has a price advantage but fails on quality. The project will provide inputs to improve the chain from the farmer to the consumer to overcome these problems.

46. **Linkage with the private sector.** Linkage with private dairies carries the risk of possible exploitation of the producers. This risk will, however, be counteracted by the establishment of the



PAs providing for the combined strength of farmers compared with the weakness of individual producers.

47. **Dependency attitudes.** With country's legacy of huge amounts of international assistance, it is unclear to what extent this has created dependency attitudes that will prove difficult to overcome. Such attitudes will particularly affect the success of the project in establishing a strong and effective rural credit mechanism that builds a high repayment performance. Providing credit to returnee families is considered risky. The project design compensates for this by only selecting areas where returns have stabilized.

I. Environmental Impact

48. The proposed project will be environmentally neutral or beneficial. Livestock numbers in Bosnia and Herzegovina are well below former levels, and total feed supply from natural grazing and fodder crop production could easily exceed livestock demand. In addition, the project will contribute to increasing the productivity of fodder sources. With the proposed project strategy to increase production per animal, total animal numbers will stay below the pre-war level. Emission of noxious gases such as methane will, however, not be reduced per head of animal, but the total number of animals has decreased and consequently the total emission. Manure will be used as organic fertilizer and thereby contribute to improved soil fertility and stability and at the same time decrease pollution from excessive use of mineral fertilizer.

49. Based on the stipulated IFAD screening procedures, and taking into account that the disturbance to the physical setting and resources will be minimal, the project will justify a Category C classification.

J. Innovative Features

50. The project has many innovative features that fit well with IFAD's corporate strategy. It proposes to devolve responsibility to the communities and through the PAs, SCAs and microproject committees, to strengthen the role of community institutions in planning and managing development initiatives, thereby promoting self-reliance. The project forges linkages with the private sector through the development of commercial partnerships between the PAs and the private dairies. Finally, the involvement of NGOs as key implementers is a new feature of IFAD involvement in Bosnia and Herzegovina.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

51. A loan agreement between Bosnia and Herzegovina and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

52. Bosnia and Herzegovina is empowered under its laws to borrow from IFAD.

53. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.



PART IV - RECOMMENDATION

54. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to Bosnia and Herzegovina in various currencies in an amount equivalent to nine million five hundred and fifty thousand Special Drawing Rights (SDR 9 550 000) to mature on and prior to 15 April 2041 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Lennard Båge
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan negotiations concluded on 20 April 2001)

Loan Agreement

1. **Annual work plans and budgets.** The PCUs will each prepare draft annual work plans and budgets (AWP/Bs) for each project year. Each PCU will submit the draft AWP/Bs to the respective PSC for its approval. When so approved, the PSC will submit each draft AWP/B to IFAD, for its comments and approval, no later than 60 days before the beginning of the relevant project year. The PSCs will each adopt the AWP/Bs substantially in the form approved by IFAD.

2. **Project account.** As soon as practicable after the date hereof but in no event later than 30 days after the effective date, the Federation of Bosnia and Herzegovina (the Federation) and the Republika Srpska (RS) will each open and thereafter maintain in a bank proposed by Bosnia and Herzegovina and accepted by IFAD, a current account denominated in BAM for project operations.

3. **Availability of additional resources.** Bosnia and Herzegovina will cause the Federation and the RS to make counterpart funds available from their own resources during the project implementation period in aggregate amounts of USD 2 150 000, for the Federation, and USD 1 400 000, for the RS, excluding an amount to cover taxes of about USD 1 315 000 for the Federation and about USD 709 000 for the RS, in accordance with the respective subsidiary agreements. For such purpose, the Federation and the RS will deposit, as soon as practicable but in no event later than 30 days after the effective date, counterpart funds in an initial amount equivalent to USD 350 000 into the Federation project account and USD 250 000 into the RS project account to cover the first project year, and will thereafter replenish the respective project accounts by depositing the counterpart funds called for in the respective AWP/Bs for the relevant project year annually in advance.

4. **Channelling of project resources.** Bosnia and Herzegovina will transfer available funds and other resources called for in the AWP/Bs to the Federation and the RS, respectively, in accordance with the Federation subsidiary agreement and the RS subsidiary agreement. The Federation and the RS, respectively, will each transfer available funds and other resources called for in the AWP/Bs to the participating commercial banks (PCBs), the project microcredit organization (MCO) for the livestock and small and medium enterprises credit line, for onlending to credit associations and for the microfinance credit line, respectively.

5. **Cancellation.** IFAD may terminate the right of Bosnia and Herzegovina to request withdrawals from the loan account, upon the occurrence of any of the following events:

(a) The mid-term review has recommended that the project be terminated.

(b) IFAD shall have determined, with respect to any contract to be financed out of the proceeds of the loan, that corrupt or fraudulent practices were engaged in by representatives of Bosnia and Herzegovina or by a beneficiary of the loan during the procurement or execution of the contract, without Bosnia and Herzegovina having taken timely and appropriate action satisfactory to IFAD to remedy the situation, and IFAD shall have established the amount of expenditures in respect of the contract that would otherwise have been eligible for financing from loan proceeds.

6. **Conditions of disbursement.** (a) No withdrawals will be made in respect of expenditures under the microfinance component of the project until:

- (i) the credit by-laws have been approved by IFAD in draft; and
- (ii) with respect to any PCB or MCO, a subsidiary loan agreement has been approved by IFAD in draft.

(b) No withdrawals will be made from the DIF. Reallocation to other categories or activities or areas may be made only after a review of the progress achieved in the implementation of the project and in accordance with the terms and conditions to be agreed by Bosnia and Herzegovina, IFAD and the relevant entity.

7. **Conditions precedent to effectiveness.** The following are the conditions precedent to effectiveness of the loan agreement:

- (a) a project director/livestock specialist for each PCU has been duly appointed by the Federation and the RS, respectively, and approved by IFAD;
- (b) the PSCs have each been duly established;
- (c) the PCUs have each been duly established;
- (d) this agreement has been duly signed, and the signature and performance thereof by Bosnia and Herzegovina have been duly authorized and ratified by all necessary administrative and governmental action;
- (e) the Federation and RS project agreements have been duly signed;
- (f) the Federation and RS subsidiary agreements have been approved by the Fund in draft; and
- (g) a favourable legal opinion (or opinions), issued by the council of ministers of Bosnia and Herzegovina or other competent authority approved by IFAD in form and substance acceptable to IFAD, has been delivered by Bosnia and Herzegovina to IFAD.

Federation of Bosnia and Herzegovina and Republika Srpska Project Agreements

8. **Project directors.** The Federation and the RS will each appoint a project director before the effective date. The project directors will be appointed through open competition, subject to the prior approval of IFAD. The project directors will each have qualifications, experience and seniority acceptable to the Fund and may only be removed after prior consultation with IFAD.

9. The Federation and the RS will each ensure that, where social infrastructure such as schools and health clinics are to be reconstructed under the rural infrastructure component, the relevant authorities provide the necessary budget to ensure that the facilities are fully operational on a continuous basis.

10. The Federation and the RS will each ensure that the communities or relevant authorities enter into a commitment to finance the maintenance of any rural infrastructure works that are reconstructed under the project on a continuous basis.

11. The Federation and the RS each agree to contract NGOs, including international NGOs – to act as service providers for the implementation of designated project activities such as the promotion and support of PAs and the establishment of SCAs as appropriate – and to use the proceeds of the loan for



the purposes of financing the NGOs. In the event of other funding becoming available from bilateral or other donors for this purpose, the proceeds of the loan will be assigned to the DIF.

12. The Federation and the RS will each ensure that all NGOs contracted under the project are selected according to criteria agreed with IFAD and through a process of prequalification and competitive tendering in accordance with IFAD's procurement criteria.

13. The Federation and the RS will each use the proceeds of the loan for the purpose of financing the technical assistance inputs specified by IFAD. In the event of other funding becoming available from bilateral or other donors for this purpose, the proceeds of the loan allocated for this purpose will be assigned to the DIF.

14. The Federation and the RS will each ensure that selection of project localities for the expansion phase and the target groups conform to criteria agreed with IFAD.

15. **Credit by-laws.** The PCUs will each prepare draft by-laws for the microfinance components as soon as practicable, but in no event later than 90 days after the effective date. The PCUs will each submit the draft credit by-laws to the PSCs for approval. When approved by the PSCs, the PCUs will each submit the draft credit by-laws to IFAD for its comments and approval. The PSCs will each adopt the credit by-laws, substantially in the form approved by IFAD, for application to all credits extended to project beneficiaries that are financed (directly or indirectly) by the loan.

16. **Revolving fund.** The PCUs will each cause a revolving fund to be established and maintained by the PCBs and MCO into which all net revenues from credits extended to project beneficiaries financed (directly or indirectly) by the loan will be deposited. The PCBs and MCOs will use the revolving fund to fund further credits to project beneficiaries in accordance with the loan agreement at least until such date as will be specified in the relevant subsidiary loan agreement or, if no date is so specified, until all loan service payments have been made in full.

17. (a) The Federation will provide a minimum of USD 1 500 000 from the repayments under projects previously financed by IFAD towards the credit line under the present project.

(b) The RS will provide a minimum of USD 1 000 000 from the repayments under projects previously financed by IFAD towards the credit line under the present project.

18. The beneficiaries under the projects previously financed by IFAD in the Federation and the RS may benefit from the following activities under the project: (i) access to PAs; (ii) extension services; and (iii) rural infrastructure. The beneficiaries under these projects previously financed by IFAD may benefit from the following activities only if they demonstrate a good repayment record under the said projects: (i) access to the credit line for livestock purchases; (ii) access to the small and medium enterprise credit lines; (iii) access to business and technical advisory services; and (iv) access to SCAs.

19. **Tax exemption.** Bosnia and Herzegovina, the Federation and the RS will each exempt from taxes the importation, procurement and supply of all goods, civil works and services financed by the loan.

20. **Insurance of project personnel.** The Federation and the RS will each insure project personnel against health and accident risks to the extent consistent with sound commercial practice.

COUNTRY DATA – BOSNIA AND HERZEGOVINA

| | | | |
|--|-------------------------------|---|----------------------------|
| Land area (km² thousand) 1997 1/ | 51 | GNP per capita (USD) 1998 2/ | estimated 760-3 030 |
| Total population (million) 1998 1/ | 3.8 | Average annual real rate of growth of GNP per capita, 1990-98 2/ | n.a. |
| Population density (people per km²) 1998 1/ | 74 | Average annual rate of inflation, 1990-98 2/ | n.a. |
| Local currency | Convertible Mark (BAM) | Exchange rate: USD 1 = | BAM 2.0 |
| Social Indicators | | Economic Indicators | |
| Population (average annual population growth rate) 1980-98 1/ | -0.5 | GDP (USD million) 1998 1/ | n.a. |
| Crude birth rate (per thousand people) 1998 1/ | 13 | Average annual rate of growth of GDP 1/ 1980-90 | n.a. |
| Crude death rate (per thousand people) 1998 1/ | 7 | 1990-98 | n.a. |
| Infant mortality rate (per thousand live births) 1998 1/ | 13 | Sectoral distribution of GDP, 1998 1/ | |
| Life expectancy at birth (years) 1998 1/ | 73 | % agriculture | n.a. |
| Number of rural poor (million) (approximate) 1/ | n.a. | % industry | n.a. |
| Poor as % of total rural population 1/ | n.a. | % manufacturing | n.a. |
| Total labour force (million) 1998 1/ | 1.7 | % services | n.a. |
| Female labour force as % of total, 1998 1/ | 38.1 | Consumption, 1998 1/ | |
| Education | | General government consumption (as % of GDP) | n.a. |
| Primary school gross enrolment (% of relevant age group) 1997 1/ | n.a. | Private consumption (as % of GDP) | n.a. |
| Adult literacy rate (% of total population) 1997 3/ | n.a. | Gross domestic savings (as % of GDP) | n.a. |
| Nutrition | | Balance of Payments (USD million) | |
| Daily calorie supply per capita, 1996 3/ | 2 277 | Merchandise exports, 1998 1/ | n.a. |
| Prevalence of child malnutrition (height for age % of children under 5) 1992-98 1/ | n.a. | Merchandise imports, 1998 1/ | n.a. |
| Prevalence of child malnutrition (weight for age % of children under 5) 1992-98 1/ | n.a. | Balance of merchandise trade | n.a. |
| Health | | Current account balances (USD million) before official transfers, 1998 1/ | n.a. |
| Health expenditure, total (as % of GDP) 1990-98 1/ | n.a. | after official transfers, 1998 1/ | n.a. |
| Physicians (per thousand people) 1990-98 1/ | 0.52 | Foreign direct investment, 1998 1/ | n.a. |
| Percentage population without access to safe water 1990-97 3/ | n.a. | Government Finance | |
| Percentage population without access to health services 1981-92 3/ | n.a. | Overall budget surplus/deficit (including grants) (as % of GDP) 1997 1/ | n.a. |
| Percentage population without access to sanitation 1990-97 3/ | n.a. | Total expenditure (% of GDP) 1997 1/ | n.a. |
| Agriculture and Food | | Total external debt (USD million) 1998 1/ | n.a. |
| Food imports as percentage of total merchandise imports 1998 1/ | n.a. | Present value of debt (as % of GNP) 1998 1/ | n.a. |
| Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 1/ | 140 | Total debt service (% of exports of goods and services) 1998 1/ | n.a. |
| Food production index (1989-91=100) 1996-98 1/ | n.a. | Nominal lending rate of banks, 1998 1/ | n.a. |
| Land Use | | Nominal deposit rate of banks, 1998 1/ | n.a. |
| Arable land as % of land area, 1997 1/ | 9.8 | | |
| Forest area (km ² thousand) 1995 1/ | 27.1 | | |
| Forest area as % of total land area, 1995 1/ | 53.1 | | |
| Irrigated land as % of cropland, 1995-97 1/ | 0.3 | | |

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 2000

2/ World Bank, *Atlas*, 2000

3/ UNDP, *Human Development Report*, 1999

PREVIOUS IFAD LOANS

| <i>Project No.</i> | <i>Project Name</i> | <i>Initiating Institution</i> | <i>Cooperating Institution</i> | <i>Lending Terms</i> | <i>Board Approval</i> | <i>Loan Effectiveness</i> | <i>Current Closing Date</i> | <i>Loan/Grant Acronym</i> | <i>Denominated Currency</i> | <i>Approved Loan/Grant Amount</i> |
|--------------------|--|-------------------------------|--------------------------------|----------------------|-----------------------|---------------------------|-----------------------------|---------------------------|-----------------------------|-----------------------------------|
| 498 | Farm Reconstruction Project - Re-stocking Activities | World Bank: IDA ^{1/} | World Bank: IDA | HC ^{2/} | 17 Apr 96 | 16 May 96 | 31 Dec 97 | G - I - 316 - BA | SDR | 700 000 |
| 498 | Farm Reconstruction Project - Re-stocking Activities | World Bank: IDA | World Bank: IDA | HC | 17 Apr 96 | 16 May 96 | 31 Dec 97 | L - I - 408 - BA | SDR | 4 350 000 |
| 1037 | Small Farm Reconstruction and Development Project | IFAD | UNOPS | HC | 30 Apr 97 | 26 Feb 98 | 30 Sep 01 | G - I - 27 - BA | USD | 100 000 |
| 1037 | Small Farm Reconstruction and Development Project | IFAD | UNOPS | HC | 30 Apr 97 | 26 Feb 98 | 30 Sep 01 | L - I - 449 - BA | SDR | 10 100 000 |

1/ International Development Association.



LOGICAL FRAMEWORK

| Narrative Summary | Key Performance Indicators | Means of Verification | Critical Assumption |
|--|--|--|---|
| <p>Programme Goals To develop replicable model of sustainable, commercial small-scale livestock production; to generate increases in incomes and food security for poor households; and to contribute to the revival of the rural areas in the transition to a market economy</p> | <ul style="list-style-type: none"> • Project area household income and expenditure patterns • Household asset ownership • Increases in output levels of livestock products. • Development of institutional capacity capable of supporting longer-term development | <ul style="list-style-type: none"> • Baseline and impact evaluation surveys • Annual ongoing evaluation of panel of project clientele • Programme completion report | <ul style="list-style-type: none"> • Political stability is maintained. • Macroeconomic and marketing conditions do not deteriorate. • Government is committed to reform and continues to support market economy. |
| <p>Programme Purposes</p> <ul style="list-style-type: none"> • To develop private-sector, smallholder, market-oriented livestock production; and to provide improved access to technical, financial and commercial services and market linkages | <ul style="list-style-type: none"> • % of project households owning more than five cows by end of project • Livestock numbers, productivity, sales and income generated • Effectiveness and sustainability of producers' associations • Extent and effectiveness of livestock support services • Profitability and market strength of private dairies • Extent of bank financing of rural economy and credit viability | <ul style="list-style-type: none"> • Baseline and impact evaluation surveys • Management information system (MIS) • Annual ongoing impact evaluation through panel of project clientele | <ul style="list-style-type: none"> • Members of the target population are willing and able to take advantage of opportunities made available under the project. • Target group, particularly younger, active labour force, is attracted to stay in/return to rural areas and shows interest in developing livestock production as means of livelihood. • Marketing opportunities for livestock products become sufficiently developed. |
| <ul style="list-style-type: none"> • To develop complementary or alternative non-farm income-earning opportunities to support the provision of backward and forward linkages for livestock producers and to contribute to the revival of rural services | <ul style="list-style-type: none"> • Extent, profitability and sustainability of non-farm enterprises • Extent of bank financing of rural non-farm enterprises, including dairy expansion and credit viability | <ul style="list-style-type: none"> • PCU MIS and PCBs MIS • Annual ongoing impact evaluation through panel of project clientele • Baseline and impact evaluation surveys | <ul style="list-style-type: none"> • Sufficient level of rural entrepreneurial activity and potential to attract private-sector investment. • Commercial banks are willing to lend to rural enterprises and are able to develop the credit appraisal skills to select viable enterprises. • Debts assumed can be effectively serviced. |





| Narrative Summary | Key Performance Indicators | Means of Verification | Critical Assumptions |
|---|---|---|---|
| <ul style="list-style-type: none"> To develop an effective microfinance sector serving the rural poor, particularly women | <ul style="list-style-type: none"> No. of SCAs formed and sustained Development of appropriate microfinance institution to support and expand the SCA network. Contribution of SCAs to promoting additional income-generating activities Extent of involvement of women in management and as borrowers | <ul style="list-style-type: none"> PCU/project microcredit organizations (PMCOs) MIS data Project performance reviews Baseline and impact evaluation surveys NGO progress reports | <ul style="list-style-type: none"> Conducive legal environment is maintained. Efficient and professional implementing agencies are available and work cohesively. SCAs are able to instil credit ethos and discipline in members. Debts assumed by members can be effectively serviced. |
| <ul style="list-style-type: none"> To restore essential rural infrastructure to revive the rural economy and support economic development | <ul style="list-style-type: none"> Extent and type of rural infrastructure reconstructed Impact of improved rural environment on level of satisfaction with rural living | <ul style="list-style-type: none"> PCU MIS NGO progress reports Project performance reviews | <ul style="list-style-type: none"> Communities are able to establish community institutions to organize community infrastructure reconstruction works. |
| <p>Outputs</p> <p>1. Efficient, productive and remunerative, market-oriented smallholder livestock production established as the basis of the revival of the rural economy</p> | <ul style="list-style-type: none"> No. of households purchasing livestock and increase in livestock ownership per household No. of progeny retained to increase herd size Improvements in animal performance – improved reproductivity, milk and meat yields No. of farmers adopting pasture and meadow improvement and productivity increases achieved | <ul style="list-style-type: none"> PCU MIS Annual impact evaluation of panel of project clientele PAs’ participatory monitoring and progress reports Service providers’ progress reports on pasture management Annual review workshops | <ul style="list-style-type: none"> Adequate technical support with orientation to the market economy and the needs of smallholder farmers will be forthcoming to assist farmers in improving their income-earning opportunities. |
| <p>2. A cost-effective, gender-sensitive farmer-to-farmer extension system established</p> | <ul style="list-style-type: none"> No. of demonstration farmers/resource persons and nos. of farmers reached % of women among demonstration farmers/resource persons and clientele | <ul style="list-style-type: none"> PCU MIS PAs’ participatory monitoring and progress reports Ongoing impact evaluation by panel of project clientele Annual review workshops | <ul style="list-style-type: none"> Farmers are willing to act as resource persons. |
| <p>3. A profitable and sustainable small-scale dairy processing industry operational with established market share</p> | <ul style="list-style-type: none"> Increase in throughput, product range, market share, operational performance and profitability of small private dairies | <ul style="list-style-type: none"> PCU MIS. Dairies’ reporting system | <ul style="list-style-type: none"> Small private dairies are able to compete with imported products and to find niche markets. |



| Narrative Summary | Key Performance Indicators | Means of Verification | Critical Assumptions |
|---|---|--|---|
| <p>4. Non-farm rural enterprises established to provide support to livestock production, restoring key services in the rural areas and providing alternative/supplementary sources of income</p> | <ul style="list-style-type: none"> • No. of rural enterprises established and sustained, by type • No. of loans for rural enterprises provided by commercial banks • % of participants in business development training who establish successful businesses | <ul style="list-style-type: none"> • PCU MIS • Participating commercial banks and implementing agency reports • Impact evaluation | <ul style="list-style-type: none"> • Banks will commit resources to new businesses. • Efficient and professional implementing agencies are available to support aspiring entrepreneurs. |
| <p>5. Community institutions (producers' associations, SCAs and microproject committees) established, operational and meeting the needs of rural communities, both men and women, for planning, implementing and managing their own development</p> | <ul style="list-style-type: none"> • No. of producers' associations, SCAs and MPCs established • Stability, cohesiveness and managerial competence of community organizations • Representation of women in membership and management of community organizations • Range of services provided by producers' associations to members | <ul style="list-style-type: none"> • PAs/SCAs participatory monitoring and progress reporting • Ongoing impact evaluation by panel of project clientele | <ul style="list-style-type: none"> • Communities perceive clear distinctions between PAs and the former state-dominated, top-down cooperatives. • Efficient and professional implementing agencies are available to support communities in the establishment of community institutions. |
| <p>5 6. Sustainable rural credit services available to community members through formal and informal financial institutions demonstrating sound financial management</p> | <ul style="list-style-type: none"> • Commercial banks <ul style="list-style-type: none"> ◦ Establishment of rural credit departments in commercial banks ◦ No. and amount of loans disbursed for livestock and small and medium enterprises (by type) ◦ Repayment rates • SCAs <ul style="list-style-type: none"> ◦ Level of capitalization and savings ◦ Profitability of SCAs and PMCO ◦ No. and amount of loans disbursed ◦ Repayment rates | <ul style="list-style-type: none"> • PCBs MIS and reporting • NGO implementation reports initially and subsequently from the independent PMCO or federation of SCAs • PCU MIS | <ul style="list-style-type: none"> • PCB management appreciates the potential of rural credit as an attractive, mainstream business. • Debts assumed by borrowers can be effectively serviced. • Credit discipline can be instilled for formal credit despite the legacy of the past. • Legal framework is put in place in the long term, which will permit the operation of the SCAs as savings institutions. • SCAs are able to create confidence and build solid reputation through successful track record. • Members deposit savings with SCAs contributing to their financial sustainability. |



| Narrative Summary | Key Performance Indicators | Means of Verification | Critical Assumptions |
|---|---|---|--|
| 7. Essential supporting rural infrastructure is re-established and fully operational | <ul style="list-style-type: none"> • No. of communities reached • Number and type of rural infrastructure schemes implemented • Extent of community contribution • Performance and effectiveness of maintenance arrangements | <ul style="list-style-type: none"> • NGO progress reports • PCU MIS | <ul style="list-style-type: none"> • Communities are able to obtain required commitments for maintenance of infrastructure. |
| 8. Project learning system developed and operational | <ul style="list-style-type: none"> • M&E systems documented and established • Review processes and participatory M&E procedures established and operational • Learning incorporated in project strategies and activities • Processes for learning across the Entities established and operational | <ul style="list-style-type: none"> • PCU reports and process evaluation | |
| 9. Effective project coordination and implementation arrangements established and operational | <ul style="list-style-type: none"> • PCUs adapt to new roles as coordinators • Effective partnerships with NGOs and other service providers established | <ul style="list-style-type: none"> • PCU reports and process evaluation | |
| Activities | | | |
| 6 1.1 | Line of credit provided through commercial banks to enable farmers to increase herd/flock size | | |
| 1.2 | NGO contracted to assist farmers to establish PAs to facilitate market linkages and provision of services to members | | |
| 1.3 | Milk collection centres established managed by PAs | | |
| 1.4 | Demonstrations of pasture and meadow improvement techniques established to promote productivity increases and increase feed availability | | |
| 2.1 | Technical training for master trainers at Entity level and training of municipality staff as trainers, initially with technical assistance inputs | | |
| 2.2 | Women and men demonstration farmers/resource persons identified from among members of PAs selected and trained | | |
| 2.3 | Training of farmers each year by demonstration farmers | | |
| 3.1 | Technical assistance provided to dairy operators in marketing strategies, product development, dairy management, etc. | | |
| 3.2 | Development of technical capacity in each Entity through training of dairy development support group in each Entity | | |
| 3.3 | Line of credit through commercial banks for investment in dairy improvement and expansion | | |
| 4.1 | NGOs contracted to assist communities in the establishment of PAs, SCAs and microproject committees to plan and implement infrastructure reconstruction activities | | |
| 4.2 | NGOs provide training in management, administrative procedures, accounts, governance, conflict resolution | | |
| 4.3 | NGOs assist PAs to develop milk collection centres and provide range of services to members | | |
| 5.1 | Survey of potential business opportunities in each locality commissioned and executed | | |
| 5.2 | Business development agency contracted to provide motivation and entrepreneurship training to aspiring entrepreneurs | | |
| 5.3 | Line of credit provided through commercial banks for the establishment/expansion of small and medium enterprises | | |
| 6.1 | Participating commercial banks establish rural credit departments to administer the project credit line based on sound financial principles | | |
| 6.2 | NGO is contracted to establish and build capacity of PMCO and network of SCAs | | |
| 6.3 | PMCO provides training to SCAs in credit management, disburses equity grants and eventually on-lends funds from project credit line to SCAs | | |

| Activities | |
|-------------------|---|
| 7.1 | NGO contracted to assist communities to identify community infrastructure needs and to establish microproject committees to manage community involvement in planning, raising community contribution and implementation |
| 7.2 | NGO selects contractors through competitive bidding for implementation of larger infrastructure works |
| 7.3 | NGO assists community to directly implement smaller works |
| 8.2 | Evolve participatory systems and practices to include exercises at PA, SCA, MPC, NGO and PCU levels |
| 8.3 | Establish upward, downward and lateral feedback mechanisms to disseminate learning among communities, NGOs, PCUs and between the two Entities |
| 7.4 | Establish M&E systems, including documentation and recording of processes as they occur |
| 7 | 9.1 Establish offices; recruit and train staff; establish financial powers/purchase procedures; establish MIS, human resource development and accounts systems |
| | 9.2 Identify and contract appropriate implementing agencies (NGOs, banks, etc.) for each component |
| | 9.3 Hold regular staff planning and review meetings between PCUs and implementing agencies |
| | 9.4 Hold annual review meetings between PCUs, implementing agencies and communities to review performance and modify approach to meet identified needs and incorporate changes in subsequent AWP/B |
| | 9.5 Design and implement process monitoring and impact assessment |
| | 9.6 Commission and execute gender study to improve project's gender strategy |
| | 9.7 Commission and execute other studies in the course of project implementation to improve project performance |

QUANTITATIVE INPUTS, TARGETS AND KEY PROJECT FACTORS

| OBJECTIVES | | | INSTRUMENTS | | | Incremental Benefits | | | |
|---|----------------|-----------------|--|------|------------|--|---|--|-------------------|
| <p>The overall objective of the project is to develop a replicable model of sustainable, small-scale commercial livestock production, which will demonstrate the income-earning potential of the livestock sector and contribute to the revival of the rural areas. To achieve this, the project will seek to help the rural poor, men and women, in the development of small-scale, private-sector, market-oriented livestock production with a view to generating sustainable increases in household incomes, ensuring food security and contributing to the social stability and prosperity of rural communities. Specific objectives are to: (i) support the development of smallholder livestock production through the provision of credit; (ii) provide farmers with access to appropriate technical support services; (iii) develop and improve linkages with the market, with special reference to dairy marketing; (iv) develop complementary/alternative non-farm income-earning opportunities that support the provision of backward and forward linkages for the livestock producers and contribute to the revival of rural services; and (v) reconstruct essential rural infrastructure to provide an environment for people to return to and pursue economic activities.</p> | | | <p>The main instruments to be utilized in the implementation of the listed components are listed as follows:</p> <ul style="list-style-type: none"> • Support to rural financial services especially SCAs • Support for the reconstruction of village infrastructure • Creation of revolving credit fund to support investment in small rural enterprises up to USD 9 000 through participating commercial banks and up to USD 15 000 as a line of credit to PAs • Provide a grant to support the establishment of about 150 SCAs • Support the formation of PAs to improve marketing and input supply • Promote participatory approach with the assistance of NGOs • Employ NGO services in forming and supporting SCAs, business training and creation of PAs | | | <p>Incremental benefits at full development:</p> <p>Incremental return to labour at PY (USD/Day)</p> <ul style="list-style-type: none"> • Mountainous areas 5 • SCA component 10-14 • Lowlands 40-45 • Hilly areas 9-12 <p>Project beneficiaries (households)</p> <ul style="list-style-type: none"> • Overall 21 500 • Livestock 5 500 • SCA 4 400 • Rural infrastructure 11 600 <p>Net economic return (USD/household)</p> <ul style="list-style-type: none"> • At PY5 179 • At full development 323 | | | |
| PROJECT COSTS | | | FINANCING | | | BENEFICIARIES | | ECONOMIC/FINANCIAL ANALYSIS | |
| COMPONENTS | USD million | % Base Costs | IFAD | OPEC | Government | Beneficiaries | Project activities will be targeted to benefit 21 000 households. Through SCAs, women will have access to previously unavailable financial support. | | Financial IRR (%) |
| A. Livestock and Enterprises Development | 7.73 | 31 | 11.96 | 5.00 | 5.58 | 2.94 | <ul style="list-style-type: none"> • Project as a whole 17.4 • Livestock and enterprise development 46.7 • Rural finance 25.1 <p>Project cost per household (USD/household)</p> <ul style="list-style-type: none"> • Project as a whole 1 186 • Livestock 1 406 • Rural finance 770 • Rural infrastructure 765 | Project cost per household (USD/household) | |
| B. Rural Microfinance | 3.39 | 14 | 25.45 | 100 | | | | | |
| C. Rural Infrastructure | 8.88 | 36 | | | | | | | |
| D. Development Initiative Fund | 7.52 | 48 | | | | | | | |
| E. Programme Management and Coordination | 2.34 | 9 | | | | | | | |
| Total including contingencies | 25.49 | 102 | | | | | | | |



SUMMARY COST AND FINANCING TABLES

Table 1: Components Project Cost Summary

| Components | (BAM '000) | | | (USD '000) | | | % | % Total |
|---|----------------|----------------|----------------|----------------|----------------|----------------|---------------------|---------------|
| | Local | Foreign | Total | Local | Foreign | Total | Foreign Exchange | Base Costs |
| A. Livestock and Enterprise Development | 14 463.0 | 1 003.2 | 15 466.2 | 7 231.5 | 501.6 | 7 733.1 | 6 | 31 |
| B. Rural Microfinance | 6 234.8 | 541.8 | 6 776.6 | 3 117.4 | 270.9 | 3 388.3 | 8 | 14 |
| C. Rural Infrastructure Reconstruction | 12 337.3 | 5 420.0 | 17 757.3 | 6 168.7 | 2 710.0 | 8 878.7 | 31 | 36 |
| D. Project Management and Coordination | | | | | | | | |
| 1. Project Management | 3 986.7 | 1 055.4 | 5 042.0 | 1 993.3 | 527.7 | 2 521.0 | 21 | 10 |
| 2. Development Initiatives Fund | 2 892.5 | 1 780.0 | 4 672.5 | 1 446.3 | 890.0 | 2 336.3 | 38 | 9 |
| Subtotal Project Management & Coordination | 6 879.2 | 2 835.4 | 9 714.5 | 3 439.6 | 1 417.7 | 4 857.3 | 29 | 20 |
| | 39 914.3 | 9 800.3 | 49 714.6 | 19 957.2 | 4 900.1 | 24 857.3 | 20 | 100 |
| Physical Contingencies | 226.6 | 228.6 | 455.2 | 113.3 | 114.3 | 227.6 | 50 | 1 |
| Price Contingencies | 929.4 | 391.1 | 1 320.4 | 284.4 | 119.8 | 404.2 | 30 | 2 |
| | 41 070.2 | 10 419.9 | 51 490.2 | 20 354.8 | 5 134.2 | 25 489.1 | 20 | 103 |

Table 2: Expenditure Accounts Project Cost Summary

| | (BAM '000) | | | (USD '000) | | | % | % Total |
|--|-----------------|-----------------|-----------------|-----------------|----------------|-----------------|------------------|------------|
| | Local | Foreign | Total | Local | Foreign | Total | Foreign Exchange | Base Costs |
| I. Investment Costs | | | | | | | | |
| A. Civil Works | | | | | | | | |
| Labour | 1 237.9 | - | 1 237.9 | 618.9 | - | 618.9 | - | 2 |
| Materials | 6 591.0 | 3 661.7 | 10 252.7 | 3 295.5 | 1 830.8 | 5 126.3 | 36 | 21 |
| Beneficiary labour /a | 3 039.0 | - | 3 039.0 | 1 519.5 | - | 1 519.5 | - | 6 |
| Subtotal Civil Works | 10 867.9 | 3 661.7 | 14 529.6 | 5 434.0 | 1 830.8 | 7 264.8 | 25 | 29 |
| B. Equipment and Goods | 207.9 | 147.5 | 355.4 | 103.9 | 73.8 | 177.7 | 42 | 1 |
| C. Vehicles | 81.0 | 126.0 | 207.0 | 40.5 | 63.0 | 103.5 | 61 | - |
| D. Technical Assistance, Contractual Services and Studies | | | | | | | | |
| Technical Assistance | 58.7 | 603.3 | 662.0 | 29.4 | 301.6 | 331.0 | 91 | 1 |
| NGO Contractual Services | 1 945.8 | 1 777.4 | 3 723.2 | 972.9 | 888.7 | 1 861.6 | 48 | 7 |
| Studies | 157.6 | 138.4 | 296.0 | 78.8 | 69.2 | 148.0 | 47 | 1 |
| Subtotal Technical Assistance, Contractual Services and Studies | 2 162.2 | 2 519.1 | 4 681.2 | 1 081.1 | 1 259.5 | 2 340.6 | 54 | 9 |
| E. Training | 1 409.3 | 218.7 | 1 628.0 | 704.6 | 109.3 | 814.0 | 13 | 3 |
| F. Credit Funds | | | | | | | | |
| Livestock and Rural Enterprise Credit | 12 675.0 | - | 12 675.0 | 6 337.5 | - | 6 337.5 | - | 25 |
| Microfinance Development Credit Line | 2 132.0 | - | 2 132.0 | 1 066.0 | - | 1 066.0 | - | 4 |
| Subtotal Credit Funds | 14 807.0 | - | 14 807.0 | 7 403.5 | - | 7 403.5 | - | 30 |
| G. SCA Equity | | | | | | | | |
| 1. Equity Grants | 650.0 | - | 650.0 | 325.0 | - | 325.0 | - | 1 |
| 2. Members' Contributions | 1 726.5 | - | 1 726.5 | 863.3 | - | 863.3 | - | 3 |
| Subtotal SCA Equity | 2 376.5 | - | 2 376.5 | 1 188.3 | - | 1 188.3 | - | 5 |
| H. Development Initiatives Fund | 2 892.5 | 1 780.0 | 4 672.5 | 1 446.3 | 890.0 | 2 336.3 | 38 | 9 |
| Total Investment Costs | 34 804.2 | 8 453.0 | 43 257.2 | 17 402.1 | 4 226.5 | 21 628.6 | 20 | 87 |
| II. Recurrent Costs | | | | | | | | |
| A. Salaries and Allowances (contracted staff) | | | | | | | | |
| Salaries | 3 890.7 | - | 3 890.7 | 1 945.4 | - | 1 945.4 | - | 8 |
| Allowances | 244.8 | - | 244.8 | 122.4 | - | 122.4 | - | - |
| Subtotal Salaries and Allowances (contracted staff) | 4 135.5 | - | 4 135.5 | 2 067.8 | - | 2 067.8 | - | 8 |
| B. Vehicle, Equipment O&M | 128.0 | 256.0 | 384.0 | 64.0 | 128.0 | 192.0 | 67 | 1 |
| C. Infrastructure O&M | 194.4 | 777.5 | 971.9 | 97.2 | 388.7 | 485.9 | 80 | 2 |
| D. Office Overhead Costs | 652.2 | 313.8 | 966.0 | 326.1 | 156.9 | 483.0 | 32 | 2 |
| Total Recurrent Costs | 5 110.1 | 1 347.3 | 6 457.4 | 2 555.0 | 673.6 | 3 228.7 | 21 | 13 |
| Total BASELINE COSTS | 39 914.3 | 9 800.3 | 49 714.6 | 19 957.2 | 4 900.1 | 24 857.3 | 20 | 100 |
| Physical Contingencies | 226.6 | 228.6 | 455.2 | 113.3 | 114.3 | 227.6 | 50 | 1 |
| Price Contingencies | 929.4 | 391.1 | 1 320.4 | 284.4 | 119.8 | 404.2 | 30 | 2 |
| Total PROJECT COSTS | 41 070.2 | 10 419.9 | 51 490.2 | 20 354.8 | 5 134.2 | 25 489.1 | 20 | 103 |

/a In-kind labour contributions towards infrastructure reconstruction





ORGANIZATION AND MANAGEMENT

A. Project Organization

1. Project execution will be the responsibility of the Ministry of Agriculture (MAE): the Ministry of Agriculture, Water Management and Forestry in the Federation, and the Ministry of Agriculture, Forestry and Water Management in the RS. Each MAE will delegate responsibility to a PCU, which will be based on restructuring the present project implementation unit to bring in staff with the requisite expertise and experience to manage the new project. The PCU will have no implementation responsibility but will coordinate the activities of a number of contracted specialists, the private sector and implementing agencies such as banks and NGOs. Although the present project has a wider remit than the previous projects covering community institution-building, development of formal and informal credit delivery systems and promotion of business development, the core activities remain regeneration of the livestock sector. Therefore, MAE remains the most appropriate executing agency for the project, but the PCU will require staff with skills and experience that extend beyond livestock. The overall organizational structure for the project is shown in the Chart included in this Appendix.

B. Project Management

2. **Project steering committees.** A PSC will be established in each Entity. The PSC will be chaired by the Minister of Agriculture (or his appointee) and will indicatively comprise the following members or their equivalent in each Entity:

| | |
|------------------|--|
| Chairman: | MAE |
| Representatives: | Ministry of Finance Banking Supervisory Agency Ministry of Industry Ministry without portfolio Ministry of Social Affairs, Displaced Persons and Refugees State-level Ministry of Economic Relations and Foreign Trade Government department responsible for women's affairs |
| Secretary: | Project Director |

3. The PSC will have the right to co-opt other members or to form executive subcommittees on a standing or ad hoc basis for the better conduct of its business. This process could be used to include representatives of the university agricultural faculties, agricultural institutes, NGO representatives and women's organisations. The PSC will meet at least once every six months and more frequently as required.

4. The main responsibilities of the PSC will be to:

- provide conceptual, strategic and policy guidance for the design and implementation of project activities and conformity with each Entity's overall development strategies;
- approve the AWP/B for the project;
- approve selection of project area localities;
- ensure effective cooperation between the PCU and the canton/municipality administrations;
- review project progress and performance;
- resolve any implementation problems.



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5. **Project coordination units.** The PCU and Agricultural Department (AD)/PCU will be coordinating rather than implementing agencies. Thus, the role of the PCU and AD/PCU will be annual programming, financial management, contracting and supervision of implementing agencies, monitoring of implementation, reporting and evaluation. The specific principal tasks of the PCUs will be:

- procurement of goods and contracting implementing agencies and providing the necessary conceptual guidance to ensure adherence to the project's guidelines and achievement of the project's objectives;
- preparation of AWP/Bs on the basis of proposals received from the implementing agencies;
- release of funds to the implementing agencies and maintenance of consolidated project accounts in accordance with IFAD requirements;
- establishment and operation of the project's overall management information system;
- field-level monitoring of the performance of implementing agencies and the progress of project activities;
- ensuring that the implementing agencies are capable of providing the information required for the timely preparation and submission of periodic progress reports;
- preparation of periodic progress and financial reports required by IFAD and Entity governments;
- serving as liaison/contact point for IFAD's cooperating institution (UNOPS);
- establishment and maintenance of day-to-day liaison with other external agency partners in project implementation to ensure efficient programme coordination;
- carrying out the M&E functions;
- organization of annual workshops for participatory project review involving all stakeholders and seminars to debate issues leading to improvement in project design and performance;
- preparation of an in-depth review of project performance and achievements prior to the mid-term review providing an analysis of successes, problems, constraints and the effective participation of women in the project.

6. In order to be equipped to undertake this role, the PCU will require a broad range of skills and will comprise a director/livestock specialist, a business development officer, an economist/M&E officer, an accountant/procurement officer, a secretary/translator and a driver. A rural engineer will be engaged on a consultancy basis to supervise and monitor the implementation of the rural infrastructure programme. Funds will be available with the PCU to engage additional short-term consultants as required to support project activities. Provision will also be made for a process of external concurrent evaluation to assist project management in evaluating programme effectiveness in order to be able to develop and modify project design on an ongoing basis in response to beneficiary feedback.

7. Recruitment of the staff of the PCUs would to the extent feasible build on the experience gained of IFAD procedures during the previous projects. In RS the scope for sharing of accountancy and administrative services with the wider PCU would be explored. All staff should be recruited through open competition. Although the director/livestock specialists are expected to be recruited from the Ministries of Agriculture, an open selection process is recommended to ensure the widest possible choice of candidates. The posts of business development officer and economist/M&E officer should be open to candidates from both the public and private sectors.

8. **Technical assistance.** The new project design differs significantly in scope from the previous projects, which focused essentially on livestock restocking. The broader, integrated approach of the new project will require the development of a new type of M&E system, which is able to capture the dynamics of the changing future development environment and the contribution of the project to this



APPENDIX VI

process. As the project is seen as the forerunner of longer-term support for the development of the livestock sector, the M&E system needs to provide the necessary pointers to modify project design in response to such a dynamic situation. A short-term input from an international M&E specialist will provide assistance in designing an appropriate M&E system. This will be followed by short-term consultancy input from a local information technology specialist to develop the details of the MIS system. In addition provision is made to finance other (unspecified) technical assistance needs that may arise in the course of implementation in order to improve the development strategy.

9. **Contracting services.** Responsibility for implementation of the project activities will be contracted out to a range of largely private-sector service providers. This will indicatively be as follows although some options will exist, particularly for management of the credit line:

- **NGOs** for promoting the establishment of producers' associations and providing ongoing support; for promotion and initial management of the savings and credit associations; provision of business development services to borrowers; and for implementing the rural infrastructure rehabilitation programme;
- **Commercial banks** preferably for management of the credit system for livestock and small and medium enterprises;
- **Agriculture department** for the provision of trainers to provide training to local resource persons in the communities and producers' associations and to support demonstrations of improved pasture/meadow management.

10. The major areas in which services will be required are described below as separate activities. They can, however, be combined depending on the interest and expertise of the potential service providers, and some savings in costs may then ensue. The same service provider could be involved in implementation in the two Entities.

11. **Promoting producers' associations.** This will include:

- establishing a dialogue with communities and eliciting farmer interest in the establishment of producers associations on a voluntary basis;
- assisting farmers in the establishment of the association and providing capacity-building inputs to ensure a strong management base and providing ongoing support during the initial period;
- assisting the producers' associations in obtaining linkages to market opportunities through entering into supply agreements with dairies or other processing plants.

With the assistance of a qualified NGO, the PAs will focus on the following:

- provision of extension services;
- management of milk collection including through collection centres;
- contracting arrangements with rental of agricultural machinery and implements;
- procurement of input supplies, credit and veterinary services; and
- training in animal husbandry, home economics as well as management training.

12. **Establishing a formal rural credit system.** This will include management of a credit line for providing loans for asset creation in the agricultural sector including livestock purchase and the establishment/expansion of small and medium enterprises.

13. **Establishing a community-based financial services system.** This will include: (i) formation of village-based, self-managed savings and credit associations (SCAs); (ii) building the SCAs into a sustainable microfinance institution; and (iii) building capacity within country to promote future development of SCAs.



APPENDIX VI

14. **Providing technical guidance to livestock producers.** This would include: (i) promotion of improved animal husbandry practices; (ii) assisting communities to improve the productivity of pasture/hay meadows; and (iii) organizing demonstrations for improved pasture/meadow management.

15. **Providing technical and business development services to entrepreneurs.** This will include: (i) assisting enterprises e.g. dairies, in product development and improved marketing strategies; and (ii) assisting small enterprises with development of business plans, management and accounting skills and linkages to markets.

16. **Implementing a community-based rural infrastructure rehabilitation programme.** This will include: (i) assisting communities to identify and prioritize community infrastructure rehabilitation needs and prepare microproject proposals; (ii) mobilizing community participation in implementation; and (iii) organizing implementation of infrastructure rehabilitation through community participation for small works and through engaging contractors for larger schemes.

BOSNIA & HERZEGOVINA
State Council of Ministers

State Level

Entity Level

Project Area
Localities

Clients

FEDERATION OF BOSNIA & HERZEGOVINA

Project Steering Committee

- Ministry of Agriculture (Chairman)
- Ministry of Finance
- Banking Supervisory Agency
- Ministry of Industry
- Ministry Without Portfolio
- Ministry of Social Affairs, Displaced Persons and Refugees
- State Ministry of Economic Relations and Foreign Trade
- Government Women's Department

Ministry of Agriculture

Project Coordination Unit

- Project Director/Livestock Specialist
- Business Development Officer
- Monitoring and Evaluation Officer
- Accountant/Procurement Officer
- Support Staff

Contracted Service Providers

Participating Commercial Bank

Project Microcredit Organization

- NGOs
- Business Development Agencies
- Dairy Support Group
- Municipality Department of Agriculture

Rural Credit Window

Savings and Credit Associations

Producers' Associations/Community Groups/Entrepreneurs and Individuals

Members

REPUBLIKA SPRSKA

Project Steering Committee

- Ministry of Agriculture (Chairman)
- Ministry of Finance
- Banking Supervisory Agency
- Ministry of Industry and Technology
- Ministry of Displaced Persons and Refugees
- State Ministry of Economic Relations and Foreign Trade
- Government Women's Department

Reconstruction Assistance Project1/Project Coordination Unit

Ministry of Agriculture

RAP PCU Agriculture Department

- Project Director/Livestock Specialist
- Business Development Officer
- Monitoring and Evaluation Officer
- Accountant/Procurement Officer
- Support Staff

Contracted Service Providers

Participating Commercial Bank

Project Microcredit Organization

- NGOs
- Business Development Agencies
- Dairy Support Group
- Municipality Department of Agriculture

Rural Credit Window

Savings and Credit Associations

Producers' Associations/Community Groups/Entrepreneurs and Individuals

Members



ECONOMIC AND FINANCIAL ANALYSIS

1. The defining characteristics of the livestock production models are summarized in Table 1.

Table 1: Key Assumptions Underlying Production Models

| | | Cattle | | | | Sheep | | Goats | |
|---------------------------------|-----------|------------------|---------|-------------|---------|-----------------|---------|-----------------|---------|
| | | Intensive silage | | Hilly Areas | | Upper Mountains | | Upper Mountains | |
| | | With | Without | With | Without | With | Without | With | Without |
| Milk production | | | | | | | | | |
| Milk yield | l/day | 12.0 | 7.9 | 7.9 | 5.6 | 0.5 | 0.5 | 5.0 | 5.0 |
| Lactation period | days | 305 | 305 | 305 | 305 | 80 | 80 | 80 | 80 |
| Milk yield, annual | year | 3 660 | 2 410 | 2 410 | 1 708 | 40 | 40 | 400 | 400 |
| Herd features | | | | | | | | | |
| Birth rate | year | 80% | 66% | 80% | 66% | 90% | 90% | 100% | 100% |
| Youngstock mortality | year | 10% | 15% | 10% | 15% | 10% | 10% | 15% | 15% |
| Youngstock offtake rate | | | | | | | | | |
| Male | year | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |
| Female | year | 0% | 100% | 0% | 100% | 70% | 70% | 100% | 100% |
| Feeding parameters | | | | | | | | | |
| Active vegetation | months | 8 | 8 | 8 | 8 | 7 | 7 | 7 | 7 |
| Winter feeding | days/year | 120 | 120 | 120 | 120 | 150 | 150 | 150 | 150 |
| Hay req'd per animal | kg/day | 10 | 10 | 10 | 10 | 1 | 1 | 1 | 1 |
| Hay req'd per animal | kg/year | 1 200 | 1 200 | 1 200 | 1 200 | 150 | 150 | 150 | 150 |
| Hay cuttings | no. | 3 | 3 | 3 | 3 | 1 | 1 | 1 | 1 |
| Hay yield per cut | t/ha | 1.8 | 1.1 | 1.8 | 1.1 | 1.65 | 1.65 | 1.65 | 1.65 |
| Land yield | t/ha | 5.4 | 3.3 | 5.4 | 3.3 | 1.65 | 1.65 | 1.65 | 1.65 |
| Hay land req'd per animal | ha | 0.2 | 0.4 | 0.2 | 0.36 | 0.1 | 0.1 | 0.1 | 0.1 |
| Grazing land per livestock unit | ha | 0.4 | 0.7 | 0.4 | 0.73 | 0.1 | 0.1 | 0.1 | 0.1 |
| Land req'd per animal | ha | 0.7 | 1.1 | 0.7 | 1.1 | 0.2 | 0.2 | 0.2 | 0.2 |
| Concentrate feeding | | | | | | | | | |
| Duration | days | 305 | 250 | 250 | 200 | | | | |
| Amount | kg/day | 2.5 | 1.0 | 2.5 | 1.0 | | | | |
| Concentrate per animal | kg | 762 | 250 | 625 | 200 | | | | |

Beneficiaries

2. In total, around 21 000 households will benefit from the project. Their distribution among project components and their phasing over the implementation period of the project are summarized in Table 2 below.

Table 2: Number of Beneficiary Households

| | PY1 | PY2 | PY3 | PY4 | PY5 | PY6 | Total |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Federation | | | | | | | |
| <i>No. of Beneficiary Households</i> | | | | | | | |
| Livestock farmers | 396 | 340 | 519 | 916 | 738 | 374 | 3 283 |
| SCA households | | | | | | | |
| - livestock areas | 45 | 90 | 135 | 150 | 165 | 180 | 765 |
| - other locations | 60 | 120 | 210 | 260 | 340 | 400 | 1 390 |
| SME entrepreneurs | 12 | 6 | 12 | 18 | 12 | | 60 |
| Rural infrastructure rehabilitation | 797 | 1 939 | 1 459 | 2 541 | 2 960 | 1 321 | 11 017 |
| | 1 310 | 2 495 | 2 335 | 3 885 | 4 215 | 2 275 | 16 515 |
| Republika Srpska | | | | | | | |
| <i>No. of Beneficiary Households</i> | | | | | | | |
| Livestock farmers | 396 | 340 | 519 | 520 | 200 | 180 | 2 155 |
| SCA households | | | | | | | |
| - livestock areas | 45 | 90 | 135 | 150 | 165 | 180 | 765 |
| - other locations | 60 | 120 | 210 | 260 | 340 | 400 | 1 390 |
| SME entrepreneurs | 12 | 6 | 12 | 6 | | | 36 |
| Rural infrastructure rehabilitation | - | 314 | 84 | 199 | - | - | 597 |
| | 513 | 870 | 960 | 1 135 | 705 | 760 | 4 943 |

**Economic Analysis**

3. **Economic rate of return.** The overall project economic rate of return is estimated at 17.4%. For the FBiH alone, the EIRR is estimated at 15.5%, while the EIRR for RS is estimated at 20.8%. The difference derives from the larger investments in rural infrastructure reconstruction and rehabilitation in the Federation, for which financial and economic benefits have not been quantified. This is so because these investments will be demand-driven, and thus precise site cost estimations and appropriate projections of economic benefits are not possible in the absence of site/project specifications. In spite of the difficulty in capturing the benefits in quantified economic terms, it is clear that this component plays a key, critical role in achieving the project objective by ensuring that necessary infrastructure is in place for rural enterprises and the village residents have the basic services and necessities required for an acceptable livelihood in the rural areas, thus also encouraging rural migrants to return to their villages and invest in agriculture and livestock activities.

Table 3: Economic Rate of Return and Sensitivity Analysis (%)

| Project | 1-year lag | 2-year lag | -10% Benefits | -20% Benefits | +10% Costs | +20% Costs |
|---|------------|------------|---------------|---------------|------------|------------|
| Total Project , EIRR = 17.4% | | | | | | |
| Base | 14.4 | 11.8 | 15.4 | 13.3 | 15.6 | 14.0 |
| -10% Benefits | 12.7 | 10.3 | - | - | 13.7 | 12.1 |
| -20% Benefits | 10.8 | 8.6 | - | - | 11.5 | 10.0 |
| +10% Costs | 12.8 | 10.4 | 13.7 | 11.5 | - | - |
| +20% Costs | 11.4 | 9.2 | 12.1 | 10.0 | - | - |
| Federation of Bosnia and Herzegovina, EIRR = 15.5% | | | | | | |
| Base | 12.7 | 10.2 | 13.5 | 11.4 | 13.7 | 12.1 |
| -10% Benefits | 11.0 | 13.0 | - | - | 11.8 | 10.3 |
| -20% Benefits | 9.2 | 7.1 | - | - | 9.7 | 8.2 |
| +10% Costs | 11.2 | 8.9 | 11.8 | 9.7 | - | - |
| +20% Costs | 9.8 | 7.7 | 10.3 | 8.2 | - | - |
| Republika Srpska, EIRR = 20.8% | | | | | | |
| Base | 17.3 | 14.5 | 18.7 | 16.5 | 18.9 | 17.2 |
| -10% Benefits | 15.5 | 13.0 | - | - | 16.9 | 15.3 |
| -20% Benefits | 13.6 | 11.3 | - | - | 14.7 | 13.1 |
| +10% Costs | 15.7 | 13.1 | 16.9 | 14.7 | - | - |
| +20% Costs | 14.2 | 11.9 | 15.3 | 13.1 | - | - |