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**IFAD**

**INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

**Executive Board – Eighty-Fifth Session**

Rome, 6-8 September 2005

**BOSNIA AND HERZEGOVINA**

**COUNTRY STRATEGIC OPPORTUNITIES PAPER**

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**CURRENCY EQUIVALENTS**

|               |   |                        |
|---------------|---|------------------------|
| Currency unit | = | Convertible mark (BAM) |
| USD 1.00      | = | BAM 1.55               |
| BAM 1.00      | = | USD 0.65               |

**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 <sup>2</sup> ) | = | 10.76 square feet (ft <sup>2</sup> ) |
| 1 acre (ac)                      | = | 0.405 ha                             |
| 1 hectare (ha)                   | = | 2.47 acres                           |

**ABBREVIATIONS AND ACRONYMS**

|       |   |
|-------|---|
| CEN   | Central and Eastern Europe and the Newly Independent States                   |
| COSOP | country strategic opportunities paper   |
| EU    | European Union  |
| FFAM  | Establishment of a Facility for Farmers' Access to Markets in the Balkan Area |
| IDA   | International Development Association   |
| LRFDP | Livestock and Rural Finance Development Project                               |
| MDG   | Millennium Development Goal   |
| PRSP  | poverty reduction strategy paper  |
| RIMS  | Results and Impact Management System  |
| SCA   | savings and credit association  |
| SME   | small- and medium-sized enterprise  |
| UN    | United Nations  |
| USAID | United States Agency for International Development                            |

**GOVERNMENT OF BOSNIA AND HERZEGOVINA**  
**Fiscal Year**

1 January – 31 December

COUNTRY MAP: LOCATION OF IFAD-FUNDED OPERATIONS



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*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.*

## PORTFOLIO OVERVIEW

**Region: Near East and North Africa**

**Country: Bosnia and Herzegovina**

| Project Name   | Initiating Institution | Cooperating Institution | Lending Terms | Board Approval | Loan Effectiveness | Current Closing Date | Loan/Grant Acronym | Denominated Currency | Approved Loan/Grant Amount | Disbursement (as % of approved amount) |
|--|------------------------|-------------------------|---------------|----------------|--------------------|----------------------|--------------------|----------------------|----------------------------|--|
| Farm Reconstruction Project – Re-stocking Activities | World Bank:IDA         | World Bank: IDA         | Grant         | 17 Apr 96      | 16 May 96          | 31 Dec 97            | G - I - 316 - BA   | SDR                  | 700 000                    | 100                                    |
| 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                  | 100                                    |
| Small Farm Reconstruction and Development Project    | IFAD                   | UNOPS                   | Grant         | 30 Apr 97      | 26 Feb 98          | 30 Sep 01            | G - I - 27 - BA    | USD                  | 100 000                    | 100                                    |
| Small Farm Reconstruction and Development Project    | IFAD                   | UNOPS                   | Grant         | 30 Apr 97      | 26 Feb 98          | 30 Sep 01            | G - I - 576 - BA   | USD                  | 35 000                     | 100                                    |
| 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                 | 100                                    |
| Livestock and Rural Finance Development Project      | IFAD                   | UNOPS                   | Grant         | 26 Apr 01      | 17 May 02          | 31 Dec 08            | G - I - 119 - BA   | USD                  | 90 000                     | 100                                    |
| Livestock and Rural Finance Development Project      | IFAD                   | UNOPS                   | HC            | 26 Apr 01      | 17 May 02          | 31 Dec 08            | L - I - 562 - BA   | SDR                  | 9 550 000                  | 33                                     |

Notes: HC = highly concessional

IDA = International Development Association

UNOPS = United Nations Office for Project Services

**EXECUTIVE SUMMARY**

1. The present COSOP is intended to define IFAD's three-year strategic approach in Bosnia and Herzegovina in the light of: (i) the framework for action proposed by the Government in its recent medium-term economic development and poverty reduction strategies; (ii) the major strategic thrusts of the Strategic Framework for IFAD 2002-2006 and priority areas of its subregional strategy for Central and Eastern Europe and the Newly Independent States (CEN); (iii) the lessons learned from IFAD and other donor operations and experiences in the country and the region; and (iv) the imperative for harmonization of donor support within the overall framework of the poverty reduction strategy paper (PRSP).

2. Formulation of the COSOP derives from dialogue with prospective beneficiaries, Government and the development community, including a COSOP workshop held in Sarajevo on 4 March 2004. The internal review resulted in modifications reflecting the orientation of IFAD's new operating model, which emphasizes a programmatic approach to country operations.

3. The state of Bosnia and Herzegovina exists within the boundaries of the former province of Bosnia and Herzegovina within the former Socialist Federal Republic of Yugoslavia and includes two entities: the Federation of Bosnia Herzegovina (FBiH) and the Republika Srpska (RS), as well as a self-governing district, Brcko, under the sovereignty of the central state Government. The Government operates with responsibility for the constitutional court, human rights, European integration, foreign affairs, foreign trade, international communications facilities, air traffic control and regulation of inter-entity transportation, while the entities (FBiH and RS) exercise all governmental functions and powers not expressly assigned to the institutions of the state Government. In recent years, Ministries of Justice, Security and Defence have been created at the central state level, and the state presidency assumed central control of the armed forces in 2003. The political scene remains volatile, but with low risk for major instability due to the presence of the Office of the High Representative of the international community and a European Union (EU) stabilization force.

4. The economy was fairly diversified before the war, with a large industrial sector. The collapse of Yugoslavia and the war that followed caused major economic collapse and widespread shutdown of industrial capacity and services and the loss of millions of jobs. Following the advent of peace in 1995, the international donor community funded a major reconstruction effort. Since the war, the private sector has grown significantly and a large number of small enterprises have been established. Prices, trade and foreign trade have been liberalized and state companies have been largely privatized. According to World Bank 2003 data, the population stood at 4.1 million (50.4% women, 49.6% men); gross national income (GNI) per capita amounted to USD 1 540 or about 50% of the 1990 GNI level; the adult literacy rate was 95%; life expectancy at birth was 74 years and the rate of urbanization was 44%. The share of services, industry and agriculture in GDP was 52.9, 31.9 and 14.9% respectively.

5. Immediately after the war, agriculture's share of GDP rose from 10% to about 22%, employing 21% of the population, and today agriculture contributes 15% to GDP. Bosnia and Herzegovina is relatively poor in agricultural resources, with arable land per capita of only 0.17 ha, little irrigation, and is infested with land mines. Much of the country is mountainous, with shallow soils and patches of flat pasture containing some 570 000 privately owned smallholder livestock farms. Most farms have one or two local-breed dairy cows of low production potential. There were restocking efforts after the war. The agricultural sector produces wheat, maize, soybeans, tobacco, vegetables and fruit as well as milk and meat. Livestock production contributes nearly 60% of agricultural GDP. The country still imports over 65% of its food needs. However, agriculture and its associated activities have the potential to play a major role in rural economic revival and rural poverty reduction.

6. As a result of the war, the country experienced some of the deepest and most widespread poverty in Europe, with some 20% of the population having low incomes and suffering from serious shortages in almost all aspects of welfare. The PRSP recognizes robust economic growth as the main answer to poverty reduction. Rural growth will be accelerated through commercialization, primarily of dairy/meat and commodities with the potential for value-addition – raising farm incomes and creating jobs on farms and in farm support services, processing and rural small- and medium-sized enterprises (SMEs). The link between livestock production and the natural resource endowment favours the livestock sector, particularly milk and meat production.

7. IFAD involvement in the country dates from 1996 and comprises three operations, two closed and one ongoing. The lessons IFAD has drawn from its country experience indicate that: (i) efforts to increase agricultural production and productivity, while essential, are not sufficient to reduce rural poverty unless there is an accessible market in which farmers can dispose of increased production at remunerative prices; and (ii) credit is needed to finance agricultural investment and value addition. The first two interventions, the Farm Reconstruction Project – Re-stocking Activities (408-BA) and the Small Farm Reconstruction and Development Project (449-BA), reflected the need for emergency assistance, were of short duration and focused on the distribution of livestock to poor farmers. These projects provided poor people with access to food and recapitalized war-affected small farms. The third intervention, the Livestock and Rural Finance Development Project (LRFDP – 562-BA), aims to develop a replicable model of sustainable, small-scale commercial livestock production. It is opportune that IFAD's strategy for Bosnia and Herzegovina be forward-looking, in support of an economy aiming to enter the EU.

8. This COSOP is intended as a medium-term IFAD strategic framework to support income diversification and rural livelihoods in the dual context of economic transformation in post post-conflict situations and EU accession. It will, inter alia, support the commercialization of smallholder production, commercial rural businesses and off-farm income-generating activities (including apiculture, fish farming and agro-tourism). It will stimulate investment in smallholder farming and linked activities, and increase on- and off-farm jobs. IFAD will pay special attention to targeting the rural poor, influencing the adoption of pro-poor policies and building partnerships.

9. The supply-chain approach provides the best opportunity to develop enhanced commercial linkages between small-scale producers and private markets. This requires a programmatic approach to commercial agriculture, primary production and the rural economy. It includes: (i) investments in improved production, productivity and infrastructure; (ii) a suitable policy and institutional framework for support services, the financial system, technology and information, market linkages, business training and skills transfer, and enforceable contractual arrangements; (iii) partnerships to address the needs of the marketing chain; and (iv) a learning environment for replication and scaling up.

10. Commercialization of smallholder farming will initially focus on dairy/meat and feed/fodder production, expanding to include other types of commodities such as grains and horticulture. Dairy farming is a strategic priority in the PRSP and is also justified by IFAD's country experience. To mitigate risks associated with the economic and trade openness related to EU accession, other commodities and income diversification would also be encouraged. Milk and horticultural products are suitable to the supply-chain approach in that they require processing. The supply chain links producers and processors to firms and individuals providing services.



11. The successful attainment of IFAD strategic objectives will involve:
- (a) building effective partnerships with all actors and donors, especially in supply-chain management, harmonizing operations and concentrating support on traditional target groups;
  - (b) influencing government policy in terms of reforming the business environment and facilitating the emergence of effective participatory institutions; and
  - (c) ensuring that gender concerns are mainstreamed into all activities.
12. To achieve visibility and impact, IFAD will initially focus on the dairy/meat subsector, adopting a supply-chain approach that will provide opportunities to engage the private sector in its operations.
13. **Partnership.** With the near completion of reconstruction, donor support is being scaled down. Donor operational collaboration in the PRSP process has been patchy. IFAD is increasingly engaged in the exchange of information with other United Nations (UN) agencies through the UN Resident Coordinator and is providing grant support to the Srebrenica Recovery Programme. Donors and development partners are increasingly aligning their assistance with the PRSP. EU assistance focuses on capacity-building in the public sector. The World Bank Country Assistance Strategy for 2005-2007 focuses on improving public finance and institutions, promoting private-sector growth and social and economic infrastructure. Donors in agriculture include the International Bank for Reconstruction and Development (IBRD) (SME finance), Italy (lines of credit), the United States Agency for International Development (USAID) (private-sector development, capacity-building and finance), Sweden (finance/banking, microcredit), Germany (finance/banking, SME development, microcredit), the United Kingdom of Great Britain and Northern Ireland (private-sector development and finance/banking), Switzerland (banking, SME development, microcredit) and Norway (private-sector development, agriculture, microcredit).
14. Cofinancing continues to be the major vehicle used by IFAD, including with the International Development Association (IDA) and the Organization of the Petroleum Exporting Countries Fund for International Development (OPEC Fund). Italy is providing grant funding of EUR 3 million in support of the Establishment of a Facility for Farmers' Access to Markets in the Balkan Area (FFAM), whose objective is to link primary producers to markets. FFAM resources complement investments under the IFAD-funded LRFDP to enhance market linkages in the dairy sector.
15. German supplementary funds are being used in the Gender Mainstreaming Programme in CEN. Grant funds are supporting women dairy producer associations. Channelling project benefits to women will mitigate the risk of women being trafficked in the vice trade. Producer associations formed under the LRFDP are receiving support from the USAID-financed Linking Agricultural Markets to Producers and Canada, demonstrating the complementarity between IFAD and other donors.
16. Cofinancing possibilities may become limited, as many donors shift away from agriculture. The OPEC Fund remains a willing partner, and collaboration with Italy (FFAM) as well as USAID, the German Credit Institution for Reconstruction (KfW) and the EU will be actively sought. IFAD will seek further collaboration with like-minded donors in policy dialogue (including UN agencies, the World Bank, the EU and bilateral donors) aimed at the adoption of pro-poor policies for the achievement of the Millennium Development Goals.
17. **In-country coordination.** In view of the varying financing modalities, specificities and mandates of different donors, the Government must lead donor coordination. The PRSP constitutes a coherent accountability framework for harmonizing donor operations. A new institution has been

created, the Unit for Economic Planning and Implementation of the Medium-Term Development Strategy of Bosnia and Herzegovina, to follow up on the PRSP. This unit could act as donor coordinator.

18. IFAD policy dialogue will derive from project experience, including Results and Impact Management System (RIMS)-based data, and will be used to leverage partner resources and influence the adoption of pro-poor policies. It will be driven by the need to improve sectoral policy, in which the country scores below 4 under the PBAS.

19. IFAD, with the agreement of IDA, is leading the policy dialogue agenda with the Government, aimed at putting a legal framework in place for the establishment and functioning of savings and credit associations (SCAs). Improving veterinary services and initiatives in livestock supply-chain development requires policy dialogue in order to achieve a coherent and cohesive national veterinary authority with a clear legal framework.

20. IFAD is also introducing RIMS and supporting participatory monitoring and evaluation. The application of RIMS in the country is expected to be an important tool for informing decision-makers and for ensuring effectiveness of development programmes and policies.

21. Over the past decade, IFAD operations in CEN have pioneered a number of successful innovations in land titling and registration, village-based rural finance systems, participatory irrigation management, market linkages and off-farm income generation. IFAD recognizes the beneficial effect of sharing knowledge and experience among managers and technical experts in these countries.

22. With support from Germany, IFAD is also implementing a grant for gender mainstreaming in Eastern Europe and the Newly Independent States, including Bosnia and Herzegovina, which receives funds for activities that strengthen equal access by women and men to development opportunities.

23. The country's overall performance-based allocation system (PBAS) rating of 4.66 puts it at the top of the countries in the Near East and North Africa Division. It now qualifies for a **base lending** scenario of USD 5.2 million every three years. A **low case** scenario, which could be triggered by worsening of the policy and institutional framework, would push the PBAS projection to the minimum USD 1.0 million per year for a USD 3.0 million loan every three years. Such a scenario is highly unlikely given the country's strong past and present performance and its commitment to meeting EU accession requirements. It is likely that further improvements in the policy and institutional framework, especially related to the policy and legal framework for dialogue with rural organizations, could result in a **higher case** scenario that may entail a level of lending of USD 7-8 million over the next three years. The triggers for such a high case scenario would be passage of the SCA law and improvement in the Human Development Report gender index. In processing new initiatives under the country programme, further opportunities to mobilize donor resources through cofinancing will be explored, especially from the OPEC Fund and other international financial institutions involved in the agricultural sector.

24. Given the relatively limited resource envelope available to the country under the current PBAS framework, IFAD would focus on working with the Government to improve the policy and institutional framework that would leverage IFAD resources through partnerships.

25. The supply-chain approach advocated in this strategy requires support to local participatory institutions (farmers' associations, SCAs, women's groups) in capacity-building and capitalization that is amenable to grant funding. Both the IFAD country grant window and supplementary funds will be explored, especially further Italian funding in continuation of the FFAM initiative. Loan and grant funds would be used simultaneously and identified in the financing package for each operation during the investment design process.

26. Country grant and supplementary funds will also be used to support the policy dialogue agenda and partnership-building, especially the continuation of technical assistance in legal and technical matters related to the drafting and adoption of the savings and credit association law and support to the improvement of veterinary services.

## **BOSNIA AND HERZEGOVINA**

### **COUNTRY STRATEGIC OPPORTUNITIES PAPER (COSOP)**

#### **I. INTRODUCTION<sup>1</sup>**

1. The present COSOP is intended to define IFAD's three-year strategic approach in Bosnia and Herzegovina in the light of: (i) the framework for action proposed by the Government in its recent medium-term economic development and poverty reduction strategies; (ii) the major strategic thrusts of the Strategic Framework for IFAD 2002-2006 and priority areas of its subregional strategy for Central and Eastern Europe and the Newly Independent States (CEN); (iii) the lessons learned from IFAD and other donor operations and experiences in the country and the region; and (iv) the imperative for harmonization of donor support within the overall framework of the poverty reduction strategy paper (PRSP).

2. Formulation of the COSOP derives from dialogue with prospective beneficiaries, Government and the development community through an interactive and iterative consultation process, including a COSOP workshop held in Sarajevo on 4 March 2004. The aim of the workshop was to elicit the views of stakeholders and partners in relation to IFAD's role in future poverty reduction endeavours and thus enhance participation and local ownership of the proposed strategy. A total of 53 participants attended the workshop (of 70 invited), representing the Government and government agencies (including the entity Ministers of Agriculture), farmers' unions, trade unions, university faculties, donors, NGOs, farmers and entrepreneurs. The workshop discussions started with a review of IFAD's strategic framework and its Regional Strategy for Central and Eastern Europe and the Newly Independent States. That was followed by a presentation on the PRSP by the PRSP secretariat and on the lessons learned from IFAD-supported operations in the country. These presentations provided the background for discussion of the proposed IFAD country strategy. There was general consensus that the proposed COSOP fits within the framework of the PRSP, and agreement on the relevance of the main thrusts of the proposed country strategy and the policy dialogue agenda. The commitment of IFAD to provide support to BiH in its fight against rural poverty was much appreciated.

3. The internal review process of the draft COSOP document resulted in modifications reflecting the orientation of IFAD's new operating model, with its emphasis on a programmatic approach to country operations articulated through a results-based COSOP. The final document also takes into account the directives of the Executive Board in respect of IFAD strategy documentation. Additional consultations with IFAD's in-country partners related to these modifications took place in early 2005.

#### **II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT**

##### **A. Country Economic Background**

4. The state of Bosnia and Herzegovina exists within the boundaries of the former province of Bosnia and Herzegovina within the former Socialist Federal Republic of Yugoslavia. The violent break up of Yugoslavia in 1990 led to war and serious economic collapse. The war altered the social and economic landscape of the country and caused widespread physical damage. The Dayton Peace Accord (1995) provided a new, complex internal governance structure and a system of international oversight that continues today. Bosnia and Herzegovina is now considered a post-conflict success story. With strong international support, it has made impressive progress in post-war reconstruction and in economic, social and political integration. The country enjoys political stability and security

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<sup>1</sup> See Appendix I for additional information.

and is moving towards membership in euro-Atlantic structures. It has become a member of the Council of Europe, is working towards World Trade Organization membership and has started the long process towards European Union (EU) accession and membership in the Partnership for Peace of the North Atlantic Treaty Organization (NATO).

5. In accordance with the Dayton Peace Accord, Bosnia and Herzegovina includes two entities: the Federation of Bosnia Herzegovina (FBiH) and the Republika Srpska (RS). It also includes a self-governing district, Brcko, under the sovereignty of the central state Government. Under the constitution, the Government operates with responsibility for the constitutional court, human rights, European integration, foreign affairs, foreign trade, international communications facilities, air traffic control and regulation of inter-entity transportation. The constitution assigns to the entities (FBiH and RS) all governmental functions and powers not expressly assigned to the institutions of the state Government, which are defence, security and police, finance and agriculture. In recent years, Ministries of Justice, Security and Defence have been created at the central state level and the state presidency assumed central control of the armed forces in 2003. The political scene remains volatile, but with low risk for major instability due to the presence of the Office of the High Representative of the international community and an EU stabilization force. Nonetheless, there remains the risk that the administrative responsibilities among the various parts of the country could change and impact unfavourably on IFAD's programme implementation.

6. The economy was fairly diversified before the war, with a large industrial sector (50% of GDP) built on substantial reserves of energy, minerals and forestry. The collapse of Yugoslavia and the war that followed caused major economic collapse, widespread shutdown of industrial capacity and services and the loss of millions of jobs. GDP in 1994 was less than 20% of its 1990 level in real terms. Masses of unemployed workers that had only practised farming as a part time hobby had no other option than to depend on agriculture for survival.

7. Following the Dayton Peace Accord, the international donor community funded a major reconstruction effort, which resulted in repair of the bulk of war-damaged economic and social infrastructure and triggered economic activity and rapid growth. More recently, aid flows have shown a downward trend as the reconstruction effort draws to a close. However, growth has continued to be robust. Inflation remained low (3% in 2003) and domestic production grew by 5% in 2004.

8. Since the war, the private sector has grown significantly and a large number of small enterprises have been established. Prices, trade and foreign trade have been liberalized, and around 60% of small and 30% of large companies have been privatized. Progress has been made in public finance, with revenues growing due to the strengthening of the tax administration. A new treasury system has begun to ensure better public finance management. The new law on energy has started reforms that are expected to bring this sector more in line with EU requirements. Institutional changes have been initiated in the sector of water management to facilitate a financially sustainable water supply system.

9. According to 2003 World Bank data, the population stood at 4.1 million (50.4% women, 49.6% men); gross national income (GNI) per capita amounted to USD 1 540 or about 50% of the 1990 GNI level; the adult literacy rate was 95%; life expectancy at birth was 74 years and the rate of urbanization was 44%. The share of services, industry and agriculture in GDP was 52.9, 31.9 and 14.9% respectively.

10. The total external public debt liability in 2002 was estimated at USD 2.5 billion (equivalent to 30% of GDP) and total debt service was estimated at 7% of exports of goods and services. Government policy is to increase the proportion of new credits that will be covered by subsidiary agreements, with end users being responsible for servicing the debt. The country also hopes that new

loans will be obtained primarily on concessional terms, so as to minimize future external debt service costs.

### **B. Agricultural Sector**

11. In modern times, the contribution of agriculture to the economy has been small. In the former Yugoslavia, about 21% of the active population was employed in agriculture, but agricultural production and processing accounted for less than 10% of pre-war GDP. Immediately after the war, the share of agriculture in GDP rose to about 22%, reflecting in part the decline in industrial production and services and the dependency on agriculture of large segments of those who had lost industrial jobs. Today, the contribution of agriculture to GDP is about 15%.

12. Bosnia and Herzegovina is very poor in agricultural resources. Of a total 2.5 million ha of agricultural land, less than 20% (some 400 000 ha) is suited to arable farming. On a global scale, the country approaches the minimum of arable land per capita (0.17 ha), but per capita endowment varies dramatically between RS (0.9 ha) and FBiH (less than 0.1 ha). The bulk of arable land is found in the Sava River valley in the north, mostly in RS. Over one third (155 000 ha) of the arable area is under state ownership, having been managed as state farms in the former Yugoslavia. Most of these former state farms remain as abandoned public property, awaiting privatization. In some areas, assets have been sold while the land itself is being leased to larger investors. Overall, nearly half the arable land is not under cultivation, either because it is former state property awaiting privatization or is highly fragmented smallholder property. Most arable land suffers from poor irrigation, lacks flood protection structures or is greatly infested with land mines.

13. The rest of the country is mountainous, with steep wooded slopes with shallow soils. Patches of flat pasture land and meadowland are interspersed with wooded terrain. Some 570 000 privately owned smallholder farms are distributed over these areas and are used primarily for livestock production. The average farm is 3.6 ha in area, split into 7-9 separate plots; but the majority are smallholdings made up of a few hundred square meters around the house plot. In Yugoslav times, these small farms were farmed part-time by their owners, who were often employed as industrial workers. At present, with reduced industrial employment, these farms have become the main source of livelihood for most rural people. Production is becoming increasingly commercial, with smallholder dairy production being the major enterprise. The bulk of the farms have one or two dairy cows, often local breeds of low production potential, but well adapted to the local environment and to poor husbandry practices. However, restocking efforts after the war are increasing the proportion of foreign breeds, commonly the milk- and meat-producing Simmental cattle.

14. In addition to milk and meat, the agricultural sector produces wheat, maize, soybeans, tobacco, vegetables and fruit. Livestock production is the most important component of the agricultural sector, contributing nearly 60% of agricultural GDP. Crop and livestock yields are low, and arable farming suffers from water stress in the summer, especially now that the Yugoslav irrigation infrastructure has deteriorated significantly. Except for potatoes, the country has not achieved self-sufficiency in any of the major agricultural products it consumes. It still imports over 65% of its food needs (60% of milk and meat needs) and pays an import bill per capita per annum of nearly USD 200.

15. Despite their small share in the economy, agriculture and its associated activities have the potential to play a major role in rural economic revival and poverty reduction. About half the rural population relies to a large extent on agriculture for its livelihood, primarily livestock production. The country covers only 35% of its food needs, and local agriculture could produce more to improve food self-sufficiency. The post-war recovery of agriculture has been severely constrained by poor access to support services, inputs and finance, as well as by inadequate linkages to the severely degraded processing industry. Efforts are underway to improve the legal and institutional framework in the agricultural sector, including the laws on phytosanitary protection, agricultural land and cooperatives,

and the bylaws on veterinary medicine. Ongoing attempts are being made to increase the functional capacities of the Veterinary Office and to restructure the entity Ministries of Agriculture to strengthen capacity in their main areas of responsibility, including policy analysis, monitoring and enforcement of plant and animal health regulations, and privatization of veterinary services. Progress in all of these is being achieved, albeit at a slow pace.

### C. Rural Poverty

16. The poverty in Bosnia and Herzegovina is one of the deepest and most widespread in Europe, with some 20% of the population having low incomes and suffering from serious shortages in all or almost all key aspects of welfare, ranging from acceptable housing and sanitary conditions and access to health services to literacy and integration into society.

17. The war in Bosnia from 1992 to 1995 caused the loss of 250 000 lives, displaced nearly half the country's pre-war population of 4.4 million, devastated manufacturing capacity and infrastructure and severed trade links. Total war damage is estimated at more than USD 100 billion. The war transformed Bosnia from a medium-income country within former Yugoslavia into a poor country. Most studies identify the causes of present-day poverty in Bosnia as war damage, unemployment, poorly conducted post-war privatization of former state enterprises, lack of skills that are in demand in the post-war labour market, low earnings in agriculture, corruption and the weak rule of law.

18. In discussing rural poverty in Bosnia and Herzegovina, this COSOP has been guided by the Millennium Development Goals (MDGs), a set of eight goals agreed to by the international community (United Nations Millennium Declaration, 2000). The MDGs are guiding a comprehensive, broadbased programme to overcome the root causes of poverty and substantially reduce it by 2015. In the country context, four of these goals (MDG 1, MDG 3, MDG 7 and MDG 8) are of particular relevance to IFAD's mandate and specificity requirements.

19. **Poverty and hunger (MDG 1).** The poverty situation in Bosnia and Herzegovina, as in other former socialist states in central CEN, is unusual. On the one hand, as elsewhere in the world, the poor lack assets and access to basic services, have a low standard of living and are powerless and insecure. Unlike in many other parts of the world, however, the widespread poverty here is a relatively new phenomenon, caused by the collapse of the socialist economic system under which the population enjoyed secure employment and guaranteed pension benefits. Since the cessation of war hostilities, the country has been slowly recovering and building up its productive capacity. Presently, most people are literate<sup>2</sup> and many are well educated, but most have lost their jobs and are either unemployed, marginally employed or have retreated into agriculture to escape poverty.

20. Given significant shifts in the population during and after the war, reliable poverty data is not yet available. The Living Standards Measurement Survey of 2001 gives the extreme (absolute) poverty line (cost of minimum food required for survival) as BAM 760 per capita per annum (slightly over USD 1 per capita/day) and the general (relative) poverty line as BAM 2 198 per capita per annum (about USD 3.5 per capita/day), with about 40% for food and 60% for non-food expenditure. According to this survey, no one is living in extreme poverty. However, just under 20% of the population lives below the general poverty line. Poverty is mainly a rural phenomenon, with some 80% of the country's poor residing in rural areas in small communities and villages, and only one fifth residing in urban areas. Unemployment is an important determinant of poverty.

21. About 60% of the poor live in households in which the family head has a primary education, and more than half the educationally poor work in the grey economy. Women comprise 46.3% of the

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<sup>2</sup> Male/female enrolment rates in 2001 are as follows: primary education 98%:99%, secondary education 67%:69% and higher education 18%:29%. Thus gender equality in education is already attained.

overall number of unemployed, but only 35% of overall employment – the lowest proportion of women in the labour force in south-eastern Europe. Women also suffer from discrimination in employment, receive lower wages than men for the same job and have fewer opportunities for promotion.

22. As an inevitable war consequence, the number of woman-headed households has increased to one household in four (25%). These households are exposed to a higher risk of poverty than man-headed ones. The poor availability of childcare facilities so common in the past is a major barrier to women's employment prospects. Because women have a higher life expectancy than men, older women are at higher risk for poverty than other groups. Women also suffer from disempowerment and the inability to express their opinion in their surroundings and to authorities. Generally, domestic laws are unfavourable to women and reflect traditional practices and customary norms whereby men are primary owners of land. Not only do women lack access to land, but also to relevant training, skills, finances and equipment, even while they assume responsibility for the survival of the family in a difficult socio-economic transition period. They also help men with agricultural work, but with no specific division of labour between the sexes. Rural poor women have particular difficulty in gaining access to decision-making institutions.

23. As was explained, extreme poverty and hunger do not exist in the country. The proportion of the population living in general poverty is just under 20%. The Government is reformulating the target for MDG 1 so as to reduce general poverty to the level of the EU average by 2015. The PRSP presents economic growth as the main determinant of income poverty and forecasts that real GDP growth will reach 5.5% by 2007. Such growth rates would enable Bosnia and Herzegovina to regain the pre-war level of GDP by 2010 and attain the MDG 1 target by 2015. The PRSP also sets a medium-term target of reducing general poverty by one fifth by 2007.

24. **Gender equality and the empowerment of women (MDG 3).** According to the 2002 *Human Development Report*, the Gender Development Index (0.707) for Bosnia and Herzegovina is slightly lower than the Human Development Index (0.718), indicating a degree of gender inequality. The country has made significant progress regarding gender equality. Gender-based discrimination is prohibited by the constitution. Gender equity and equality parliamentary commissions and gender centres in both entities have been established by the entity governments to formulate gender-sensitive policies and activities. There is also a strong NGO women's movement that helps organize women to fight for their rights. The country now ranks 10th in the world in terms of women in parliament (26% in the state assembly and 18 and 22% in the entity assemblies).

25. Since the end of the war, Bosnia and Herzegovina has become a country of transit and destination for women and girls from eastern and central Europe, trafficked for the purpose of sexual exploitation. The country, itself, is increasingly becoming a point of origin for women and girls trafficked internally and externally. United Nations data estimate that in previous years there were 3 000 women engaged in prostitution in the country, of which approximately 25-30% were thought to be victimized through coercion or deception; approximately 13% of the victims were under the age of 18. The Government is making significant efforts to comply with the minimum standards for the elimination of trafficking, and it adopted an Action Plan for Preventing Human Trafficking in October 2001.

26. The traditional indicator of gender equality in the educational system is already attained. The problem of gender inequality is reflected much more in the lack of access of women to economic resources and political decision-making and in a high level of violence against women. However, the country is considered well poised to achieve its gender targets.

27. **Environmental sustainability (MDG 7).** This goal refers to targets that include the integration of "the principles of sustainable development into country policies and programmes" and reversing



the “loss of environmental resources”; halving the part of the population “without sustainable access to safe drinking water”; and reducing the proportion of the population with non-hygienic conditions. Meeting the MDG target will require very substantial investment and effort.

28. **Global partnership for development (MDG 8).** This refers to the need to provide support to developing countries in their efforts to achieve the MDGs. Bosnia and Herzegovina has demonstrated good progress in creating environments conducive to the development of such partnerships.

#### **D. Constraints on and Opportunities for Rural Poverty Reduction**

29. According to the country’s PRSP, the major opportunity for poverty reduction lies in robust economic growth in all sectors, which can result in the creation of more job opportunities in urban and rural areas alike. Rural growth will be accelerated through the commercialization of production (primarily in dairy/meat and other commodities with the potential for value-adding enterprises), which will help raise farm incomes and create job opportunities in the farm sector, and will result in further job creation in farm support services, the commodity processing industry and associated rural small- and medium-sized enterprises (SMEs). The major constraints on agricultural development are summarized in the following paragraphs.

30. **Limited resource base and off-farm income.** Good agricultural land is scarce due to the mountainous topography. Farm holdings are small. Dairy farming is the main enterprise. The average number of dairy cows per farm is about two. Productivity levels are low, averaging for the high-yielding Simmental breed about 3 000 litres/lactation period (300 days) out of a potential 7 500 litres/lactation period for maximum profitability. Low productivity is caused in the main by constrained access to good quality fodder/feed supplements, poor barn construction, suboptimal management practices and poor extension and veterinary care. Marketable surplus, of milk in particular, is small, and the income from most small farms is meagre. Poor farmers have to generate a considerable share of their income from off-farm activities. Owing to the considerable constraints on the marketing of farm production, most farmers are subsistence oriented and are at present reluctant to invest in production/productivity increasing on-farm improvements.

31. **Market linkages.** Milk and meat are the major products of Bosnian agriculture. These are perishable products that require significant processing before they can be utilized by urban consumers. For small farmers to succeed in producing these commodities, they must have access to and compete as suppliers to the processing industry. But Bosnian farmers lack the organization that can effectively link them to the processors. They also face strong competition from well-organized and highly subsidized foreign producers with easy access to the Bosnian market. Marketing of milk is probably the number one problem faced by small farmers in the country. In addition, the poor infrastructure in rural areas impedes market-oriented growth.

32. **Rural financial services.** Constrained access to short- and medium-term finance is a serious constraint on the development of primary agricultural production and acquisition of the inputs, capital goods and technology needed for the transformation of agriculture in order to increase its competitiveness and provide farmers with improved margins and increased incomes. Commercial banks have traditionally shied away from what they consider high cost-high risk lending. Microcredit organizations, which are more adept at making the small loans smallholder agriculture requires, have mainly concentrated on urban SME lending, and only a small proportion of their portfolio (about 13%) is directed towards agriculture.

33. **Farmer institutions.** In an environment in which most of the primary agricultural output is generated on small farms, the survival and prosperity of small farmers is highly dependent on their being able to realize economies of scale in production, collection and distribution and to improve their bargaining power in the market and with the authorities. Unfortunately, farmer organizations and

associations are rare and, where they exist, are of the traditional, government-instigated type and are not conditioned to operate effectively in a market economy setting. There is a general mistrust of new forms of collective action, including producers' associations. Rural people and local and national leaders tend to be cautious and sometimes even sceptical regarding the potential benefits of group formation and collective action.

### **E. National Strategy for Rural Poverty Reduction**

34. In June 2001, the parliament approved the first countrywide economic strategy since the Dayton Peace Accord, entitled Economic Development Strategy: A Global Framework for Bosnia and Herzegovina. This document formed the basis for preparation of the *Medium-Term Development Strategy of Bosnia and Herzegovina for 2004-2007* (the PRSP). The preparation of the PRSP, led by the Coordination Board for Economic Development and EU Integration, started in 2002 and lasted a year and a half. The definition of the proposals and priorities of the strategy was the task of 20 sectoral working groups, and involved broad public consultation including NGOs and business associations. While the donor community was consulted, it took no direct part in the deliberations of the working groups, and the strategy is the product of domestic institutions and local expertise. There is, therefore, a strong national sense of ownership of the PRSP.

35. IFAD supported the PRSP process by providing a grant of USD 50 000 to the PRSP secretariat to fund work on finalization of the rural and agricultural aspects of the paper. The final PRSP was adopted in February 2004 by the Council of Ministers and the entity governments, supported by the Parliamentary Assembly and published in March 2004. A donor conference in September 2004 evaluated the PRSP as a "very good and realistic document for implementation", but expressed dissatisfaction with the ongoing system of international aid coordination.

36. The goals of the PRSP are to: (i) create the conditions for sustainable and balanced economic development through the implementation of macroeconomic reforms to establish a functioning market economy, improve domestic competitiveness and restore the country's creditworthiness; (ii) reduce poverty levels by 20% from present levels; and (iii) accelerate EU integration by demonstrating commitment to EU values, meeting the conditions for signing and implementing the Stabilisation and Association Agreement and eventually joining the EU.

37. To achieve these goals, the PRSP sets the following priorities: (i) achieve a general consensus in society regarding the programmes to be implemented; (ii) maintain macroeconomic stability; (iii) implement fiscal reforms; (iv) secure faster growth of the private sector by enhancing the business environment, accelerate privatization of state companies, maintain stability of financial markets, implement labour reform, liberalize foreign trade and reduce corruption; (v) implement public administration reform; (vi) establish an adequate system of social protection; (vii) implement sectoral reforms in education, power and communication and secure greater support for agriculture; and (viii) conclude the Stabilisation and Association Agreement with the EU and join the World Trade Organization.

38. The PRSP maintains that the success of economic reforms depends on macroeconomic stability and the stability of public finances. It expects economic growth to reduce unemployment and thus increase profits, wages and fiscal sustainability and reduce dependence on international aid. The authorities have launched significant reforms in the education and health sectors, adopted revised social protection policies and programmes and enacted significant labour-market reforms to help generate employment opportunities in the formal sector. In trying to create an attractive environment for private-sector investment, the Government has created a single border service; harmonized the tax and customs regimes; and created state institutions for the regulation of the communications and power transmission sectors.

39. The PRSP identifies agricultural-sector goals to: (i) activate natural and human potential and increase employment in rural areas; (ii) increase the competitiveness of domestic agriculture; (iii) reduce agricultural imports; and (iv) develop rural areas. These goals will be pursued while keeping in mind the need for balanced and environmentally sustainable development across all regions and recognizing the difficulties that will arise from the international integration processes.

40. Agricultural-sector priorities include: (i) strengthening the legal and institutional framework for phytosanitary and veterinary control and their harmonization with EU regulations; (ii) concentrating efforts in defined strategic production sectors, including milk, meat, grains and forages; (iii) rationalizing and strategizing the agricultural subsidy system; (iv) improving access to rural financial services; (v) ensuring an adequate foreign trade regime that would encourage domestic production; (vi) strengthening rural organizations (producer associations, cooperatives, etc.); (vii) improving scientific research and training for agriculture; and (viii) improving the system of land management.

41. The PRSP recognizes the strong organic relationship between livestock production and the natural resource endowment, and maintains that stronger development of the livestock sector would result in greater utilization of domestic natural resources and in increased local production of currently scarce products. It considers milk and associated meat production as the ‘engine’ of the overall agricultural development strategy. Dairy production is the main farming activity, providing the condition for employment on the largest number of farms. It has significant potential to increase farm incomes. It is where the country’s comparative advantage lies. It supplies a strategic food commodity, where imports currently cover over half of the country’s needs. It has potential not only for import substitution but also for export. The PRSP considers it ‘strategic’ and calls for providing it with better protection and stronger encouragement. IFAD’s own project experience in the country strongly supports the above assertions and clearly demonstrates that commercialization of smallholder livestock production offers the best opportunity to deal with the poverty of the majority of rural inhabitants with access to meagre resources, but with potential for sustained income and effective participation in a market-oriented economy (see section III).

42. To support and invigorate the dairy/meat industry, state and entity governments have adopted a number of policy measures that include: (i) a fixed price for milk delivered to processors (0.139 BAM/fat unit/litre, which averages 0.5 BAM/litre of milk); (ii) a system of milk price subsidies by both entity governments (0.14 BAM/litre) and some Canton governments in FBiH (0.6 BAM/litre) that is paid to producers selling milk to the processing industry in excess of 300 litres of milk per month, as well as an entity subsidy for breeding dairy heifers of 350 BAM/animal; (iii) privatization of veterinary services, which has been completed in RS and is partially implemented in FBiH. In the view of most farmers, privatization has resulted in a vastly improved service at an acceptable cost; (iv) a system of registration of dairy cattle implemented with support from the EU; and (v) a tariff of 16% on all imported milk products, introduced as a result of significant lobbying by producer associations and farmer groups. This last policy measure is already helping the dairy industry compete with imports, which are often ‘dumped’ on the Bosnian market by highly subsidized producers from surrounding countries. As a result, the share of local production in the local milk products market is increasing and the local processing industry’s capacity utilization is rising. All these policy initiatives are having a positive short-term impact on small farmer income and on the commercialization of smallholder production. The future sustainability of the subsidy and tariff policy measures is, however, debatable.

### III. LESSONS FROM IFAD’S EXPERIENCE IN THE COUNTRY

43. IFAD began operations in Bosnia and Herzegovina in 1996, after conclusion of the Dayton Peace Accord. To date, IFAD has supported three projects in the country. Two involved emergency farm reconstruction and have closed (Farm Reconstruction Project – Re-stocking Activities [408-BA]

and Small Farm Reconstruction and Development Project [449-BA]). The ongoing Livestock and Rural Finance Development Project (LRFDP – 562-BA) is seeking to establish a model for commercial smallholder livestock production. The lessons IFAD has drawn from its country experience are summarized in the following paragraphs.

44. **Market linkages.** It is clear that efforts to increase agricultural production and productivity are an essential but not sufficient ingredient in the fight against rural poverty. They can only be effective if there is an accessible market in which farmers can dispose of increased production at remunerative prices. Agricultural investments that concentrate only on increasing production, while neglecting development of market links, are likely to fail. Factors constraining market access result in low produce prices, consumption-oriented production systems and low household incomes. Such factors include: low productivity due to poor relevant skills, weak infrastructure, poor access to credit, weak intermediary-level rural trade networks and inadequate services and information on price and market potentials and requirements. The LRFDP and the Facility for Farmers' Access to Markets (FFAM)<sup>3</sup> are providing convincing evidence that improved market linkages can result in better prices for primary products and higher incomes for small farmers. Such improved linkages are brought about by bulking of produce through an efficient milk collection system, an improved feeder-road network for milk transport and an efficient dairy processing industry. The challenge is to promote market linkage solutions through private-sector initiatives while curtailing exploitation and safeguarding the interests of small farmers.

45. **Rural finance.** IFAD experience clearly indicates that credit is an inappropriate mechanism for financing subsistence agriculture given the country conditions and should be avoided. A loan package to a subsistence farmer for the acquisition of one or two cows will not generate adequate marketable surplus milk beyond the needs of the household. In these circumstances, sufficient farm cash flow to meet loan repayment obligations is greatly curtailed.

46. Due to the undeveloped state of the banking sector, the first two projects were based on the administrative bank model (in which banks were not involved in beneficiary appraisal and selection of borrowers, bore no risk and were not adequately remunerated). This model proved unsatisfactory in providing the correct environment for establishing credit discipline. It resulted in low levels of repayment (<35%), insufficient to sustain the credit programme. Subsequent interventions in credit delivery using the participating commercial bank model, under the subsidiary loan arrangement (in which the bank selects the borrower and bears the credit risk), performed far better. In the earlier operations, the perception by banks of the agricultural sector as a client base was not strong and the banks lacked appropriate procedures for agricultural loans. They often charged interest rates inadequate to cover their risks and costs. Through project support, they are now realizing the inherent importance of rural lending to their portfolio. Their loans have become more adapted to borrowers' requirements and ability to pay, and repayment rates now generally range from 85 to 90%.

47. Recently, experience with microcredit under various donor programmes has demonstrated clearly that loans with a commercial focus, managed by competent professional organizations, can be delivered to rural borrowers with low collateralization, while generating high repayment rates (>95%) and reaching the very poor. Microcredit loan products are generally well adapted to the cash flow of the investments and are thus less likely to overrun the ability of borrowers to repay their obligations. However, microfinance loans are typically short-term with relatively high interest rates, and many farmers question whether returns from agricultural investments can support such high rates of interest.

48. Experience also demonstrates that successful agricultural lending must cover the financing needs of the whole value-adding chain of enterprises that supports the development of a commodity. In addition, it is important to develop financial products that are more appropriate than long-term

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<sup>3</sup> See paragraph 66 for more information on the FFAM.

lending for investment in the plant and machinery (leasing, factoring) and for risk mitigation (insurance) in order to meet client needs without burdening them unduly. However, these are sophisticated products that require significant investment in product development and diversification and may require legal reforms.

49. **Agricultural support services.** The coordinated functioning of the national veterinary services, including laboratory support, has been a serious weak link in the development of the livestock industry. After the cessation of war hostilities, the country started a major programme of livestock importation to restock its war-decimated livestock herd. However, due the poor state of its veterinary services, problems arose in relation to the quality and health of the imported animals. The situation is improving, with steps being taken to promulgate a national veterinary law. The privatization of veterinary clinical services in RS has been completed and has resulted in improved service to small farmers. The privatization process in FBiH is still incomplete, with public veterinary centres at the municipality level being operated as a self-financing service, while the Government retains ownership of the facilities and equipment. Their legal status is thus ambiguous and needs to be clarified. FBiH expects to complete privatization in the near future. In addition, there is no national epidemiology unit and no active programme of surveillance for designated diseases. The capacity is weak for early detection of transboundary animal diseases and for preprogrammed contingency plans for prompt response. There is no clear-cut hierarchy and coordination of diagnostic laboratories. If not addressed, these issues could prejudice the pace of transformation from subsistence to small-scale commercial livestock farming and thus the realization of the economic benefits of IFAD-supported programmes.

#### IV. STRATEGIC FRAMEWORK FOR IFAD

##### A. IFAD's Strategic Niche and Proposed Thrusts

50. The collapse of the former socialist system and the war that followed have devastated rural areas physically and socio-economically, led to loss of employment and impoverishment, and driven rural people to urban areas for security and survival. With the advent of peace, rural people returned to the countryside and embraced subsistence farming to escape poverty. However, the dearth of economic opportunity in rural areas is hindering rural revival and, unless addressed, could well lead to reverse migration to the cities.

51. Over time, IFAD operations have evolved to meet the country's evolving needs. The first two interventions, the emergency Farm Reconstruction Project – Re-stocking Activities and the Small Farm Reconstruction and Development Project, recognized the need for emergency assistance in a country devastated by years of war. Both were short-duration projects focused on the rapid importation and distribution of livestock to poor, war-affected households in emergency packages of one cow or five sheep. These projects provided poor people with access to food and thus quickly reduced severe post-war rural poverty. By recapitalizing war-affected small farms, they jump-started household economies. The third intervention, the LRFDP, went beyond emergency relief and developed a replicable model of sustainable, small-scale commercial livestock production with demonstrable income-earning potential. With the emergency now a fading memory and with a proven, replicable model for commercial smallholder agriculture in hand, it is opportune that IFAD's country programme be built around a more forward-looking strategy, fit for an economy knocking at the doors of the EU.

52. The PRSP recognizes that strong economic growth leading to job creation is essential for poverty reduction. Since Bosnia and Herzegovina has relatively low agricultural potential, agriculture alone, while still important to rural livelihoods, cannot be the sole vehicle for rural revival. What is needed is a holistic strategy for rural rejuvenation. Attention has to be paid to the wider rural economy, because large numbers of rural people depend on activities other than farming for their

main source of livelihood. In addition, even with optimum management, the rather small individual and family farms are unlikely to generate sufficient income for many farmers to ensure living standards above the poverty line. Support to the wider rural economy – including small- and medium-scale agro-processors, agricultural service providers and other types of agriculture-related and unrelated rural businesses – facilitates the creation of non-farm employment locally and offers some of the best opportunities for stimulating growth and building the markets needed for poverty reduction. It will also reduce the need for short- and long-term migration to the cities and abroad.

53. This COSOP is intended as a medium-term strategic framework for IFAD support to income diversification and rural livelihoods in the dual context of economic transformation in post post-conflict situations and EU accession. In this context, IFAD will support, inter alia, the commercialization of smallholder production and various other types of commercially viable rural businesses and off-farm income-generating activities (including apiculture, fish farming and agro-tourism) as the most credible ‘driver’ of a strategy for rural rejuvenation. Commercially oriented smallholder agriculture will enable interested farmers to increase farming efficiency and profitability and consequently increase farm incomes. It will stimulate investment in smallholder farming as well as in forward and backward linkages, and will increase the number of on- and off-farm jobs in rural areas, thus providing an alternative to farming as a source of income. To add value to the achievement of priorities as set forth in the PRSP, IFAD will pay special attention to the issue of targeting the rural poor from both subsector and socio-geographic perspectives, while influencing the adoption of pro-poor policies and building complementary partnerships.

54. The supply-chain approach provides the best opportunity for developing enhanced commercial linkages between small-scale producers and private markets. It is a holistic perspective that can be tackled successfully only through a programmatic approach that caters to the multiple needs of commercial agriculture – primary production as well as related aspects of the rural economy. This approach may require: (i) investments in improved production and productivity (as well as in infrastructure); (ii) a suitable policy and institutional framework that allows for well-performing production support services, an adequate financial system, technology and information, remunerative market arrangements and linkages, access to business training and skill transfer, and enforceable contractual arrangements; (iii) complementary partnerships with other development partners to address the multiple needs of actors involved in the different parts of the marketing chain; and (iv) a learning environment in which experiences are fed back into operations and drawn on for replication and scaling up.

55. Given the importance of the livestock sector to the livelihoods of rural people, commercialization of smallholder farming will initially focus on dairy/meat and feed/fodder production, but will expand to include other commodities amenable to supply-chain management, such as livestock feed and horticulture. Dairy farming is the primary activity of rural inhabitants, is the identified strategic priority in the PRSP and has significant potential to stimulate value-adding backward and forward linkages that can significantly vitalize the country’s economy. To mitigate the risks to dairy/meat farming associated with the economic and trade openness that EU accession involves, other commodities and rural businesses for income diversification will also be encouraged.

56. Milk and horticultural products are commodities that are very suited to vertical integration through the supply-chain approach, because they require processing and value-adding before they can be used by consumers. In the case of milk, a large number of small producers deliver milk to a processing plant, which adds value to the raw material and supplies the market. The processing plant provides an assured market for the producer. The processors want a reliable and timely supply of quality milk. Thus the successes of processor and farmer become interlinked. The supply chain also links producers and processors to a number of other operators, firms and individuals, providing services essential to the success and efficiency of the operations both of producers – input suppliers,

animal breeders and traders, veterinary service providers, finance providers, etc. – and of processors – equipment and material suppliers, transporters, retailers of dairy products and finance providers, etc.

57. The successful attainment of IFAD strategic objectives in Bosnia and Herzegovina will involve:
- (a) building effective partnerships with all actors and donors supporting development of the rural economy in order to harmonize operations, maximize synergy and complementarity, and avoid duplication and waste. Partnership is especially important to this strategy in terms of the supply-chain approach, because it provides opportunities for improving supply-chain management. Partnership will also allow IFAD to concentrate its support on its traditional target groups, usually located on the lower part of the supply chain, while other partners may be more amenable to supporting actors located on the higher levels of the chain;
  - (b) influencing government policy in terms of reforming the business environment and facilitating the emergence of effective participatory institutions for advocacy as well as for productive functions (farmers' associations, credit unions, etc.); and
  - (c) ensuring that gender concerns are mainstreamed into all activities supported under its programmes, so that both men and women have equal opportunity to benefit from programme interventions.

### **B. Main Opportunities for Innovations and Project Interventions**

58. To achieve visibility and durable impact, while building on its recognized successful country experiences, IFAD will focus its activities initially on the dairy/meat subsector. The relevant thrusts for future operations under this COSOP will be capacity-building for increased production and productivity, improved marketing arrangements, backward and forward linkages through SME and marketing development support, and gender responsiveness and participation.

59. The main innovation in these initiatives will be adoption of the supply-chain approach to develop dairy/meat, feed and horticultural production. This requires proof of support to operators along the whole of the value-adding supply chain, from producers to consumers, and necessitates the inclusion in the target population of the relatively advanced owners of rural SMEs, engaged in the provision of production support services, inputs, collection and intermediation, processing and trade. The inclusion of these non-traditional target groups is essential in order to enhance employment opportunities and develop the input supply and output markets that are so much needed for long-term growth and poverty reduction.

60. Within IFAD's support for marketing-chain development, there are significant opportunities for delivery of financial services, particularly credit with significant potential linkages to several donor operations, including those of the United States Agency for International Development (USAID), the EU, the German Agency for Technical Cooperation (GTZ) and the World Bank.

61. IFAD has gained significant positive experience from its Bosnian operations. In supply-chain development, the LRFDP and FFAM have been very successful in pioneering the creation of poverty-reducing market linkages on a modest scale. This is especially the case with producer associations in their involvement in milk collection and their collaboration with the private-sector milk processing industry. It would be opportune to scale up some of these successful experiences over a much larger area in the next operation within the framework of this COSOP.

### C. Outreach and Partnership Possibilities with NGOs and the Private Sector

62. In the context of the LRFDP, IFAD has contracted a number of NGOs, both local (Institute for Economics and Foundation for Sustainable Development) and international (Lutheran World Federation, World Vision International and International Orthodox Christian Charities). They provide support to the country programme in participatory needs assessment and planning processes, capacity-building of community groups and producers' associations, and support to SME development. In the majority of instances, the NGO contractual performance was unsatisfactory and was characterized by slow progress and disputes in respect of contract payments. Such payments were often based on inputs and outputs rather than outcome. There is a need to streamline NGO collaboration frameworks in programme operations and to adopt NGO recruitment procedures that emphasize financial contribution less and managerial and technical capacity and experience more. The NGO contract format should focus more on deliverables in terms of results, impact and achievement of objectives.

63. The adoption of supply-chain and vertically integrated commodity approaches in the IFAD country programme provides significant opportunities for IFAD to engage the private sector in its operations – this sector being the main operator at the higher parts of the milk/meat commodity supply chain. Within the framework of the ongoing LRFDP, engagement with the private sector has had some significant results. Participating commercial banks, borrowers and dairy processors have entered into tripartite agreements whereby the commercial banks agree to lend to farmers for the purchase of milk cows; the borrowers agree to sell the milk from these cows to the dairy processors; and the processors agree to pay for the milk only into the seller's account with the commercial bank. This has reduced the banks' risk and enhanced both their profitability and appetite for sustained engagement in rural areas. Some dairy processors are also providing support to producer associations in managing their milk collection operation. Further opportunities for engaging the private sector that will be explored in the future include a more strategic use of contract farming, supplier credit and provision of technical support and advice through the intermediation of the processing industry.

### D. Opportunities for Linkages with Other Donors and Institutions

64. **Partnership.** After the signing of the Dayton-Paris Agreement, the international donor community endorsed a USD 5.1 billion Priority Reconstruction Program for the period 1996-2000. With the near completion of reconstruction, donor support is being scaled down. Donor involvement in the PRSP process has been significant, but operational collaboration has been patchy and suboptimal. The United Nations (UN) system, primarily agencies with field presence in the country, is cooperating in terms of the production of the common country assessment. IFAD is becoming increasingly engaged in the exchange of information with other UN agencies through the office of the UN Resident Coordinator and is in the process of joining other agencies of the UN system in providing grant support to the Srebrenica Recovery Programme.

65. Donors and development partners are increasingly aligning their assistance with the PRSP. EU assistance has a strong focus on capacity-building in the public sector, seeking to harmonize legislation, public finance and other practices with the EU. The World Bank's new country assistance strategy for 2005-2007 is focusing on improving public finance and strengthening institutions, promoting private-sector growth and improving key social and economic infrastructure. Donors still involved in agriculture and related SME development include the International Bank for Reconstruction and Development (IBRD) (SME finance), Italy (lines of credit), USAID (private-sector development, capacity-building and finance), Sweden (finance/banking, microcredit), Germany (finance/banking, SME development, microcredit), the United Kingdom of Great Britain and Northern Ireland (private-sector development and finance/banking), Switzerland (banking, SME development, microcredit) and Norway (private-sector development, agriculture, microcredit). The bulk of the SME development and microcredit initiatives of donors are directed to urban areas and urban clients.



66. Cofinancing continues to be the major vehicle used by IFAD in its collaboration with other donors. Country operations were cofinanced with the International Development Association (IDA) and the Organization of the Petroleum Exporting Countries Fund for International Development (OPEC Fund). Italy is providing grant funding of EUR 3 million in support of the Establishment of a Facility for Farmers' Access to Markets in the Balkan Area (FFAM). FFAM's strategic objective is to link primary producers to markets and thus contribute to rural poverty reduction. FFAM resources in the country are complementing LRFDP investments to enhance market linkages in the dairy sector by providing producer associations with technical and investment support in milk production, milk collection and institutional capacity-building. They are also assisting the dairy industry through technical support in product development, dairy management and establishment of cooperation arrangements with Italian processors.

67. German supplementary funds are also being used within the Gender Mainstreaming Programme in CEN to provide technical assistance in addressing gender inequality and increasing women's participation in country programme activities. The gender inequality issue is starting to be addressed and a significant increase in the number of women programme beneficiaries is being realized. Grant funds are now being used to support women dairy producer associations and this is helping women become effective economic agents within their communities. Increased gender mainstreaming and channeling of project benefits to women will prove invaluable in mitigating the risk that women participants will be recruited and trafficked in the vice trade. The complementarity between IFAD operations and those of other donors is also being increased, as evidenced by the support received by some producer associations formed under the LRFDP from the USAID-financed Linking Agricultural Markets to Producers (LAMP) and from Canada.

68. Recently, donor focus has shifted away from agriculture and particularly away from support to primary agricultural production. IFAD, with its focus on rural poverty, is now one of the major players in the sector. Given this, cofinancing possibilities may become restricted. The OPEC Fund remains a willing strategic partner in the country. With the increasing focus on market linkages in this proposed country strategy, further collaboration with Italy (FFAM) and other donors, especially those involved in SME development and marketing initiatives (including USAID, the German Credit Institution for Reconstruction – KfW and the EU), will be actively sought, either through cofinancing or through achieving complementarity and synergy of our separate operations. In addition, IFAD will seek more collaboration with like-minded donors in the area of policy dialogue (including UN agencies, the World Bank, the EU and bilateral donors). These efforts will be aimed at the adoption of pro-poor policies that would create a more conducive environment for achievement of the Millennium Development Goals. This engagement will take the form of information exchange and periodic donor discussion groups.

69. **In-country coordination.** In view of the different financing modalities, specificities and mandates of different donors, it is essential that the Government take the lead in ensuring donor coordination. In an environment of decreasing donor resources, the PRSP constitutes a coherent accountability framework for both the Government and donors and provides an excellent opportunity to harmonize donor operations and ensure increased synergy/complementarity and the avoidance of duplication and waste in donor operations. A new institution has been created, the Unit for Economic Planning and Implementation of the Medium-Term Development Strategy of Bosnia and Herzegovina, to follow up on the implementation and updating of the PRSP, the Public Investment Programme (PIP) and the Mid-Term Expenditure Framework (MTEF). This unit could act as the overall coordinator of donor operations. In any event, IFAD commits itself to participating actively in whatever forum for donor harmonization is agreed upon.

### **E. Areas for Policy Dialogue**

70. Bosnia and Herzegovina is currently heavily engaged with the EU in putting into place the institutional and policy reforms that will bring it closer to European standards and facilitate its ultimate goal of becoming an EU member. In view of this, the IFAD policy dialogue agenda will derive from project experience, including data based on the Results and Impact Management System (RIMS). It will be largely determined by the need to achieve sustained improvement in the sectoral policy framework, in which the country scores below 4 under IFAD's performance-based allocation system (PBAS), and to strengthen those policy and institutional aspects related to major IFAD thrusts in the country. It will also be determined by the need to strengthen the capacity of IFAD target groups in the context of decentralization. Thus IFAD's policy dialogue agenda includes: (i) policy and legal frameworks for rural organizations, including appropriate legislative and administrative measures conducive to the creation of farmer and producer organizations and savings and credit associations (SCAs); (ii) dialogue between the Government and grass-roots organizations; and (iii) access to agricultural research and extension services, in particular the imperative of improving the framework for the provision of veterinary services, possibly through completion of their privatization.

71. In most rural areas, access to financial services is highly constrained. Donor support to microfinance has been strong, albeit with the majority of resources (87%) going into urban lending and urban-based SMEs. As a result, a number of microcredit organizations operate in the country, but these are limited to providing loans and are not permitted to mobilize savings. Many of these microcredit organizations perform well, providing small, short-term loans at high rates of interest sufficient to cover their relatively high costs. However, they are financially unsustainable without the continued infusion of low-cost donor funds. The creation of an enabling institutional and legal framework under which member-based rural finance institutions can prosper and become self-reliant is a major policy dialogue agenda item for IFAD in the context of the ongoing LRFDP. With the agreement of IDA, IFAD is leading the policy dialogue with the Government, which aims to put a legal framework in place that would allow the establishment and functioning of SCAs. Working groups were established to prepare a draft law; they are being supported by a specialized consulting firm funded by IFAD with Italian supplementary funding. It is expected that the draft law will be ready for presentation to legislative bodies early in 2006.

72. Another policy dialogue agenda item relates to improving veterinary services. The success of IFAD initiatives in supply-chain development in the livestock subsector requires a coherent and cohesive national veterinary authority with a clear legal framework, a defined chain of veterinary command and division of responsibility between the state and the entities. Such a framework should also include a defined role for the private sector in the provision of veterinary care and extension support throughout the country. The country grant window can be a useful instrument to support government efforts in this field.

### **F. Action Areas for Improving Portfolio Management**

73. IFAD initiatives have resulted in the creation of significant project implementation capacity in the country, which would provide positive support to future rural-sector development efforts. Project management units have acquired staff of high calibre, who have grown in the job and received strong support from state and entity governments, and the performance of their projects has been very good. IFAD is also introducing RIMS and supporting participatory monitoring and evaluation, thus strengthening the capacity of implementing agencies to diagnose results during implementation and to use well-defined, results-based management to steer project work plans in response to observed outcomes, lessons learned and changing circumstances. Two workshops, one to revise the logical framework of the LRFDP and define the RIMS indicators, and the other to work out a monitoring and evaluation plan for the project, were organized in the country in 2004 with IFAD support. Building the capacity for analytical assessments and adaptive learning is essential in the context of trade

liberalization and integration into the European Union. Measurement of relative household wealth (through the RIMS indicator for household asset ownership) links impact on targeted households with project outputs and with sectoral and macroeconomic conditions, thus providing evidence of the effects of policies and services on rural poverty reduction. The application of RIMS is therefore expected to be an important tool for informing decision-makers in the face of emerging challenges in rural development, and for ensuring effectiveness of development programmes and policies.

74. Over the past decade, IFAD operations in CEN have pioneered a number of successful innovations in land titling and registration, village-based rural finance systems, participatory irrigation management, market linkages and off-farm income generation. IFAD recognizes the beneficial effect on project implementation of sharing acquired knowledge and experience among managers and technical experts in these countries. Exchange visits with IFAD projects in the former Yugoslav Republic of Macedonia and the Republic of Moldova are being organized in order to expose project staff to successful rural finance experiences in these countries.

75. IFAD, with support from Germany, is also implementing a grant for gender mainstreaming in Eastern Europe and the Newly Independent States, including Bosnia Herzegovina. Under this grant, the ongoing LRFDP is receiving funds for complementary activities that strengthen equal access by women and men participants to development opportunities, services and resources. There is already evidence that this initiative is proving effective in improving women's access to project services and benefits.

### **G. Tentative Lending Framework and Rolling Programme of Work**

76. IFAD has been strongly associated with rural poverty reduction in Bosnia and Herzegovina since 1996 and has established a recognized niche through its support of smallholder livestock production, the mainstay of the rural economy. IFAD is now among the primary supporters of rural poverty reduction initiatives in the country. With close supervision and substantial levels of technical support made available through the FFAM initiative of Italy, progress continues to be made in building the capacity and effectiveness of participatory institutions and the market linkages with the processing industry. In this way, small-scale producers are empowered to position themselves for better exploitation of market opportunities that increase their income and provide gainful employment. There are now ample opportunities for consolidating commercial farming and strengthening market linkages and giving the private sector a heightened role in poverty reduction.

77. The country's overall PBAS rating of 4.66 puts it at the top of the countries in the Near East and North Africa Division. It now qualifies for a **base lending** scenario of 5.2 million every three years. A **low case** scenario, which could be triggered by the worsening of the policy and institutional framework, would push the PBAS projection to the minimum USD 1.0 million per year, for a USD 3.0 million loan every three years, but such a scenario is highly unlikely given the country's strong past and present performance and its unshakeable commitment and desire to meet EU accession requirements. What is indeed likely is that further improvements in the policy and institutional framework, especially those related to the policy and legal framework for and dialogue with rural organizations, could result in a **higher case** scenario, which may entail a level of lending of up to USD 7-8 million over the next three years. The triggers for such a high case scenario would be passage of the SCA law and an improved ranking in the Human Development Report gender index. In processing new initiatives under the country programme, further opportunities to mobilize donor resources through cofinancing will be explored, especially from the OPEC Fund and other international financial institutions involved in the agricultural sector. Given the relatively limited resource envelope available to the country under the current PBAS framework, IFAD will focus on working with the Government to improve the policy and institutional framework that would facilitate programme implementation and identify and leverage IFAD resources through partnerships.

78. The supply-chain approach advocated in this strategy requires significant support to local participatory institutions (farmers' associations, SCAs, women's groups) in capacity-building and capitalization that is more amenable to grant funding. Both the IFAD country grant window and supplementary funds will be explored, especially further Italian funding in continuation of the FFAM initiative. Loan and grant funds would be used simultaneously and identified in the financing package for each operation during the investment design process.

79. Country grant and supplementary funds will also be used to support the policy dialogue agenda and partnership-building, especially the continued provision of technical assistance in legal and technical matters related to the drafting and adoption of the SCA law and support to the improvement of veterinary services.



APPENDIX I

COUNTRY DATA

BOSNIA AND HERZEGOVINA

|  |                        |   |          |
|--|------------------------|---|----------|
| <b>Land area (km<sup>2</sup> thousand) 2002 1/</b>                       | 51                     | <b>GNI per capita (USD) 2002 1/</b>                             | 1 310    |
| <b>Total population (million) 2002 1/</b>                                | 4.11                   | <b>GDP per capita growth (annual %) 2002 1/</b>                 | 2.5      |
| <b>Population density (people per km<sup>2</sup>) 2002 1/</b>            | 81                     | <b>Inflation, consumer prices (annual %) 2002 1/</b>            | n/a      |
| <b>Local currency</b>  | Convertible Mark (BAM) | <b>Exchange rate: USD 1.00 = :</b>                              | BAM 1.51 |
| <b>Social Indicators</b>   |                        | <b>Economic Indicators</b>                                      |          |
| Population (average annual population growth rate) 1996-2002 1/          | 2.5                    | GDP (USD million) 2002 1/                                       | 5 599    |
| Crude birth rate (per thousand people) 2002 1/                           | 12                     | Average annual rate of growth of GDP 1/ 1982-1992               | n/a      |
| Crude death rate (per thousand people) 2002 1/                           | 8                      | 1992-2002   | 20.6     |
| Infant mortality rate (per thousand live births) 2002 1/                 | 15                     | Sectoral distribution of GDP 2002 1/                            |          |
| Life expectancy at birth (years) 2002 1/                                 | 74                     | % agriculture   | 18       |
| Number of rural poor (million) (approximate) 1/                          | n/a                    | % industry  | 37       |
| Poor as % of total rural population 1/                                   | n/a                    | % manufacturing   | 23       |
| Total labour force (million) 2002 1/                                     | 1.93                   | % services  | 45       |
| Female labour force as % of total 2002 1/                                | 38                     | Consumption 2002 1/   |          |
| <b>Education</b>   |                        | General government final consumption expenditure (as % of GDP)  | n/a      |
| School enrolment, primary (% gross) 2002 1/                              | n/a                    | Household final consumption expenditure, etc. (as % of GDP)     | n/a      |
| Adult illiteracy rate (% age 15 and above) 2002 1/                       | 5 a/                   | Gross domestic savings (as % of GDP)                            | -13      |
| <b>Nutrition</b>   |                        | <b>Balance of Payments (USD million)</b>                        |          |
| Daily calorie supply per capita  | n.a.                   | Merchandise exports 2002 1/                                     | 950      |
| Malnutrition prevalence, height for age (% of children under 5) 2002 3/  | 10 a/                  | Merchandise imports 2002 1/                                     | 3 425    |
| Malnutrition prevalence, weight for age (% of children under 5) 2002 3/  | 4 a/                   | Balance of merchandise trade                                    | -2 475   |
| <b>Health</b>  |                        | Current account balances (USD million)                          |          |
| Health expenditure, total (as % of GDP) 2002 1/                          | 8 a/                   | before official transfers 2002 1/                               | -3 107   |
| Physicians (per thousand people) 2002 1/                                 | 1 a/                   | after official transfers 2002 1/                                | -2 139   |
| Population using improved water sources (%) 2002 3/                      | n/a                    | Foreign direct investment, net 2002 1/                          | 293      |
| Population with access to essential drugs (%) 1999 3/                    | 80-94                  | <b>Government Finance</b>                                       |          |
| Population using adequate sanitation facilities (%) 2002 3/              | n/a                    | Overall budget balance (including grants) (as % of GDP) 2002 1/ | n/a      |
| <b>Agriculture and Food</b>  |                        | Total expenditure (% of GDP) 2002 1/                            | n/a      |
| Food imports (% of merchandise imports) 2002 1/                          | n/a                    | Total external debt (USD million) 2002 1/                       | 2 515    |
| Fertilizer consumption (hundreds of grams per ha of arable land) 2002 1/ | 473 a/                 | Present value of debt (as % of GNI) 2002 1/                     | 30       |
| Food production index (1989-91=100) 2002 1/                              | n/a                    | Total debt service (% of exports of goods and services) 2002 1/ | 7        |
| Cereal yield (kg per ha) 2002 1/   | 3 277                  | Lending interest rate (%) 2002 1/                               | 13       |
| <b>Land Use</b>  |                        | Deposit interest rate (%) 2002 1/                               | 5        |
| Arable land as % of land area 2002 1/                                    | 14 a/                  |   |          |
| Forest area as % of total land area 2002 1/                              | 45 a/                  |   |          |
| Irrigated land as % of cropland 2002 1/                                  | 0.4 a/                 |   |          |

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Indicators* database CD ROM 2004

2/ UNDP, *Human Development Report*, 2000

3/ UNDP, *Human Development Report*, 2004

## LOGICAL FRAMEWORK

| Narrative Summary   | Key Performance Indicators   | Means of Verification   | Critical Assumptions  |
|---|--|---|---|
| <p><b>Programme Goals:</b></p> <ul style="list-style-type: none"> <li>• Assist government with efforts to achieve the MDGs, specifically in terms of MDG 1 (Eradicate extreme poverty and hunger), MDG 3 (Promote gender equality and the empowerment of women) and MDG 7 (Ensure environmental sustainability) through a country programme for enhancement and diversification of rural livelihoods among 10-20% of rural poor households in a gender sensitive and environmentally sound manner.</li> </ul> | <ul style="list-style-type: none"> <li>• Reduction of general poverty headcount to EU average by 2015</li> <li>• Increase in rural household asset ownership</li> <li>• Percentage of reduction in prevalence of child malnutrition (weight for age)</li> <li>• Incremental job creation</li> <li>• Increased participation of women in labour force, in executive positions and in politics and decision-making and a reduction of domestic violence against women</li> <li>• Reduction in proportion of households without access to potable water and in non-hygienic conditions</li> </ul> | <ul style="list-style-type: none"> <li>• Government and donor poverty statistics and survey results</li> <li>• Annual ongoing evaluation of panel of participants</li> <li>• Completion evaluations</li> <li>• Programme completion report</li> </ul> | <ul style="list-style-type: none"> <li>• Political stability maintained</li> <li>• Macroeconomic conditions improve</li> <li>• Government commitment to reform and support to market economy continues</li> </ul> |
| <p><b>Purpose:</b><br/>In support of PRSP objectives of: (i) developing rural areas, (ii) enhancing private-sector growth, (iii) increasing competitiveness of agriculture, and (iv) improving food self-sufficiency, to initiate a country programme focusing on the development of private-sector, smallholder, market-oriented agriculture (livestock, feed fodder &amp; horticulture) and rural SMEs for value adding, income diversification and job creation.</p>                                       | <ul style="list-style-type: none"> <li>• Percentage of production sold to processors</li> <li>• Number of farm enterprises providing products to processors</li> <li>• Change in bank and non-bank institutions' financing for smallholder agriculture</li> <li>• Change in bank and non-bank institutions' financing for SMEs</li> </ul>  | <ul style="list-style-type: none"> <li>• Baseline and impact evaluation surveys</li> <li>• National statistics</li> <li>• Project reports</li> <li>• Processing enterprises records</li> </ul>  | <ul style="list-style-type: none"> <li>• Conducive business environment to attract private-sector investment</li> <li>• Fair trade regime curtailing dumping of products from other countries</li> </ul>          |

**LOGICAL FRAMEWORK (CONTINUED)**

| Narrative Summary   | Key Performance Indicators  | Means of Verification  | Critical Assumptions  |
|---|---|--|---|
| <p><b>Outputs:</b></p> <ul style="list-style-type: none"> <li>• Consolidate the satisfactory implementation of ongoing country programme (LRFDP, FFAM, gender mainstreaming grants (2), SRP grant and policy dialogue agenda)</li> <li>• commercialization of smallholder production using supply-chain approach through new programme of USD 6-8 million</li> <li>• strengthen market linkages in milk/meat industry and other commodities suited to value adding using grant resources (FFAM/other grant funds)</li> <li>• Active and reform-oriented policy dialogue focusing on establishment of appropriate legal framework that facilitates good functioning of savings and credit associations and farmer organizations</li> </ul> | <ul style="list-style-type: none"> <li>• Efficient, productive and remunerative, market-oriented smallholder agricultural production</li> <li>• SMEs and marketing infrastructure established as basis of revival of rural economy.</li> <li>• Community institutions (producers' associations, SCAs and microproject committees) established, operational and meeting needs of rural communities, both men and women, for planning, implementing and managing own development.</li> <li>• Access by small farmers and SMEs to finance from sustainable rural finance agencies with wide outreach providing services in gender-sensitive way</li> </ul> | <ul style="list-style-type: none"> <li>• IFAD records</li> <li>• PCU/MIS</li> <li>• Processing industry records</li> <li>• Annual impact evaluation of panel of project clientele</li> <li>• PRAs and participatory monitoring and evaluations</li> <li>• Ongoing impact evaluation by panel of project clientele</li> <li>• Records of rural finance providers</li> </ul> | <ul style="list-style-type: none"> <li>• Adequate institutional and technical support with orientation to market economy and needs of smallholder farmers and entrepreneurs is forthcoming</li> <li>• Competent support services are available to farmers and SMEs</li> <li>• Appropriate legal framework for participatory rural institutions</li> </ul> |



### STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS

| Institution   | Strengths  | Weaknesses  | Opportunities/Threats   | Remarks  |
|---|--|---|---|--|
| FBiH Ministry of Agriculture, Water Management and Forestry in Sarajevo<br>RS Ministry of Agriculture, Forestry and Water Management in Bijeljina | <ul style="list-style-type: none"> <li>• Since 1996, formerly part of Ministry of Food and Environment, significant public capacity created where very little existed</li> </ul> | <ul style="list-style-type: none"> <li>• Changing circumstances require changing mission consistent with operation of market-oriented economy and increased role of private-sector institutions</li> <li>• Limited operating budget</li> <li>• Limited management capacity</li> </ul>   | <ul style="list-style-type: none"> <li>• With EC support, entity governments initiated restructuring of MoAs to strengthen capacity in main areas of responsibility: policy analysis, monitoring and enforcement of plant and animal health regulations, market information and stewardship of natural resources; transfer responsibility for veterinary services, and plant and animal breeding to private sector; train personnel and enhance capacity to fulfil new responsibilities; reallocate resources to reflect new roles</li> </ul> | <ul style="list-style-type: none"> <li>• Restructuring of Ministries of Agricultural with support from EU project EC/BiH/00/032</li> </ul>                           |
| Agricultural Research and Extension   | <ul style="list-style-type: none"> <li>• Qualified pool of research staff</li> </ul>   | <ul style="list-style-type: none"> <li>• Focus of pre-war extension service and research on state farms and lack of extension messages for small farmers</li> <li>• Focus on maximization of production rather than profits</li> <li>• Current lack of extension services</li> <li>• Lack of public resources for extension and research</li> <li>• Limited ability of farmers to pay for extension services</li> </ul> | <ul style="list-style-type: none"> <li>• With EC support, entity governments are re-establishing extension service</li> <li>• New strategy focuses on economic potential and constraints</li> <li>• Increase interaction with farmers and emphasize adaptive research and demonstration on farmer fields</li> <li>• Enhance institutional and human resource capacity and facilitate closer integration with European Union</li> </ul>  | <ul style="list-style-type: none"> <li>• With EC support, network of extension service centres for private farmers created in 2001 throughout the country</li> </ul> |

**STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS (CONTINUED)**

| <b>Institution</b> | <b>Strengths</b>   | <b>Weaknesses</b>   | <b>Opportunities/Threats</b>  | <b>Remarks</b>   |
|--------------------|--|---|---|--|
| Veterinary Service | <ul style="list-style-type: none"> <li>• Qualified pool of veterinarians supported by four regional institutes and laboratories</li> </ul> | <ul style="list-style-type: none"> <li>• Duties and responsibilities not consistent with operation of market-oriented economy and increased role of private-sector institutions</li> <li>• In FBiH, monopoly of government services on AI and animal semen still prevails</li> <li>• Limited private veterinary practice involvement</li> </ul> | <ul style="list-style-type: none"> <li>• Need to limit direct government involvement to: licensing of veterinarians and veterinary technicians, specification of minimum hygiene standards for enterprises processing animal products, minimum health and quality standards for domestic and imported animal products and conditions for import and export of live animals and animal semen, monitoring and enforcement of these regulations on national borders; and management of veterinary institutes</li> <li>• Support privatization of veterinary system and establish professional association to guide provision of veterinary services</li> <li>• Train technicians to perform AI and license trainees to perform these services on commercial basis</li> <li>• Remove monopoly control that veterinarians have over acquisition and sale of animal semen and provision of artificial insemination</li> </ul> | <ul style="list-style-type: none"> <li>• Very recently, State Veterinary Office covering both entities has been created and attempts are under way for establishment of State Phytosanitary Office. Exports to EU and other activities require existence of one institution to assume all relevant responsibility</li> </ul> |

**STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS (SWOT) ANALYSIS (CONTINUED)**

| <b>Institution</b>        | <b>Strengths</b>  | <b>Weaknesses</b>  | <b>Opportunities/Threats</b>   | <b>Remarks</b>   |
|---------------------------|---|--|--|--|
| Agricultural cooperatives | <ul style="list-style-type: none"> <li>• Good branch network</li> <li>• Experience with small farmers</li> </ul>  | <ul style="list-style-type: none"> <li>• Lost public confidence. Services offered not consistent with operation of market-oriented economy and increased role of private-sector institutions</li> <li>• Collapse of state and cooperative marketing institutions</li> <li>• Overstaffed</li> </ul> | <ul style="list-style-type: none"> <li>• Re-establish and restructure agricultural cooperatives and, where appropriate, support their development into private agri-business enterprises</li> <li>• Promote establishment of modern cooperative producer associations as vehicle for linking producers to marketing outlets and increasing marketed surplus</li> </ul>   | Restructuring process in progress. New entity cooperative laws passed in 2003                  |
| NGOs                      | <ul style="list-style-type: none"> <li>• Strong NGO network</li> <li>• Solid previous history</li> <li>• Hands-on experience</li> <li>• Good social solidarity</li> </ul> | <ul style="list-style-type: none"> <li>• Weak resource base</li> <li>• Very few NGOs have achieved financial sustainability</li> </ul>   | <ul style="list-style-type: none"> <li>• Develop partnerships for mobilizing and empowering rural communities and women in particular</li> <li>• Provide sustainable link between private sector and rural poor in terms of inputs and marketing opportunities for agricultural and agriculturally related output; facilitate use of modern technologies to supply technical support and extension, with view to optimizing costs</li> </ul> | NGO services being used extensively by ongoing Livestock and Rural Finance Development Project |
| Private sector            | <ul style="list-style-type: none"> <li>• Good affinity</li> </ul>   | <ul style="list-style-type: none"> <li>• Weak legal framework</li> <li>• Competition and constraints from public monopolies</li> <li>• Non-conducive public and government culture</li> </ul>  | <ul style="list-style-type: none"> <li>• Declared donor and government policies in support of privatization</li> <li>• Encouraging institutional and legal framework developments</li> <li>• Multilateral and bilateral assistance in support of private-sector development</li> </ul>   |  |

### IFAD'S CORPORATE THRUSTS AS RELATED TO THE PROPOSED COUNTRY PROGRAMME

1. The thrusts of this COSOP are in line with IFAD's strategic framework objectives of enhancing the capacity of the rural poor and their organizations, improving equitable access of the poor to productive natural resources and technology, and improving access of the poor to financial services and markets. They are also in line with IFAD regional strategy for Central and Eastern Europe and the Newly Independent States (CEN) as it calls for supporting activities that are firmly associated with the five main thrusts of the regional strategy, namely institutional development to empower the rural poor, enhancing farm productivity, increasing opportunities for income diversification, enhancing market linkages and improving natural resource management.
2. The COSOP targets farming systems supporting large numbers of rural poor and gives an important role to women in the development process. It encourages the formation of community and user organizations such as cooperatives/producer associations, women's organizations, SCAs, and the building of their capacity as a means of enhancing ownership of resources – particularly land, project, social and infrastructure investments – and seeking to empower the new farmers through training and extension. It recognizes that the development of rural financial services is a fundamental precondition of sustainable economic growth and advocates support to the development of self-sufficient and sustainable community-based rural financial institutions. It also devotes attention to the creation of the linkages and financial services essential to fostering the development of new relationships between the private sector and small-scale producers.
3. The focus will be on assisting presently vulnerable rural inhabitants, including small farmers (both men and women) and the landless, to become viable commercial producers within the context of commodity supply-chain development. This approach would also require providing support to the small- and medium-sized processing industry and other rural entrepreneurs located on other parts of the commodity marketing chain, which would lead to the revitalization of the overall rural economy. This strategic focus is in line with national policies that see the development of rural areas and the commercialization of agriculture and its enhanced competitiveness as crucial factors in poverty reduction.

## APPENDIX V

## ACTIVITIES OF OTHER PARTNERS IN DEVELOPMENT – ONGOING AND PLANNED

| Donor                         | Nature of Project/<br>Programme   | Project/Programme<br>Coverage   | Status  |
|-------------------------------|---|---|---|
| IFC                           | <ul style="list-style-type: none"> <li>• <i>Horizonte Enterprise Fund</i>, bringing in foreign strategic investors in large enterprise privatizations</li> </ul>  | FBiH & RS   | Completed   |
| EBRD                          | <ul style="list-style-type: none"> <li>• <i>SME Finance</i></li> </ul>  | FBiH & RS   | Ongoing   |
| IDA                           | <ul style="list-style-type: none"> <li>• Local Initiatives II</li> <li>• Small-Scale Commercial Agriculture Development (Agriculture II)</li> <li>• Strengthening microfinance institutions</li> <li>• Community Development Project (support greater community participation in decision-making processes)</li> <li>• Forest Development and Conservation</li> </ul>   | FBiH & RS   | Ongoing<br>Completed<br>Ongoing<br>Ongoing  |
| SEED                          | <ul style="list-style-type: none"> <li>• Capacity-building for SMEs and business enabling environment interventions</li> </ul>  | FBiH & RS   | Ongoing   |
| EU                            | <ul style="list-style-type: none"> <li>• PHARE Programmes (1996, 1997, 1998) supplies of livestock and associated technologies</li> <li>• Restructuring Ministries of Agriculture</li> <li>• Extension Services Project</li> <li>• Provision of Rural Credit Facilities</li> <li>• Forestry Law</li> <li>• Counterpart Fund Management Design</li> <li>• Animal Identification Scheme</li> <li>• Veterinarian Supplies for Health Survey</li> </ul> | FBiH & RS   | Completed<br>Completed<br>Completed<br>Completed<br>Completed<br>Completed<br>Completed |
| FAO                           | <ul style="list-style-type: none"> <li>• Prepared with MOAs agricultural strategy papers</li> <li>• Soil resources inventory</li> </ul>   | FBiH & RS<br>FBiH & RS  | Completed<br>Ongoing  |
| USAID                         | <ul style="list-style-type: none"> <li>• Linking Agricultural Markets to Producers</li> </ul>   | FBiH & RS   | Ongoing   |
| UNDP                          | <ul style="list-style-type: none"> <li>• Support to mine clearance capacities</li> </ul>  | FBiH & RS   | Ongoing   |
| Government of Japan           | <ul style="list-style-type: none"> <li>• Agricultural Cooperatives</li> <li>• Agricultural mechanization</li> <li>• Medicinal and aromatic plants, collection and marketing</li> </ul>  | FBiH & RS<br>FBiH & RS<br>FBiH & RS   | Completed<br>Completed  |
| Government of The Netherlands | <ul style="list-style-type: none"> <li>• Supply of heifers and milking equipment</li> <li>• Meat processing plants</li> </ul>   | FBiH & RS   | Completed<br>Completed  |
| Government of Germany         | <ul style="list-style-type: none"> <li>• Land Titles</li> <li>• Veterinary service</li> <li>• Selected agro-industries, restructuring database management and training</li> <li>• Legislative and political framework conditions for agricultural sector (cooperative law)</li> </ul>   | In 3 municipalities<br>FBiH & RS<br>Former state farm, Nova Topola, RS<br>FBiH & RS | Completed<br>Completed<br>Completed<br>Completed  |
| United Kingdom                | <ul style="list-style-type: none"> <li>• Private-sector development</li> <li>• Banking and Finance</li> </ul>   | FBiH and RS   | Ongoing   |
| Norway                        | <ul style="list-style-type: none"> <li>• Private-sector development</li> <li>• Lines of credit to private sector</li> <li>• Agriculture</li> </ul>  | FBiH and RS   | Ongoing   |
| Italy                         | <ul style="list-style-type: none"> <li>• Agriculture</li> <li>• Lines of credit to private sector</li> <li>• SME development</li> </ul>   | FBiH and RS   | Ongoing   |
| Switzerland                   | <ul style="list-style-type: none"> <li>• Agriculture and Forestry (wood)</li> <li>• Lines of credit to private sector</li> <li>• SME</li> </ul>   | FBiH and RS   | Ongoing   |

