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Investing in rural people

President's report

Proposed loan to Bosnia and Herzegovina for the Rural Enterprises and Agricultural Development Project

Note to Executive Board representatives

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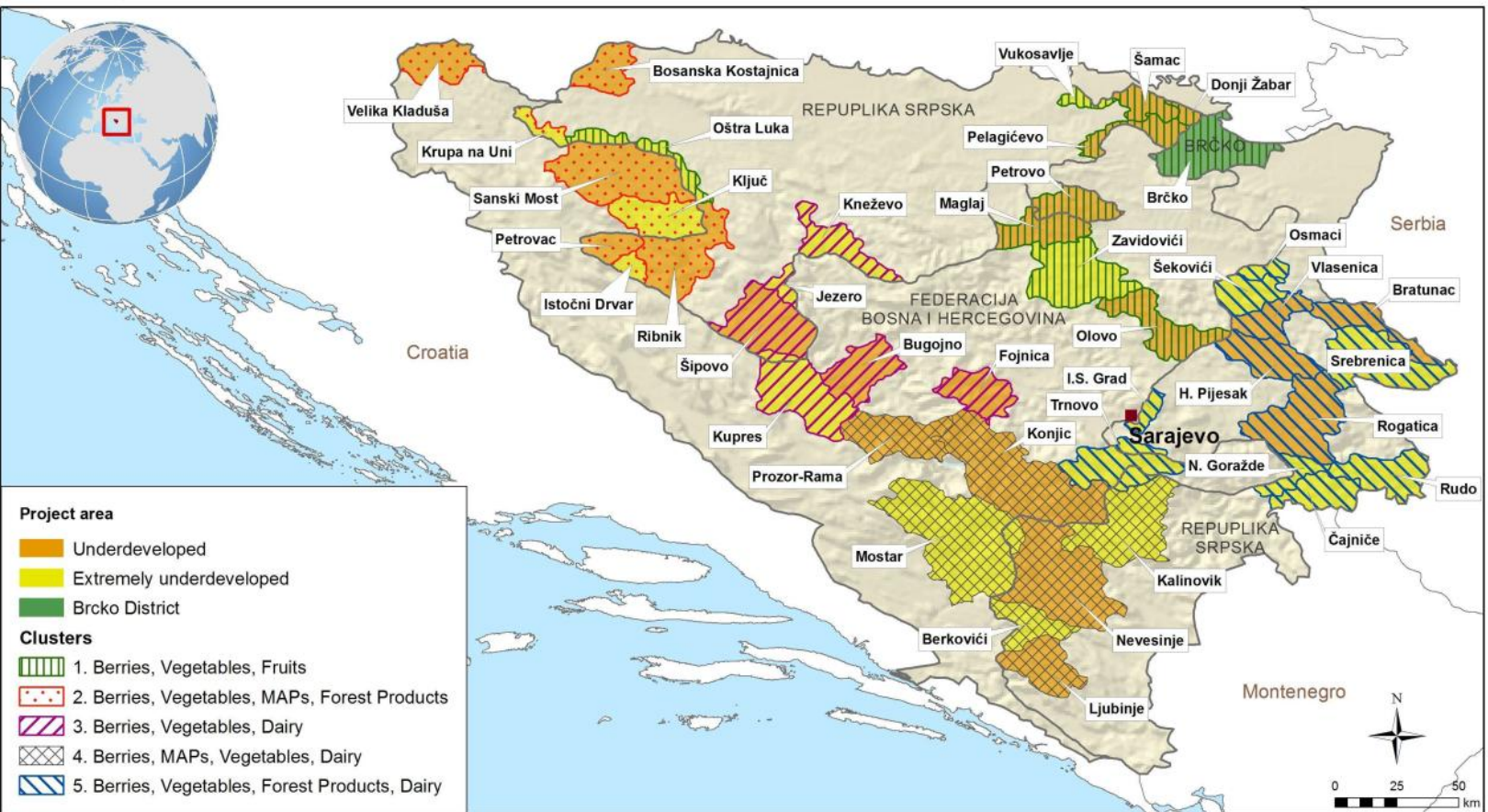
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Abbreviations and acronyms

APCU	Agriculture Projects Coordination Unit
BAM	Bosnian convertible marka
COSOP	country strategic opportunities programme
FBiH	Federation of Bosnia and Herzegovina
FO	farmers' organization
M&E	monitoring and evaluation
PCU	Project Coordination Unit
READP	Rural Enterprises and Agricultural Development Project
RS	Republika Srpska
4P	public-private-producer partnership

Map of the project area

Bosnia and Herzegovina
Rural Enterprises and Agricultural Development Project (READP)



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.
Map compiled by IFAD | 28-04-2017

Bosnia and Herzegovina

Rural Enterprises and Agricultural Development Project (READP)

Financing summary

Initiating institution:	IFAD
Borrower:	Bosnia and Herzegovina
Executing agency:	Federal Ministry of Agriculture, Water Management and Forestry; and the Ministry of Agriculture, Forestry and Water Management of the Republika Srpska
Total project costs:	EUR 27.68 million
Amount of IFAD loan:	EUR 11.79 million
Terms of IFAD loan:	Ordinary: Maturity period of 15-18 years, including a grace period of three years, with an interest rate per annum equal to 100 per cent of the IFAD reference interest rate
Contribution of private sector:	EUR 6.17 million
Contribution of borrower:	EUR 4.23 million
Contribution of municipalities	EUR 2.35 million
Contribution of beneficiaries and farmers' organizations:	EUR 3.15 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to Bosnia and Herzegovina for the Rural Enterprises and Agricultural Development Project, as contained in paragraph 45.

Proposed loan to Bosnia and Herzegovina for the Rural Enterprises and Agricultural Development Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Following the 1991-95 war, Bosnia and Herzegovina became a sovereign country with several tiers of governance. The State-level Government of Bosnia and Herzegovina is at the top. There are two entities, the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS), plus the self-governing Brčko District (BD). The third tier of governance consists of 10 cantons in FBiH. The fourth tier comprises 143 municipalities. The total population is 3.52 million, with 58 per cent living in rural areas. In 2015, one in six households lived in poverty and 15 per cent of the population of Bosnia and Herzegovina did not have social security. In 2015, the poverty headcount stood at 16.3 per cent of the population, with 19 per cent of the rural population living in poverty compared to 9 per cent of the urban population. In February 2016, the country applied for membership of the European Union (EU) and, with the subsequent adoption of a Stabilization and Association Agreement, it has taken a critical step towards accession. At the State level, Bosnia and Herzegovina is formulating its first Strategic Plan for Rural Development for 2018-2021, a prerequisite for eligibility for pre-accession funds.
2. The project rationale lies in the country's high level of rural poverty: 19 per cent of the rural population live in chronic material poverty and a further 27 per cent risk falling back into material poverty. The lack of economic opportunities has led to high unemployment among young people – approximately 62.3 per cent – of whom large numbers are leaving their rural communities. Commercial agricultural production by rural poor people is limited due to a lack of competitiveness associated with the small size of their land holdings, absence of technical and enterprise skills, IT gaps and limited access to resources such as quality inputs and rural finance. The weak and non-inclusive nature of farmers' organizations (FOs) is an additional constraint. Nevertheless, agriculture has the potential to make a major contribution to the rural economy. Vegetable production covers 75,000 hectares and exports have nearly quadrupled since 2008, totalling 125 million Bosnian convertible marka (BAM) in 2015. The number of beehives nearly doubled from 240,723 to 392,348 – within a 10-year period (2004-2014). It has been estimated that Bosnia and Herzegovina has over 700 species of medicinal and aromatic plants, of which only about 200 are used. Mushrooms represent an important non-timber forest product and are mainly collected in the forest.

B. Rationale and alignment with government priorities and RB-COSOP

3. The Rural Enterprises and Agricultural Development Project (READP) will support entity-level governments in achieving their goal of modernizing food and agricultural systems. READP is aligned with their development strategies, specifically in terms of their goal to improve food security and incomes through support to non-commercial and commercial farmers and on- and off-farm

enterprises, as envisioned in the results-based country strategic opportunities programme (COSOP) of 2013.

4. The development hypothesis for the project is that business leaders can be motivated by their commercial interests to lead the process of including youth and poor households in their raw material supply chains, resulting in job creation, income generation and poverty reduction for the targeted households. This process will require FOs that are capable of providing access to the information, skills, finance, services and support that the target group needs to produce and sell – at a commercial level - products that meet the business leaders' requirements in terms of quality and quantity. This approach is in line with the State- and entity-level rural and agricultural development strategies, the COSOP, the process of EU accession and the initiatives of other donors initiatives in the rural and agricultural sector. READP will cofinance and support the implementation of viable business plans. These will be based on the public-private-producer partnership (4P) model and will be aimed at expanding the supply chains of business leaders, enterprises and FOs. This in turn will increase demand for raw materials sourced from poor farming households thereby enabling them to move from non-commercial to commercial farming.

II. Project description

A. Project area and target group

5. Project area. The project area will consist of 10 clusters (five in FBiH and five in RS) with an average of 9 municipalities per cluster grouped together on the basis of two criteria: (i) extreme underdevelopment and (ii) presence of suitable conditions for developing and strengthening the value chains of the project-supported produce/crops.
6. Target group. READP aims to promote the inclusion of very poor and poor non-commercial farmers, women and youth in selected value chains through the development and implementation of cluster-based business plans for connecting producers to buyers. In order to ensure the inclusion of the target group in the business models supported by the business plans, READP will adopt: (i) geographical targeting measures to reach those areas with a higher concentration of targeted households; (ii) self-targeting by enterprises/FOs offering business opportunities in value chains suitable and of interest to the target groups; (iii) direct targeting of youth (through apprenticeships); and (iv) other enabling measures to promote linkages between the target group and the business leaders and inclusive FOs.
7. Number of beneficiaries. READP will directly target 8,650 households. It will provide apprenticeship support to 350 young people (50 per cent of whom will be women) through linkages to employers in the rural sector. In addition, 5,000 households will indirectly benefit from the project, mainly through the infrastructure investments.

B. Project development objective

8. READP's goal is to contribute to rural economic development and poverty reduction by improving livelihoods, generating revenue and enhancing the living standards of the target households. The development objective is to increase the income of poor rural households and young people by engaging them in profitable agribusiness and employment opportunities.
9. Key impact indicators. The achievement of the project objectives at completion will be measured by the following indicators: (i) at least 8,650 households (around 25,000 household members) have benefited from the project services; (ii) at least 80 per cent of the beneficiary households have increased their income by at least 30 per cent; (iii) assets of the beneficiary households have increased by at least 25 per cent; (iv) at least 4,500 full-time jobs (or the equivalent) have been

created, leading to stable incomes that enhance the food security and sustainable livelihoods of beneficiary households; (v) at least 75 per cent of the enterprises supported report an increase in sales through 4P arrangements; (vi) At least 80 per cent of the beneficiaries report increases in production; (vii) contracts between public and private entities have increased by at least 80 per cent; (viii) at least 80 per cent of FO members report new or improved services provided by their organizations; and (ix) at least 5,000 households report improved physical access to markets and to processing and storage facilities.

C. Components/outcomes

10. The project has two components, namely: (i) enhancement of economic opportunities and the integration of smallholders into value chains; and (ii) project management and coordination.
11. Component 1: Enhancement of economic opportunities and integration of smallholders into value chains: The expected outcomes are (i) improved production, productivity, marketing of produce and profitability of target group households through 4P models; and (ii) enhanced market access and value chain integration of target households through strengthened FOs and improved market infrastructure. The component is supported by three mutually reinforcing subcomponents: (a) development and implementation of pro-poor business plans; (b) development of FOs and (c) support for enabling infrastructure.
12. Subcomponent 1.1: Development and implementation of pro-poor business plans will increase the adoption and implementation of 4P-based business models by business leaders along the value chains. Approximately 150 business leaders (small and medium-sized enterprises and FOs) will receive support to develop and implement business plans, which will create market linkages to 7,500 target households. Additionally, it will provide special financial packages for 350 apprenticeships for young people. Business plan development support will entail: (i) selection of service providers; (ii) a targeting survey; (iii) stakeholder awareness and sensitization workshops; (iv) a call for proposals and selection of eligible applicants; and (v) development of detailed plans and implementation agreements. Business plan implementation activities will include (a) market development assistance; (b) training, advisory and capacity-building services for farmers; (c) cofinancing starter packages and youth apprenticeship support; (c) facilitation of other external linkages, for example to financial institutions and certification bodies; and (d) creation of a conducive setting for business plan implementation.
13. Subcomponent 1.2: Development of farmers' organizations. The aim of this subcomponent is to enable FOs to increase their outreach to target households and develop into viable and inclusive institutions. The main activities will be: (i) seed capital financing to 40 FOs, directly benefiting 800 households; and (ii) institutional development training and advisory support.
14. Subcomponent 1.3: Support for enabling infrastructure will improve the profitability of target households, connect them to business leaders and improve their market participation. It will identify and support the infrastructure required to successfully implement the business plans, specifically: (i) publicly owned and managed infrastructure such as water supply for multiple farmers in a defined area, or the establishment/rehabilitation of feeder roads, culverts and small bridges that connect business leaders and target households; and (ii) publicly owned infrastructure, such as irrigation structures and cooling and packing facilities, which will be co-managed in partnership with the municipalities, FOs and the private sector.

15. Component 2: Project management and coordination. READP will be implemented by government and non-government institutions and by private sector partners. The Ministry of Finance and Treasury of Bosnia and Herzegovina will have overall responsibility for READP and will coordinate activities with the two entities' Ministries of Finance and Agriculture.

III. Project implementation

A. Approach

16. The entry point for component 1 will be through the promotion of 4P-based business plans between business leaders, municipalities, the project and target households. The plans will build on institutional arrangements and lessons learned from the ongoing RCDP, making use of its experiences and achievements in business development services and the establishment and operation of stakeholder platforms associated with the clusters. The project will engage service providers, cluster coordinators and extension officers to support the business plan development process.

B. Organizational framework

17. Entity-level project steering committees chaired by the Ministry of Agriculture will provide overall guidance. The steering committee will meet twice yearly. Each committee will: (i) ensure that project activities comply with government and IFAD strategies, and the project's goal and objectives; (ii) endorse strategic orientation; (iii) review entity-level annual workplans and budgets; (iv) oversee the selection of service providers and partner institutions; (v) ensure coordination with other development interventions; and (vi) ensure adherence to the highest standards of financial management and auditing. The steering committees will include representatives from agribusiness, producers' associations and cooperatives.
18. The Agriculture Projects Coordination Unit (APCU) and the Project Coordination Unit (PCU) will be responsible for coordination and liaison with municipalities, business leaders, FOs and target households in the clusters and with implementing partners. Thus, the units will enter into memorandums of understanding with the relevant business plan partners, including project area municipalities, private agribusiness enterprises, producers' associations and cooperatives. These memorandums of understanding will be a key mechanism for the participation of the target households as they will detail the roles and responsibilities of each party in business plan implementation, the modality of allocation and control of project resources, and the monitoring and reporting arrangements.

C. Planning, monitoring and evaluation, and learning and knowledge management

19. The demand-driven nature of project activities means that the producers' associations, cooperatives, agribusinesses and municipalities will be jointly responsible for the performance monitoring process. This will require robust systems that assist stakeholders in generating, collecting, reviewing and analysing performance-related information. The project's monitoring and evaluation (M&E) system will be established and managed by the APCU/PCU teams with support from IFAD in accordance with established IFAD procedures. It will be built around the set of indicators outlined in the logical framework.
20. Learning and knowledge management will be a key underlying theme in READP, focusing on the dissemination of project experiences and results to stakeholders and development partners for scaling up and policy impact. In particular, knowledge management will concentrate on: (i) success in using the 4P business plans and targeting survey as entry points; (ii) development of a savings culture in the FOs and their management of the starter packages as revolving funds for financing members to connect to the value chains for the first time;

(iii) the effect of direct targeting of youth and woman-headed households with special youth starter packages; (iv) contribution of the apprenticeship support to creation of jobs for young people in the rural sector; and (v) positive results from the participatory monitoring of business plan implementation through the cluster-level oversight committees.

D. Financial management, procurement and governance

21. In accordance with IFAD guidelines, a financial management assessment at design was undertaken. The inherent risk of the country is assessed as medium: Transparency International ranks it as having medium risk, with a Corruption Perceptions Index score of 39 in 2016; the International Finance Corporation/World Bank rank it 81st out of 190 countries in terms of ease of doing business. The first Public Expenditures and Financial Accountability assessment report identified areas for improvement. Considering all mitigating actions, the financial management risk associated with the project is assessed as low.
22. IFAD applies a zero-tolerance policy towards fraudulent, corrupt, collusive or coercive actions in the projects that it finances. All project staff, partners and stakeholders will be made aware of IFAD's and the Government's anticorruption policies and whistle-blowing procedures.
23. Financial management arrangements. The APCU/PCU have staff with many years' experience in managing IFAD-funded projects and with appropriate skills. The financial management roles in PCU are managed by a financial manager, with a procurement officer and an assistant. The APCU has a finance manager, procurement officer and an accountant. For internal control purposes and segregation of responsibilities, in the future scenario where the same units will simultaneously manage three different IFAD projects, the Rural Business Development Project, the Rural Competitiveness Development Programme and READP, an additional accountant will be recruited at the PCU in FBiH. The financial manager will be trained in IFAD procedures. Arrangements for budgeting, accounting, internal controls, disbursement, financial reporting, flow of funds, external and internal audit will follow the system already in place in both units, with additional mitigating measures. A financial and administrative manual will be developed at the beginning of the project.
24. Accounts. Separate bank accounts will be opened and maintained for each financing source and for each entity. Accordingly, there will be two accounts designated in euro, one for each entity to receive the IFAD loan. In addition, there will be two separate counterpart accounts for the government contributions (one for each entity) and separate bank accounts for the beneficiaries' contribution where relevant. The APCU/PCU will maintain a full set of accounts in accordance with IFAD's requirements and internationally accepted accounting standards (i.e. the Cash Basis International Public Sector Accounting Standard [IPSAS]). In addition, the IFAD Client Portal will be rolled out during first quarter of 2018.
25. Financial reporting. Monthly monitoring of activities implemented against those budgeted will be conducted. Quarterly interim consolidated financial statements prepared in accordance with IPSAS and IFAD requirements, in addition to the annual statements, will be submitted to IFAD respectively 45 days after the end of the quarter and four months after year-end.
26. External Audit. In Bosnia and Herzegovina, all externally funded projects are audited annually by an external private sector auditor appointed for three years at the State level through a competitive process. The new auditor for the coming three years will be appointed in 2018. During the competitive process the terms of reference for the audit will be submitted to IFAD for no-objection. The selected auditor will conduct their work in accordance with International Standards on Auditing and the IFAD Handbook on Financial Reporting and Auditing, including

public disclosure of audit reports which must be submitted to IFAD within six months of the end of the financial year.

27. Procurement. Although public procurement legislation and supervision have improved in the country, some weaknesses have been identified in the COSOP and in assessments by international organizations that indicate that the borrower's procurement system is not yet fully in line with IFAD requirements. Therefore, procurement procedures, review and supervision under READP will continue to be carried out following the procedures stipulated in IFAD's Procurement Guidelines and other relevant documents.

E. Supervision

28. The project will be supervised directly by IFAD. Annual supervision missions will be jointly organized by the Government, implementing partners and beneficiaries. Supervision will allow for reflection on ways to improve value chain inclusiveness. Missions will be an integral part of the knowledge management cycle. A supervision mission will be scheduled to coincide with an annual inter-entity review workshop. This will be organized in close coordination with the APCU/PCU at the end of the financial year and will be attended by stakeholders at both the State and the entity level.

IV. Project costs

29. The total project cost including physical and price contingencies is estimated at EUR 27.68 million (BAM 54.26 million) over a five-year period. Component 1 is the main investment component and accounts for EUR 26.18 million (BAM 51.32 million) of total project costs. Component 2 covers project coordination and management and represents EUR 1.5 million (BAM 2.94 million) of total project costs (as shown in table 1).

A. Project financing

30. A total of EUR 11.78 million (BAM 23.10 million) of IFAD financing will be mobilized for READP over the five-year implementation period. The IFAD loan will be used to cofinance component 1 and to fully finance component 2, i.e. the project coordination units in both entities. The project will also cofinance (i) the business plans under subcomponent 1.1; (ii) FO seed capital financing under subcomponent 1.2; and (c) support for enabling infrastructure under subcomponent 1.3.
31. The project is expected to be financed as follows: (a) 42.6 per cent by the IFAD loan; (b) 8.5 per cent by the municipalities; (c) 10.3 per cent by the beneficiaries; (d) 1 per cent by the FOs; (e) 22.3 per cent by the private sector and (f) 15.3 per cent by the Government.
32. The contribution of the Government of Bosnia and Herzegovina will be made through financing of taxes and duties on imported goods, and value added tax for a total amount of EUR 4.23 million (BAM 8.29 million) as shown in table 2.

Table 1

Indicative project costs by component and financier

(Thousands of euros)

Components	IFAD loan		Municipalities		Beneficiaries		FOs		SME*		Government		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1. Enhancement of economic opportunities and integration of smallholders into value chains														
A. Development and implementation of pro-poor business plans in FBiH	3 443	30.4	822	7.3	1 647	14.6	12	0.1	3 626	32.1	1 759	15.6	11 308	40.8
B. Development and implementation of pro-poor business plans in RS	2 328	30.8	548	7.2	1 100	14.5	10	0.1	2 420	32.0	1 160	15.3	7 565	27.3
C. Farmers' organization development in FBiH	526	62.7	55	6.5	-	-	116	13.8	-	-	143	17.0	838	3.0
D. Farmers' organization development in RS	388	64.2	36	6.0	-	-	77	12.7	-	-	103	17.0	604	2.2
E. Enabling infrastructure support in FBiH	2 279	64.7	552	15.2	61	1.7	52	1.4	74	2.0	614	16.9	3 632	13.1
F. Enabling infrastructure support in RS	1 398	62.5	335	15.0	35	1.6	42	1.9	49	2.2	378	16.9	2 236	8.1
Subtotal	10 361	39.6	2 348	9.0	2 843	10.9	309	1.2	6 168	23.6	4 156	15.9	26 184	94.6
2. Project management and coordination														
1. Project Coordination Unit in FBiH	801	94.8	-	-	-	-	-	-	-	-	44	5.2	845	3.1
2. Agricultural Project Coordination Unit in RS	625	95.5	-	-	-	-	-	-	-	-	29	4.5	654	2.4
Subtotal	1 426	95.1	-	-	-	-	-	-	-	-	73	4.9	1 499	5.4
Total project costs	11 787	42.6	2 348	8.5	2 843	10.3	309	1.1	6 168	22.3	4 229	15.3	27 683	100.0

*SME: Small and medium-sized enterprises.

Table 2

Indicative project costs by expenditure category and financier

(Thousands of euros)

	IFAD		Municipalities		Beneficiaries		FO		SME		The Government		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Civil Works	3 485	62.2	848	15.1	96	1.7	95	1.7	123	2.2	952	17.0	5 598	20.2
Equipment, materials and vehicles	166	83.0	-	-	-	-	-	-	-	-	34	17.0	200	1.0
Grants	5 386	28.8	1 461	7.8	2 740	14.6	182	1.0	5 948	31.8	2 992	16.0	18 710	67.6
Technical assistance	1 327	80.1	39	2.4	-	-	15	0.9	90	5.5	186	11.1	1 657	6.0
Training and workshop	295	78.4	-	-	7	1.8	17	4.5	7	1.8	51	13.5	376	1.4
Salaries, allowances and maintenance costs	1 129	99.0	-	-	-	-	-	-	-	-	14	0.01	1 143	3.8
Total	11 787	42.6	2 348	8.5	2 843	10.3	309	1.1	6 168	22.3	4 229	15.3	27 683	100.0

B. Summary benefit and economic analysis

33. READP is expected to generate the following benefits: (i) at least 4,500 full-time jobs (or equivalent) created, leading to stable income, enhanced food security and sustainable livelihoods of target households. These jobs will be generated through 350 youth apprenticeships, at least 50 per cent of the 8,300 beneficiaries of the starter packages, and the FO seed capital financing, which will achieve cash returns equal to the minimum net salary earned (BAM 425) from a full-time job. READP will create jobs for at least 1,213 women (50 per cent through youth apprenticeship support and 25 per cent of all other jobs); and (ii) increased revenue for some 8,650 target households as direct beneficiaries, who will develop or upgrade their dairy, fruit and vegetable production and receive youth apprenticeship support leading to full-time jobs in the rural sector. Estimated net income accruing to the target households will be as follows: from strawberry, US\$4,485; raspberry, US\$4,535; cherry and strawberry intercropping, US\$5,035; gherkin, US\$2,628; tomato, US\$2,139; pepper, US\$2,606; wild mushrooms, US\$4,350; honey (300 hives), US\$2,631; and milk production (3-5 cows), US\$5,713.
34. Based on these assumptions, the economic rate of return of READP would be 35 per cent and the net present value is estimated at US\$53.1 million. The high economic rate of return reflects the ambition and potential leverage effect of READP, whose approach focuses on the clear comparative advantages and existing economic dynamics in Bosnia and Herzegovina.

C. Sustainability

35. The sustainability of READP is linked to the success of the business plans in profitably connecting the target households to the business leaders. The commercial success of these linkages will increase business leaders' demand for products from the target households thereby (i) assisting the already linked households in maintaining their partnerships and increasing their returns; and (ii) creating the opportunity for new commercial farmers to join the value chain. Project design supports the institutional sustainability of these linkages through: (i) the business plan approach, 4P cofinancing model, starter packages, agronomic support, participatory monitoring of implementation, and infrastructure support to establish and maintain the linkages between business leaders and the target households; (ii) strengthening the FOs to enable them to benefit from the business opportunities created; and (iii) assisting municipalities in enabling farmers to become more competitive and enter commercial value chains. The technical sustainability of the linkages will be ensured through product certification, branding, product identification and other market development support; strengthening extension and advisory services to facilitate target households' access to knowledge, technology and guidance so as to achieve efficient production in terms of quality and quantity; the involvement of financial service providers as cofinanciers of bankable projects; and a market-driven approach that assists the business leaders and the partner households in quickly adapting their businesses to changing market demand.
36. Climate change adaptation. Sustainability will be central to business plan design. The project will enhance the climate change resilience of smallholders by: (i) mainstreaming commercially available climate-resilient production technologies; (ii) supporting training and knowledge-sharing among smallholder farmers leading to replication and scaling up; and (iii) raising awareness of climate change adaptation among government and municipality staff.

D. Risk identification and mitigation

37. READP's key risks are: (i) management and coordination challenges arising from the parallel implementation of two IFAD operations by the coordination units; (ii) the diminishing interest of financial institutions in credit lines and delays in selection of participating financial institutions experienced in past projects

adversely affecting disbursement and performance; and (iii) strong focus on business leaders and private sector possibly diluting the poverty orientation of the project. These will be mitigated by (i) assigning project managers specifically to READP in the PCU and the APCU and increasing field presence through five cluster coordinators in the PCU and seven extension officers in the APCU, and using service providers as implementation partners to follow-up and operationalize decisions by the coordination units; (ii) cofinancing starter packages to encourage participation by financial institution at market rates, which will catalyse cofinancing by other partners; and (iii) conducting a targeting survey at the outset to ensure that the project is focused on poverty reduction. Support to business leaders will be contingent on their commitment to form backward links to the target households identified in the targeting survey. Project resources will be directed primarily to target group financing.

V. Corporate considerations

A. Compliance with IFAD policies

38. The READP is fully aligned with all relevant IFAD strategies and policies including the Strategic Framework 2016-2025, especially through its promotion of investment in productive capacities and market participation of beneficiaries through the 4P mechanism. Given the nature and extent of the likely environmental effects, the project is classified as Category B in line with IFAD's environmental assessment procedures. The potential negative environmental effects are assessed as being within controllable limits.

B. Alignment and harmonization

39. READP will be implemented in harmonization with other donor programmes. It is aligned with the agricultural and agribusiness development focus of the ongoing five-year project – Fostering Agricultural Markets Activity II – supported by the United States Agency for International Development and Sweden; and with the GIZ ProLocal initiative promoting local economic development and agricultural value chain development. READP will develop effective linkages with donor initiatives both for harmonized implementation and for knowledge-sharing and dissemination of good practices, replication and scaling up of success stories. The project is also informed by IFAD's Strategy for Engagement in Countries with Fragile Situations. Bosnia and Herzegovina is among the countries identified in the strategy, given its complex and conflict-ridden history and the effect of this on the institutional framework. In line with the strategy, the project will adopt flexible and differentiated approaches (e.g. a coordination unit for each entity). Further, the targeting focus of the project on unemployed youth responds to the guiding principle of the strategy.

C. Innovations and scaling up

40. Building successful and inclusive partnerships will be the primary innovation. In terms of technical innovations, in order to seize opportunities in this high-value niche and meet market requirements, farmers will be provided with the latest technological innovations in combination with appropriate business and organizational models. The project focus on increasing competitiveness, strengthening FOs and generating youth employment is aligned with national development priorities. Success with any of these elements would have significant potential for scaling up, as significant EU resources will be made available to the rural sector.

D. Policy engagement

41. READP will emphasize the enabling factors for the successful implementation of the joint business plans, with a view to documenting the experience and disseminating the results for wider policy impact. To that end, knowledge gained will be conveyed through messages, manuals, concepts and strategies and disseminated to the

various target groups and stakeholders. A knowledge-sharing and learning culture will be promoted at all levels, from the APCU/PCU to the business leaders and other stakeholders. READP will ensure that all knowledge generated is systematically identified, analysed, documented, used to improve project performance; communicated to policymakers to inform the Government's policymaking process; and shared with key stakeholders.

VI. Legal instruments and authority

42. A project financing agreement between Bosnia and Herzegovina and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as appendix I.
43. Bosnia and Herzegovina is empowered under its laws to receive financing from IFAD.
44. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

45. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on ordinary terms to Bosnia and Herzegovina in the amount of eleven million seven hundred and ninety thousand euros (EUR 11,790,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Negotiated financing agreement

"Rural Enterprises and Agricultural Development Project"

(Negotiations concluded on 28 March 2018)

Loan Number: _____

Project Title: Rural Enterprises and Agricultural Development Project (READP) ("the Project")

Bosnia and Herzegovina (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), and the Allocation Table (Schedule 2).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement. Part A of the Project shall be carried out by the Federation of Bosnia and Herzegovina ("the Federation"), and Part B of the Project shall be carried out by Republika Srpska ("the RS") (each of which is referred to as an "Entity", and collectively as the "Entities") and, for this purpose, the Borrower shall make available to the Federation and the RS the respective parts of the proceeds of the Financing upon terms and conditions set forth in this Agreement and in accordance with the provisions of Subsidiary Agreements between the Borrower and each of the Federation and the RS.

Section B

1. A. The amount of the Loan is eleven million seven hundred eighty seven thousand Euros (EUR 11 787 000).

2. The Loan is granted on ordinary terms and shall be subject to interest on the principal amount outstanding at the IFAD reference interest rate per annum, and have a maturity period of eighteen (18) years, including a grace period of three (3) years, starting from the date as of which the Fund has determined that all general conditions precedent to withdrawal have been fulfilled.
3. The Loan Service Payment Currency shall be Euro.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and interest shall be payable on each on each 15 February and 15 August.
6. The Borrower shall provide counterpart financing for the Project in the amount of four million two hundred thousand Euros (EUR 4 200 000).
7. Amounts withdrawn in advance from the loan shall be held in designated accounts denominated in Euro, which shall be opened and maintained by the Borrower/Recipient in banks acceptable to the Fund. There shall be one designated account for each Entity.

Section C

1. The Lead Project Agency shall be the Federal Ministry of Agriculture, Water Management and Forestry for Part A of the Project and the Ministry of Agriculture, Forestry and Water Management of the Republika Srpska for Part B of the Project.
2. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

The Loan will be administered and the Project supervised by the Fund.

Section E

1. This Agreement is subject to ratification by the Borrower.
2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome, Italy

This Agreement, dated _____, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

BOSNIA AND HERZEGOVINA

Authorized Representative
(name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Target group. The Project target group will comprise (i) rural households with 0.1-0.5 ha (1-5 donums) land available for cultivation either through direct ownership or rented/leased (ii) households with monthly income less than 817 KM comprising mainly non-commercial farmers (iii) unemployed rural youth (below 30 years) and (iv) poor women headed households in rural areas. The outreach of the Project will be 8,650 direct beneficiaries and around 5,000 indirect beneficiaries from the enabling infrastructure investments. The Project area will consist of 90 municipalities grouped into 10 clusters with an average of 9 municipalities per cluster. The Project-supported sub-sectors will comprise berries, fruits and vegetables, forest products, honey, MAPs and to a limited extent dairy.

2. Goal. The Project's goal is to contribute to rural economic development and poverty reduction by improving livelihood, generating revenue and enhancing the living standards of target households.

3. Objectives. The Project's objective is to increase the income of rural poor households and rural youth by engaging them in profitable agribusiness and employment opportunities. READP will unlock new rural business opportunities by better connecting and integrating farms, farmers' organisation and business leaders to commercial markets. It will create new avenues for self, salaried and wage employments for beneficiary household members including youth.

4. Outcomes/Components. The Project has two components: (i) Enhancement of economic opportunities and smallholders integration in value chains and (ii) Project management and coordination.

4.1 Component 1: Enhancement of economic opportunities and smallholders integration in value chains: The expected outcomes of this component are (i) production, productivity, marketing of produce and profitability of target group households improved based on 4Ps models (ii) market access and value chain integration of target group households enhanced through strengthened farmers' organisations and improved market infrastructure. The component is supported by three mutually reinforcing sub-components; (i) development and implementation of pro-poor BPs (ii) development of farmers' organisations and (iii) enabling infrastructure development.

4.1.1. Sub component 1.1. Development and implementation of pro-poor business plans. This subcomponent will increase the adoption and implementation of 4-Ps based business models by business leaders along the value chains. The Project will assist around 150 business leaders (SMEs and FOs) to develop and implement BPs leading to market linkage between 7,500 target households and business leaders. Additionally, it will provide special financial packages for 350 youth apprentice. The main BP development related activities will be (i) selection of service provider (ii) targeting survey (iii) stakeholder awareness and sensitisation workshops (iv) call for proposals and selection of eligible applicants (v) development of detailed BPs and implementation agreements. The main BP implementation related activities will be: (i) market development assistance (ii) farmers' training, advisory and capacity building services (ii) co-financing starter packages and youth apprentice support (iv) assisting other external linkages e.g. to financial institutions, certification bodies and (v) creating a supportive setting for BP implementation.

4.1.2. Sub component 1.2. Farmers' Organisations Development. This subcomponent will strengthen FOs to increase their outreach to target households and to develop into viable inclusive farmers' institution. The main activities will be (i) seed capital

financing to 40 FOs (FO seed capital support) resulting in direct benefits to 800 households and (ii) institutional development training and advisory support.

4.1.3 Subcomponent 1.3. Enabling Infrastructure Support. This subcomponent will improve the profitability of the target households, connect business leaders to the target households and improve the market participation of the beneficiaries. The Project will identify and support the infrastructure requirements for successful implementation of the BPs. Thus, READP will support (i) publically owned and managed infrastructure such as public water supply, which benefits multiple farmers in a defined area, or the establishment and rehabilitation of feeder roads, culverts and small bridges which connect business leaders and target households (ii) publically owned infrastructure, such as irrigation structure, cooling and packing facilities, which is co-managed in partnership between the municipalities, FOs and private sector.

4.2 Component 2: Project coordination. The Project will be implemented by Government and non-government institutions and private sector partners. The State Ministry of Finance and Treasury (MOFT) will have overall responsibility of READP and will coordinate with the Entity Ministries of Finance and Agriculture.

II. Implementation Arrangements

5. Lead Agencies. At entity level, the Ministry of Agriculture, Water Management and Forestry (MAWMF) in the Federation and the Ministry of Agriculture Forestry and Water Resources (MAFWR) in the RS will have the overall responsibility for the implementation as the Lead Agencies.

6. Project Steering Committee (PSC). A Project Steering Committee (PSC) chaired by the entity Ministry of Agriculture or its designated representative would be set up in each Entity to provide overall guidance to the Project at Entity level.

7. Project coordination units. The Federation will entrust the responsibility of coordination and management of project activities to the existing Project Coordination Unit (PCU) in Sarajevo. Likewise, the RS will entrust these functions to the existing Agricultural Project Coordination Unit (APCU) located in Banja Luka. The PCU and the APCU each will be headed by a project director who will also be the secretaries of the PSCs.

8. Field coordination. In the Federation, the PCU will contract 5 field officers as cluster coordinators, one for each cluster, to ensure field presence of the PCU and assist quality implementation process. In the RS the APCU will ensure field presence through extension officers deployed in the seven regional extension offices of the Agency of Extension Services in the 5 project clusters.

9. Partnership with Service Providers (SP). In order to manage and coordinate the implementation of two projects READP and RCDP in parallel, both PCU and APCU will rely on considerable increase in support services from service providers and other implementation partners. In general, SPs will be responsible for supporting the A/PCUs in implementing the targeting surveys, conducting sensitisation and consultation workshops prior to launching the business planning initiative, supporting business proposal selection, assisting business plan development and implementation, ensuring the quality of the final business plans, facilitating negotiations the implementation agreements between different BP implementation partners, providing technical guidance to the business leaders, FOs and target households during BP implementation and assisting the M&E data collection for READP. The selected service provider should possess the required environmental expertise to backstop the Project. The SP will closely liaise with the specific READP Project Manager, business development officer and the M&E Officer in the A/PCUs.

10. Project Implementation Manual (PIM). The PCU and APCU shall each prepare a draft PIM acceptable to the Fund and submit it for approval to their PSC. When so approved, a copy of the PIM shall be provided to the Fund. The PIM may be amended when necessary with the approval of the Fund in order to introduce clarification in procedures, and eliminate constraints for Project implementation.

11. Mid-Term Review. A Mid-Term Review (MTR) shall be conducted to assess the progress, achievements, constraints and emerging impact and likely sustainability of the Project and make recommendations and necessary adjustments for the remaining period of disbursement. The MTR shall be carried out jointly by the Borrower and the Fund.

Schedule 2

Allocation Table

1. Allocation of Loan Proceeds. The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category. All amounts are to be financed 100% net of taxes and contributions from Governments and Beneficiaries.

Category	Loan Amount allocated (expressed in EUR)
A. Part A of the Project in the Federation	
1. Civil Works	1 998 400
2. Equipment, Materials & Vehicles	102 400
3. Starter packages, Services, Inputs and Grants	3 070 900
4. Technical Assistance	809 500
5. Trainings & Workshops	149 000
6. Salaries, Allowances and maintenance costs	579 000
Unallocated	353 000
B. Part B of the Project in the RS	
1. Civil Works	1 309 000
2. Equipment, Materials & Vehicles	54 800
3. Starter packages, Services, Inputs and Grants	2 048 000
4. Technical Assistance	451 500
5. Trainings & Workshops	131 000
6. Salaries, Allowances and maintenance costs	494 500
Unallocated	236 000
Total	11 787 000

2. Start-up Costs. Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of EUR 100 000 for each Part and shall be limited to categories 4 and 5.

Logical framework

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-term	End Target	Source	Frequency	Responsibility	
Goal								
To contribute to sustainable rural economic development in Bosnia and Herzegovina (BiH)	1. percentage % increase in assets ownership*	0	15%	25%	National statistics, Human development reports	Years 1, 3 et 5	PCU/APCU	
Project Outreach	2. Number of persons receiving services promoted or supported by the project * (RIMS 1)	0	15 000	25 000 ¹	Progress report	Annually	PCU/APCU	
Development Objective								
To Increase the income of rural youth and poor households by fostering their engagement in profitable agribusiness and employment options	3. Number of supported households reporting increase in income of at least 25% over the baseline income at project start up	0	4,700	6,900	Progress Report, Service providers	Annually	PCU/APCU	- Conducive macroeconomic and deterioration of the political environment
	4. Number of new jobs created* (RIMS 2.2.1)	0	3 000	4 500 ²	Outcome survey, Progress report	Annually	PCU/APCU	- The demand for specialized Bosnian products on the export market increase
Outcome 1 : Production, productivity, marketing of produces and profitability of target group households improved based on 4Ps models	5. Number of supported rural enterprises reporting an increase in sales over baseline level through 4P agreements (RIMS 2.2.2)	0	75	110	Outcome survey, Progress report, Service Providers	Annually	PCU/APCU	-Timely and quality access to specialized service providers
	6. Number of beneficiaries reporting at least 30% increase in sales over the baseline level	0%	2 200	4 400 ³	Outcome survey, Progress report, Service Providers	Annually	PCU/APCU	-Continued interest of rural producers and farmers organizations to establish stronger linkages with lead enterprises

¹ Given that the support will be reaching 8,650 household and given an average household size of 2.9 members in BiH, READP will have reached around 25 000 people at Project completion.

* RIMS Core Indicators; disaggregated by the sex of beneficiary (S: male or female) and the age status of the beneficiary (Y: "young" or "not young" as per the national definition for youth).

² Includes 350 young apprentices and 50 per cent of the 8,300 beneficiaries of starter packages and FO seed-capital financing. Their cash returns from the adoption of the Project supported activities is expected to equal at least the minimum net salary earned (BAM 425) from a full-time job.

³ The number of farmers at mid-term and end term represents 40 per cent and 80 per cent of the 5,500 beneficiaries of starter packages who will be directly engaged in production activities.

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-term	End Target	Source	Frequency	Responsibility	
Output 1.1: Development and implementation of Business Plans	8. Number of pro-poor BPs approved and implemented by Business Leaders	0	100	150	M&E system of READP, Service providers	Semi-annual	PCU/APCU	Timely, quality and continuous access to business development services
	9. Number of targeted farming households engaged in 4Ps *	0	5 000	8 000 ⁴	M&E system of READP, Service providers	Semi-annual	PCU/APCU	
Output 1.2 : Provision of start-up packages	10. Number of rural producers accessing production inputs and/or technological packages (RIMS 1.1.3)*	0	5 000 (25% women)	8 300 (25% women)	M&E system of READP	Semi-annual	PCU/APCU	
Output 1.3 : Youth Apprentice Programme	10. Number of youth supported by the Youth Apprentice Programme *	0	250 (50% women)	350 (50% women)	M&E system of READP	Semi-annual	PCU/APCU	
Outcome 2 : Enhanced FOs for increased integration of farmers in markets	11. Percentage of FOs engaged in formal partnerships/agreements or contracts with public or private entities (RIMS 2.2.3)	0	60%	80%	Outcome survey, Progress report, Service Providers	Annually	PCU/APCU	FOs governance and management capacities increased
	12. Percentage of FOs' members reporting new or improved services provided by their organization (RIMS 2.2.4)	0	60%	80%	Outcome survey, Progress report, Service Providers	Annually	PCU/APCU	
Output 1.4: FOs seed capital financing	13. Number of FOs provided with seed capital financing	0	30	40	M&E system of READP, Service Providers	Semi-annual	PCU/APCU	
Output 1.5 FOs capacity development	14. Number of persons trained in FOs capacity development *	0	1 500	3 000	M&E system of READP, Service Providers	Semi-annual	PCU/APCU	
Outcome 3: Market access of target group households enhanced through improved market infrastructure	15. Number of persons/households reporting improved physical access to markets, processing and storage facilities (RIMS 2.2.6)	0	3 000	5 000	Outcome survey, Progress report, Service Providers	Annually	PCU/APCU	- Willingness of municipalities, farmers organizations and local communities to

⁴ Includes 7 500 direct beneficiaries of starter packages plus 50 per cent of the 800 beneficiaries of FO seed-capital financing.

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-term	End Target	Source	Frequency	Responsibility	
								manage marketing infrastructure
Output 1.6: Production and marketing support	16. Number of market and storage facilities constructed or rehabilitated (RIMS 2.1.5)	0	18	28 ⁵	READP Progress report, Service providers	Semi-annual	PCU/APCU	- Effective coordination from the municipalities
	17. Km of roads (linked to the selected value chains) constructed, rehabilitated or upgraded (RIMS 2.1.5)	0	10	16	READP Progress report, Service providers	Semi-annual	PCU/APCU	- Target households' access to timely irrigation facilities and crop - Recruitment of locally experienced contractors

⁵ Includes both cold-storage facilities and packing/mini warehouses and rural markets.