

Bosnia and Herzegovina

Rural Competitiveness Development Programme (RCDP)

Final project design report

Main report and appendices

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Currency equivalents

Currency Unit	=	BAM Convertible Mark
US\$1.0	=	BAM 1.566
EURO 1.0	=	BAM 1.956

Weights and measures

1 kilogram	=	1000 g
1 000 kg	=	2.204 lb.
1 kilometre (km)	=	0.62 mile
1 metre	=	1.09 yards
1 square metre	=	10.76 square feet
1 acre	=	0.405 hectare
1 dunum	=	0.10 hectare

Abbreviations and acronyms

APCU	Agriculture Projects Coordination Unit
AWPB	Annual Work Plan and Budget
BDS	Business Development Services
BiH	Bosnia and Herzegovina
BP	Business Proposal
CAP	Common Agricultural Policy
CDP	Cluster Development Program
COSOP	Country Strategic Options Paper
CPMT	Country Programme Management Team
DRC	Domestic Resource Cost
EET	Energy Efficiency Team
EFSE	European Fund for Southeast Europe
ERP	Effective Rate of Protection
ERR	Economic Rate of Return
ESMP	Environmental and Social Management Plan
EU	European Union
FARMA	Fostering Agricultural Markets Activity
FBiH	Federation of Bosnia and Herzegovina
FHH	Female-Headed Household
FMA	Financial Management Assessment
FO	Farmers' Organization
GDP	Gross Domestic Product
GIZ	<i>Gesellschaft für Internationale Zusammenarbeit</i>
GNI	Gross National Income
GlobalGAP	Global Good Agricultural Practice
HACCP	Hazard Analysis and Critical Control Points
IFC	International Finance Corporation
IFR	Interim Financial Report
IPA	Instrument for Pre-accession Assistance (to the EU)
IPARD	Instrument for Pre-Accession Rural Development
IPSAS	International Public Sector Accounting Standards
IRM	Inter-cycle Review Mission
IRR	Internal Rate of Return
ISA	International Standards on Auditing
KM	Convertible Mark
LAMP	Linking Agricultural Markets to Producers Project (USAID)
LED	Local Economic Development
LPP	Law on Public Procurement
LRFDP	Livestock and Rural Finance Development Project
LSMS	Living Standard Measurement Survey
M&E	Monitoring and Evaluation
MAFWM	Ministry of Agriculture, Forestry and Water Management
MAWMF	Ministry of Agriculture, Water Management and Forestry
MCO	Microcredit Organization
MDG	Millennium Development Goals

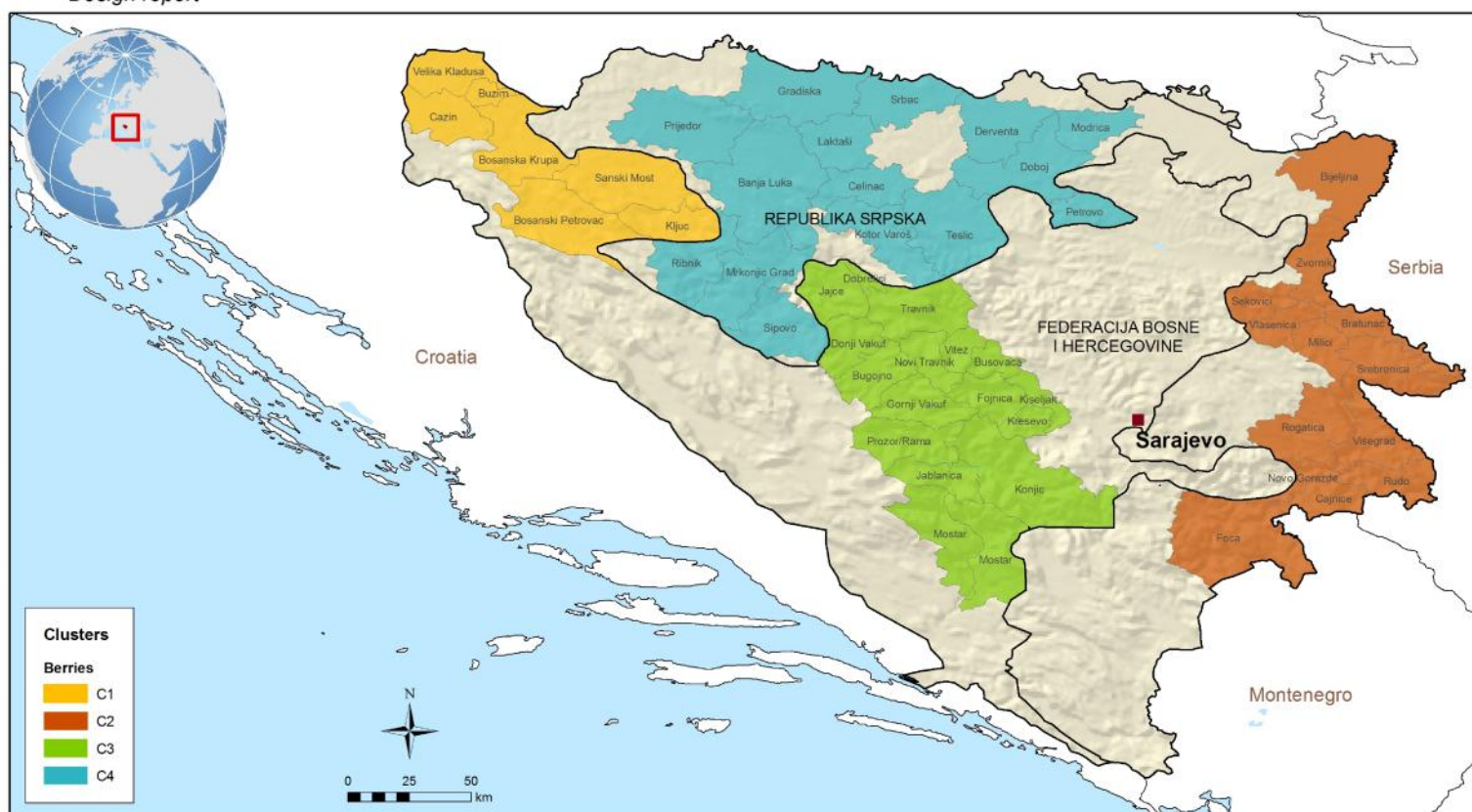
MFI	Microfinance Institution
MIDCA	Integrated Organisation Model Applied to Producer Organisations
MoFT	Ministry of Finance and Treasury
MOFTER	Ministry of Foreign Trade and Economic Relations
MTDS	Medium-Term Development Strategy
MTR	Mid-tern Review
NGO	Non-Governmental Organization
NPV	Net Present Value
NRP	Nominal Rate of Protection
NTFP	Non-Timber Forest Products
OFID	OPEC Fund for International Development
PA	Producers Association
PBAS	Performance-Based Allocation System
PCR	Project Completion Report
PCU	Project Coordination Unit
PDO	Project Development Objective
PEFA	Public Expenditure and Financial Accountability
PFI	Participating Financial Institution
PIM	Project Implementation Manual
PRSP	Poverty Reduction Strategy Paper
PSC	Project Steering Committee
PY	Project Year
RB-COSOP	Results-based country strategic opportunities programme
RCDP	Rural Competitiveness Development Project
RS	Republika Srpska
REEP	Rural Enterprise Enhancement Project
RIMS	Results and Impact Management System
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Cooperation
SME	Small and Medium Enterprise
SP	Service Provider
SPSC	State Project Steering Committee
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
USAID	United States Agency for International Development
USD	United States Dollar
VAT	Value Added Tax
VC	Value Chain

Cluster Map: Berries

Bosnia and Herzegovina

Rural Competitiveness Development Programme

Design report

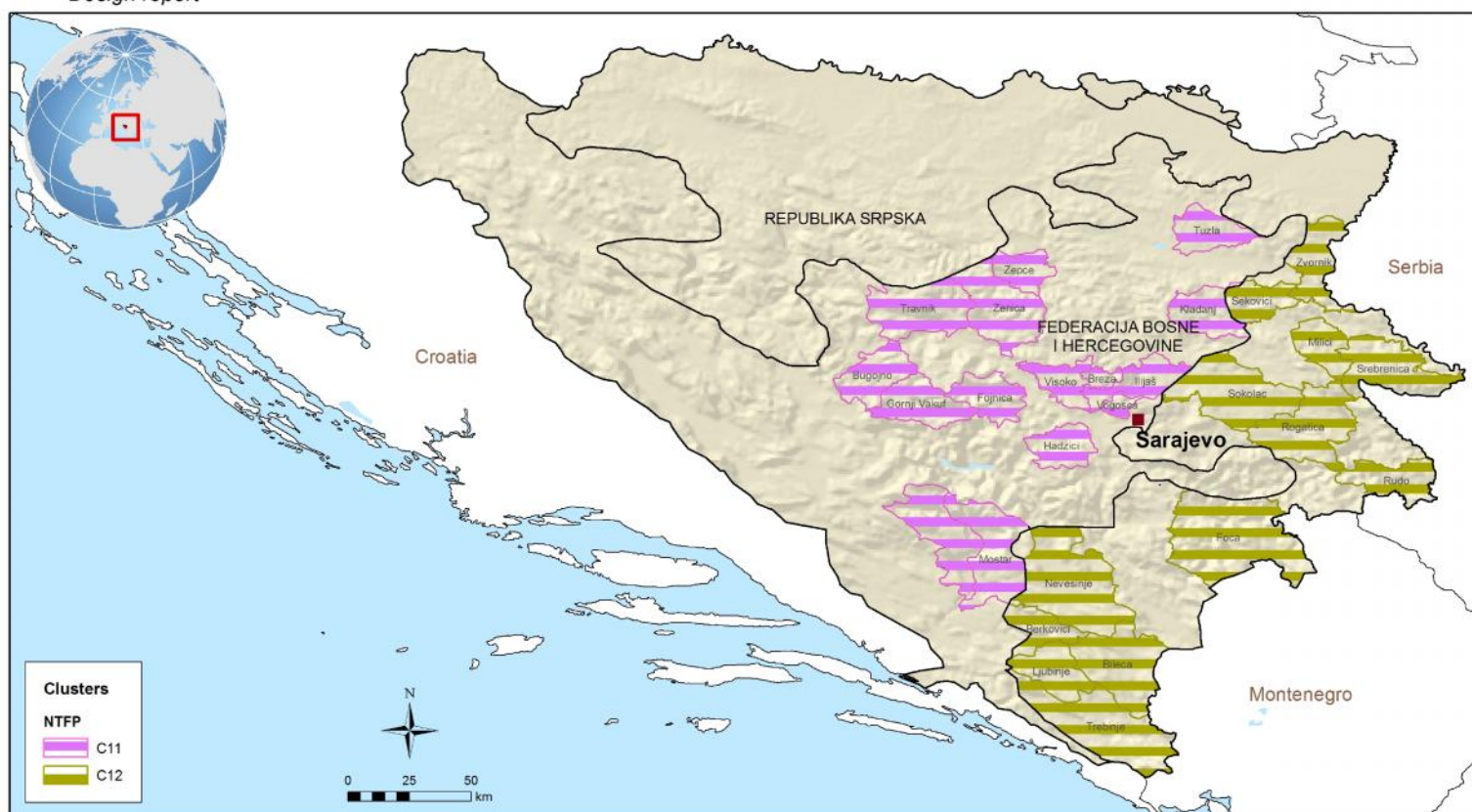


Cluster Map: NTFP

Bosnia and Herzegovina

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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.

Map compiled by IFAD | 29-05-2015

Executive Summary¹

Rationale

During the next decade, the Government of Bosnia-Herzegovina (BiH) will face the challenge to modernize its agricultural sector, based on the country's comparative advantages in a context of liberalized European and regional markets. While the agricultural sector is potentially well positioned with several comparative advantages, in particular for fruits, vegetables, non-timber forest products (NTFP) and organic products, both for export and domestic markets, the country is not yet reaping the full benefits of trade liberalization processes and existing market potential. The Rural Competitiveness Development Programme (RCDP) would be one of the main IFAD tools to support entity Governments to achieve the goal of modernizing food and agricultural systems; it is also aligned with the Bosnia and Herzegovina development strategy, and the Results-based country strategic opportunities programme (RB-COSOP 2013) with its goal to enable poor rural people to improve their food security and increase their incomes through support to non-commercial and commercial farmers, and to on- and off-farm enterprises.

Subsequently, the rationale for RCDP is based on the need for smallholder farmers, essentially the needs of poor 'non-commercial' (whether registered or not²) to: (a) access to more integrated forms of production and marketing and so become more competitive while reaching a viable commercial scale in a context of integrating regional markets; (b) increase their participation in decision making processes and become more active stakeholders in local economic development through their organisations; and (c) ensure the inclusiveness of poor farmers, women and youth men and women through their organizations into sustainable opportunities of economic development.

RCDP will focus initially on the fruits, vegetables and Non Timber Forest Products (NTFP) Subsectors, in which the best opportunities exist to realize a visible impact on rural poverty reduction and economic growth. In order to achieve the necessary structural changes for sustainable subsector development, RCDP is designed as a long-term intervention, to be implemented in two cycles of five years each. Prior to the end of the first cycle, an Inter-cycle Review Mission (IRM) will assess progress and prepare the next cycle³. At IRM, if new opportunities arise, additional Subsectors could be included.

As a variation from a more conventional approach to development based on area development approach, the strategic vision of RCDP is to use subsector development and programmatic approaches in order to support structural improvements in core areas necessary to ensure sustainable economic and social benefits.

Programme area and target group

RCDP will be implemented at national level through value chain clusters. Currently twelve clusters have been pre-identified thus constituting the Programme area for its first cycle (see appendix 2 for the list of clusters and municipalities). Given the focus on supporting the most vulnerable groups (poor farmers, women and youth) the Programme will foster the inclusion of poor municipalities that have the potential to be involved in the selected value chains in the context of larger clusters of municipalities. Typically, these municipalities will be either close to the areas currently active in the selected sub-sector value chains or municipalities where important 'poverty pockets' still subsist.

¹Patrick Herlant (Mission Leader), Rodolfo Lauritto (Team Leader), Marco Camagni (VC expert – PTA), Fedja Begovic, (Value Chain Specialist, coordinator complementary studies), Prayer Galletti Mattia (institutional specialist - PTA), Martin Mautner (institutional specialist), Agnese Tonnina (EFA and COSTAB specialist), Zoran Pavlovic (Institutional Specialist), Tamara Lampe (Programme officer) and Boris Tadic (agronomist).

² Non-registered farmers mostly have no access to subsidies

³ The programme will be implemented in 2 phases of 5 years. In FY4 the programme will be assessed –among other parameters - against specific performance 'triggers' (included in the log-frame).

Clusters will be identified on the basis of common characteristics in terms of socio-economic and institutional potential.

Targeting. Particular emphasis is placed on the inclusion of poor farmers, women and youth, and hence fosters the development of selected sub-sectors for its poverty reduction potential. Direct beneficiaries will be rural poor, both women and men, young and adults, organized in Producers' Associations (PAs) and Cooperatives active in the selected VCs. Individuals currently not associated to PAs and co-operatives can be eligible, but they should have a real possibility to be incorporated to these organisations and PAs and cooperatives are willing to associate these individuals. Among these beneficiaries, the Programme will undertake the necessary efforts to reach out to three target groups: the **very poor**, **poor** and **borderline poor**, analysing their specific constraints and challenges to access the selected VCs, and specifically analysing constraints faced by **women** and **youth**⁴. Subsequently, the targeting strategy will respond to these challenges, providing enabling measures that could allow their access to project activities. Basically, RCDP will target poor, non-commercial farmers that are not sufficiently incorporated into the supply systems that link them to the market and support them to become competitive commercial farmers.

Number of Beneficiaries. The Programme will, over a period of 10 years, directly target 16,000 beneficiaries through the implementation of Business Proposals (BPs). Over the Programme lifetime, 3,150 jobs would be created at post-harvest level (minimum 20% of jobs created for women). Indirect beneficiaries will benefit from thriving VCs and private agribusiness investments, improved subsector governance and upgraded collective marketing infrastructure. The estimated number of indirect beneficiaries is minimum 5,000 (about 30% of the number of the total number of beneficiaries).

Development objective

The **goal** of the Programme will be “to contribute to sustainable rural poverty reduction in Bosnia and Herzegovina”. The Programme development objective will be to “enable smallholders to take advantage of fruits, vegetable and non-timber forest products subsector development for the sustainable improvement of their social and economic conditions and those of other poor rural groups”.

The **expected impact** would be the effective incorporation of smallholders in dynamic fruit and vegetable and NTFP subsectors and ensure that it has durably improved economic and social perspectives for rural areas in Bosnia and Herzegovina. The Programme has a clear **emphasis** on social targeting and inclusiveness. Its **strategic vision** is to use a **subsector development approach** in order to support a core of interventions necessary for sustainable structural changes and leading to the expected economic and social benefits: tackle the related trade, policy and institutional issues and promote local economic development; leverage private sector investments through bankable BPs; ensuring social inclusiveness; promoting environmental friendly and climate-change adaptation technologies; ensure adequate supply of specialized services; subsector governance by private stakeholders and their professional organizations; and subsector performance monitoring and accountability based on active participation of local authorities, beneficiaries and private stakeholders.

Components and Outcomes

Leverage points and guiding principles. RCDP's approach is based on the private-public partnership model, whereby public funds are expected to be used to leverage private sectors' investments in a win-win partnership. Business Proposals (BPs) within clusters and subsectors will be prepared and implemented by different actors.

Component 1: Enabling Environment for Inclusive Subsector Development

Outcome 1 will be: “The improved policy and institutional environment attracts smallholders and investors to the selected subsectors.” Five elements of the subsector development approach of RCDP

⁴ More details on poverty, targeting and gender are provided in Appendix 2.

will be implemented through the component: (i) subsector governance by all concerned private and public stakeholders through consultations and joint strategic planning of interventions; (ii) developing relevant institutions' capacities in the subsectors to ensure adequate supply of specialized services; and (iii) an enabling policy framework in order to tackle the related trade, policy and institutional issues and promote local economic development, (iv) subsector performance monitoring and accountability and (v) strengthening relevant institutions capacities.

The expected results are the following: (i) stakeholder's platforms at cluster level and subsector level improve value chain coordination and subsector governance, orient public policies and investments in order to warrant long term subsector competitiveness; and (ii) appropriate technical and business development services are made available at local and entity level.

As such, RCDP's approach is based on the private-public partnership model, whereby public funds will be used to leverage investments from the private sector in a win-win partnership, the private sector can expand its business and a higher number of small-scale producers can expand their production and make it more profitable. As part of the efforts to create an enabling environment for inclusive subsector development, RCDP will help to ensure adequate supply of specialized support services, public and private.

Component 2: Sustainable inclusion of smallholders in the thriving/successful value chains

The **outcome** of component 2 will be the "Sustainable inclusion of poor smallholders and vulnerable groups in selected subsectors." The expected results are the following: (i) inclusive business proposals developed and implemented; and (ii) very poor and poor farmers, women and youth have successfully integrated into competitive and rewarding value chains.

This component intends to: (i) help improve the livelihood of small scale producers and poor collectors through sustainable and profitable farming; (ii) consolidate their organisations and their capabilities to identify forthcoming business opportunities (in terms of markets, marketing channels, new products etc.) to expand their business; and (iii) have a voice and play an active role in the multi-stakeholders coordination platforms, both at cluster level and at subsector level. RCDP will take advantage of existing value chain dynamics in the selected value chains in which the private sector (i.e. agro input dealers, collectors, processors, traders, wholesalers, retailers) is actively engaging with smallholders, either organised or individually.

Business Proposals (BPs), allowing business partners (producers and agribusiness) to plan coordinate and carry out mutually benefiting investments, will be the main project instrument under Component 2. The BP will be the main instrument of BP business partners (small-scale producers and collectors and their organisations, agribusiness companies) for the sustainable development of their joint businesses in the selected sub-sectors and value chains. BPs will also frame partner's needs in terms of capacity development and investments of which part will be addressed by public (project) funds.

Programme coordination, monitoring and evaluation

The Lead Project Agencies shall be the Federal Ministry of Agriculture, Water Management and Forestry and the Ministry of Agriculture, Forestry and Water Management of the Republika Srpska. In each Entity, project coordination as well as fiduciary management will be entrusted to the existing APCU and PCU. With the view to promoting structural change and sustainable sub-sector development, a rigorous and outcome and impact-monitoring and evaluation (M&E) system will be developed, for which project stakeholders will bear shared/ joint responsibility; the APCU and PCU will however, besides overall coordination, maintain their ultimate responsibility for M&E. Furthermore, the demand-driven nature of the Programme as well as its participatory approach that will ensure beneficiaries take the lead in selecting, following-up and assessing performance of service providers will require that PAs and cooperatives members become part of the M&E process of RCDP.

Implementation arrangements

The State Ministry of Finance and Treasury (MOFT) will have overall responsibility of RCDP and will coordinate with the Entity Ministries of Finance which are responsible for externally-funded projects. 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 Programme at Entity level. The PSC would meet once or twice per annum. Each PSC will ensure that (i) project activities are in compliance with the Government and IFAD strategies and policies and goals and objectives defined at project design; (ii) endorse strategic orientations taken up by the project (iii) review project Entity level Annual Work Plans and Budgets (AWPB); (iv) oversee the transparent selection of service providers and partner institutions; (v) ensure that Programme interventions are coordinated with other development programmes and projects and (vi) ensure adherence to the highest standards of financial management and audit. As expected, the PSC should invite representatives from the private, PAs and cooperative sectors the joint the Committee. A yearly inter-entity meeting (workshop) will assess the 'state of play' of the programme in particular as regards sustainable subsector development, performance and governance. The meeting will be co-chaired by the state-level Ministry of Foreign Trade and Economic Relations and state-level Ministry of Finance and Treasury.

The scope of the RCDP, foresees a need for partnership development and strengthening of national capacities. Most notably, the intensive planning, facilitation and coordination requirements envisaged by the project will necessitate substantial field presence both for facilitation and follow-up/ monitoring. The various responsibilities will be shared amongst the project stakeholders, detailed in the agreements and terms of reference of the contractual arrangements.

The number of stakeholders and potential partnerships that will be facilitated and/ or supported by the project anticipates a considerable increase in the number and types of implementation arrangements (with service providers, implementation partners, etc.) that may have to be adopted by the project. Effectively, the operating modalities of the proposed RCDP will likely represent a shift from previous projects; it will be critical therefore, that this new generation of project will be matched with responsive coordination and strengthened management capacity. It is further expected that the bulk of the institutional strengthening activities will be provided by service providers contracted on the market. Each organizational strengthening should be considered as a process, requiring an initial diagnostic and needs assessment.

The APCU and PCU will be responsible for coordination and liaison with municipalities, clusters and implementing partners, overall project management and monitoring, organizing start-up and annual workshops, preparation of AWPBs, fiduciary management. The APCU and PCU will recruit through a competitive process BFPs, technical advisory services, business development services and organizational development services and will establish a roster of service providers which will be made available to all BPs partners through a public Website or equivalent platform. BPs' partners will be selected and enter into agreements with services providers of their choice. Complementary, the APCU and PCU will establish the voucher scheme, which will be an instrument to pay for the services rendered by the service providers to the BPs' partners.

Programme costs and financing

The total project costs including physical and price contingencies are estimated at USD 61.45 million⁵ (BAM 106.6 million) over a ten-year period. A total of US\$ 25.5 million of IFAD-financing is expected to be mobilized over the ten-year period. RCDP will absorb the entire PBAS allocation of 2013-2015, including a loan of US\$ 12.25 million and a grant of US\$ 500,000 specifically for inclusiveness-related activities to be implemented under Result 2 of Component 2. Subject to performance and availability, additional financing of US\$ 12.75 million could be earmarked from the 2016-2018 PBAS cycle⁶, which

⁵ Project total costs may increase during implementation depending on the accessibility of credit funds provided by other IFAD funded projects.

⁶ Additional financing from the 2016-2018 PBAS cycle will be subject to attaining the performance triggers (included in the logical framework) and to country selection, applicable and available IFAD finance

will be allocated for the co-financing of Cycle 2 of the Programme. Component 2, which is the main investment component, represents 86% of total project costs.

IFAD loans will be used to fully finance: (a) Component 1; (b) Project Coordination Unit in both Entities; and (c) to co-finance Business Proposals (BPs) implemented under Component 2. BPs are expected to be financed according to the following allocation: (a) 38% from IFAD loans; (b) 5% from Municipalities; (c) 17% from PAs; and (d) 39% from agribusiness and/or financial sector.

Benefits, sustainability and exit strategy

The RCDP is expected to primarily generate substantial net incremental benefits for non-commercial farmers investing in the three selected sub-sectors a) berries; b) vegetables; c) NTFP. Benefits would directly accrue to farmers, women and youth through a comprehensive improvement of the sub-sectors' value chains returns.

The main benefits of Component 1 would result in (i) increased capacity of specialized institutions and service providers; (ii) structured and result-oriented policy dialogue/engagement at local and national levels (empowerment of local actors). Main benefits of Component 2 would be: (i) expansion of acreage of berries; vegetables and NTFP both for domestic and export markets; (ii) establishment of agribusiness agreements between value chain actors in a minimum of 12 clusters; (iii) increased revenues for about 16,000 direct beneficiaries, who will develop or upgrade their berries and vegetable production; (iv) on an average additional national production of berries would be 7,600 tonnes per annum (40% increase of the current production, considering that 20% increase is expected from new production and 20% increase is expected from improved yields); (v) institutional strengthening of 120 PAs and 100 cooperatives; (vi) at wholesale and cooperative level, significant investments in collection and processing facilities would be supported; (vii) priority target groups of IFAD, including women, youth and rural poor would receive access; (viii) creation of 3,150 fulltime and part-time jobs upstream and downstream in the value chains (estimated at 1 job per 5 farmers); (ix) particular attention will be given to support climate change resilience.

Economic Rate of Return. On the basis of the above assumptions, the ERR of RCDP would be 36.6% and the Net Present Value (NPV) would amount to USD 53.1 million. The high ERR reflects the ambition and potential leverage of RCDP; with an approach focused on clear comparative advantages and existing economic dynamics in Bosnia and Herzegovina.

Exit strategy. The exit strategy of RCDP is based on the following design features: (i) a focus on value chain clusters and linkages within a comprehensive Subsector approach; (ii) the demand-driven approach through private sector stakeholders, namely agribusinesses, POs, cooperatives and other service providers; (iii) alignment with interventions of Municipalities and Cantons; (iv) support that is mainly provided to smallholders on commercial terms; (v) focus on agribusiness activities that will be fully integrated in the regional market economy; (vi) risk mitigation through institutional capacity building of value chain stakeholders. Moreover, the operation will be implemented over a 10 years period, what will allow for the activities implemented, VCs and clusters to consolidate.

Logical Framework

Narrative Summary	Key Performance Indicators ⁷	Means of Verification	Assumptions (A) / Risks (R)
Impact. The effective incorporation of smallholders in dynamic fruit, vegetable and non-timber forest products subsectors has durably improved economic and social perspectives of rural areas in BiH.			
Goal: Contribute to rural poverty reduction in selected subsectors of BiH economy	<ul style="list-style-type: none"> - Direct beneficiary households reporting increase of at least 20% in HH asset ownership within 5 years of project support, as compared to baseline (RIMS) 	<ul style="list-style-type: none"> - Baseline and impact survey - RIMS survey 	
Project Development Objective. <i>To enable smallholders to take advantage of fruits, vegetable and non-timber forest products subsector development for the sustainable improvement of their social and economic conditions and those of other poor rural groups</i>	<ul style="list-style-type: none"> - 16,000 additional producers ((corresponding to equivalent number of HHs) receive project services and are sustainably and profitably involved in the selected subsectors. - Additional volume of produce exported :100% increase over current exported volumes - Minimal additional revenues at HH level: USD 3,000 for berries (2 dunum), USD 1500 open field vegetables (1 ha), USD 4000 (600m2 greenhouse) - Minimally 30% participation of women and youth participation in the VCs 	<ul style="list-style-type: none"> - Baseline and impact survey (resp: A/PCU⁸) - Export & production statistics - Monitoring reports of facilitators - M&E reports (Resp: A/PCU) - Survey on inclusiveness of rural poor (Resp: A/PCU) 	
Component 1. Enabling Environment for Inclusive Subsector Development			
Outcome 1: The Improved policy and institutional environment attracts smallholders and investors to the selected subsectors	<ul style="list-style-type: none"> - USD 29 million private investments leveraged in selected subsector pro-poor development - Subsector stakeholder platforms generate 3 subsector policy development proposals with their corresponding regulatory framework 	<ul style="list-style-type: none"> - Baseline and impact surveys⁹ - Monitoring reports of facilitators 	(A) Willingness of National and Entity stakeholders to cooperate and to create an enabling environment for selected subsectors (A) Demand for subsector development
Result 1: Smallholders Platforms at cluster and subsector levels improve VC coordination and subsector governance, inform public policies and orient investments in order to warrant long-term subsector competitiveness	<ul style="list-style-type: none"> - At least 12 Cluster stakeholder platforms [8 by FY4]¹⁰ established and in operation - Three Subsector Stakeholder Platforms established and in operation at county level 	<ul style="list-style-type: none"> - Monitoring reports of facilitators - M&E reports - Business proposals - Minutes of CSP/SSP meetings 	(A) Readiness of local authorities and of private sector actors to play a lead role in efforts to improve inclusiveness and coordination along the value chain
Result 2: Appropriate technical and business development services are made available at local and entity levels	<ul style="list-style-type: none"> - 60 public extension staff with updated skills and competencies - Quality and outreach of advisory services locally provided responds to requirements of BPs - A voucher scheme for BDS, organizational and technical advisory services has been set up and in operation by FY3 	<ul style="list-style-type: none"> - Extension staff competence gap analysis for each subsector and training planning - Reports of PAs and cooperatives on the performance of BDS services - Monitoring reports on the quality of the service providers - M&E reports / MIDCA¹¹ 	(A) willingness of development partners and professional bodies to participate (A) Existence of private and public advisory services that respond to the current needs of the sector (R) Classic procurement and financial management system might create delays.

⁷ Gender and age disaggregated data.

⁸ Setup and management of a robust and effective M&E and reporting system is the responsibility of the (Agriculture) Project Coordination Unit (A/PCU) – yearly analytical reporting on progress towards project targets is expected.

⁹ M&E 'baseline' policy, legal and institutional assessment (both at national and cluster level) as related to the selected subsectors (source EU sector studies preparing accession) 'final'; policy, legal and institutional assessment (source: EU and WB policy and institutional monitoring)

¹⁰ Triggers aimed at assessing programme's progress against set targets – decision points to proceed with the second phase of the project highlighted

Narrative Summary	Key Performance Indicators ⁷	Means of Verification	Assumptions (A) / Risks (R)
Component 2: Sustainable inclusion of smallholders in the thriving/ successful value chains			
Outcome 2: Sustainable inclusion of poor smallholders and vulnerable groups in selected subsectors	<ul style="list-style-type: none"> - 16,000 smallholders involved (corresponding to equivalent number of HHs) in VCs [4,000 by FY4], out of which minimum 30% are women and youth - Over the project lifetime, 3,150 jobs created at post-harvest level (minimum 20% of jobs created for women) - Minimum 10% increase of final price/value accruing to smallholders 	<ul style="list-style-type: none"> - Baseline and impact surveys - Participatory monitoring of smallholder participation in selected VCs - M&E reports - Update of financial models 	<p>(A) Willingness of VC actors to improve the coordination along the VC</p> <p>(A) Poor farmers' and vulnerable groups' interest and readiness to coordinate within the selected VCs</p>
Result 1: Inclusive business proposals developed and implemented	<ul style="list-style-type: none"> - 140 Business Proposals (BPs) [60 by FY4] between smallholders and other value chain actors have been facilitated, implemented and remain in operation - Minimum 60 PAs and cooperatives received BDS and specialised extension services - Minimum 60 PAs and cooperatives benefitting from productive/value adding assets supported over the life of the project - Minimum 20% increase in product added value - 5,000 smallholder farmers adopt climate-friendly technologies - Minimum 20% annual increase in sales (volume and value) during the first 3 years of farmers newly involved (through their BPs) in selected value chains 	<ul style="list-style-type: none"> - Survey of inclusiveness of rural poor 	<p>(A) Willingness of PAs, cooperatives and municipalities to reach out to rural poor people.</p> <p>(A) Necessary BDS clearly defined and focused on increasing VC competitiveness</p> <p>(A) Private and public value chain stakeholders are willing to leverage public funding that will be provided.</p> <p>(R) Classic procurement and financial management system might create delays.</p>
Result 2: Poor farmers, women and youth have successfully integrated into competitive and rewarding fruit, vegetable and NTFP value chains	<ul style="list-style-type: none"> - At least 30% of new farmers of the core project target group (women, youth, rural poor) are durably generating income from their activities in the selected value chains - 140 BPs adopt pro-poor inclusive measures - Minimum 20% of youth and women in decision making positions in the PAs/Coops trained in management- - Measurable improvement of FO performance (based on MIDCA assessment) 	<ul style="list-style-type: none"> - Reports from sector stakeholders on the relevance and appropriateness of the acquired value added assets - Monitoring reports of facilitators and M&E - Reports of service providers - Reports from vulnerable groups - Monitoring reports of service providers - M&E reports 	<p>(A) Smallholder farmers have access to agri-business services and information</p> <p>(A) Sound criteria for targeting are defined</p> <p>(A) Willingness of key actors to adopt an inclusive approach</p>

¹¹ The Integral model of Diagnosis for Co-operatives and Associations (MIDCA) is a flexible tool that can be used to define, diagnose, and evaluate a cooperative organization or affiliation <http://www.progresonetwork.org/media/docs/MIDCA%20Manual.doc>.

I. Strategic context and rationale¹²

A. Country and rural development context

1. With a per capita Gross National Income (GNI) of US\$ 4,780 in 2013, BiH is an upper middle-income country¹³. Its population was estimated to be 3.83 million in 2013¹⁴ and 58% of the people live in rural areas. Last Population Census was conducted in October 2013 but data are not officially available yet. Previous census was conducted before the war, in 1991.

2. After a successful post-conflict reconstruction since 1995, the economy has picked up and Gross Domestic Product (GDP) growth has averaged 2.5-3.0 % for the past two years with low inflation, but GDP growth was almost negative during 2104. This annual average GDP growth has led to a reduction in poverty of almost 4%, though the results achieved in terms of poverty reduction are fragile and are being reversed as many Bosnian citizens live only just above the poverty line. Even minor declines in economic growth can cause an increase in poverty.

3. The economy is characterised by a high level of informal employment, a high inactivity rate of people of working age (56%) and a high unemployment rate of youth (45-50%). The total ILO-defined unemployment rate is 29%, while the official or registered unemployment rate is 46.1%¹⁵, and unemployment amongst young people is twice the national average¹⁶. The service sector is the largest contributor to employment with 49.3%, followed by the industry sector at 31.0% and agriculture with 19.7% in 2010¹⁷.

4. Agriculture contributes with less than 10% of the GDP of the country. Cultivable land amounts to 1 million ha¹⁸ but less than 20% of agricultural land is suited to intensive agriculture, most of this located in lowlands and river valleys. As only about 1% of the arable land benefits from some kind of irrigation, the agricultural sector is considerably exposed to climate change related risks¹⁹. Approximately 500,000 smallholder farms continue to dominate the agricultural sector in BiH, 50% own less than 2 ha and 89% own less than 5 ha²⁰. Many of them are mixed farms, providing incomes to people that have lost their jobs in the industrial sector during the 1990s. Farming is often a poverty coping strategy or part-time source of revenues for rural households. Predominantly unreliable wholesale linkages for processing, bulking and marketing are the main obstacle for farmers to expand their business and youth to invest in agriculture. Other factors are the small size of farm holdings, low yields, a low level of mechanization, and limited access to affordable credit. Within the sector, the subsectors of fruits, vegetables and non-timber forest products (NTFP) are growing rapidly, both for export and national markets and these subsectors are accessible to resource-constrained smallholders with adequate technical and organizational support.

5. Poverty in BiH is not so much about absolute destitution but it is rather defined by social-exclusion and a lack of access to basic services and economic opportunities. BiH's Social Exclusion Index is 50.3%, indicating that half of the BiH population is, in some way, excluded within the society, being denied access to social, economic and political rights. While there is little or no extreme poverty in BiH, between 19 to 21 % of the households suffer from chronic material deprivation and between 20 to 30% are at risk of falling into material deprivation.

¹² Details are presented in Appendix 1.

¹³ World Bank, Country Classification. 2013.

¹⁴ World Bank, 2013.

¹⁵ "Progress towards the realization of the millennium development goals in Bosnia and Herzegovina 2010", Ministry of Finance and Treasury, and the United Nations Country Team. Sarajevo. July-August 2010.

¹⁶ UNDP, Human Development Report: The Ties that Bind, Social Capital in Bosnia and Herzegovina, 2009.

¹⁷ Agency for Statistics of Bosnia and Herzegovina: Bosnia and Herzegovina in Figures 2010. Sarajevo, 2010.

¹⁸ BiH Strategic Plan for Harmonization of Agriculture, Food and Rural Development, 2008-2011.

¹⁹ Drought incidences have increased and these events can decrease yields by 30% (UNDP Climate Change Assessment).

²⁰ BiH Agriculture, Food and Rural Development Harmonization Strategic Plan 2008-2010.

6. With a Human Development Index of 0.735, Bosnia and Herzegovina is ranked on 81st place out of 186 countries²¹, below than all its neighbour countries.

7. While the country has shown a general improvement along the years in the goal of reaching universal primary education, secondary school enrolment, child mortality, and child health, the country has however fallen back on its Millennium Development Goals (MDG) indicators with regard to employment of women and youth. Gender parity in education is high, especially in higher education, but notwithstanding the legal and institutional framework to improve gender equality and the empowerment of women actual positive changes in employment practices, income generation opportunities and political participation remain modest.

8. The Dayton Peace Accords created a complicated governance structure for BiH's three constituent peoples, Bosnians, Serbs and Croats, and 17 recognised minorities collectively referred to as "Others". This country structure consists of two Entities, Republika Srpska and the Federation of Bosnia and Herzegovina (FBiH), ten cantons within the FBiH, the Brčko District in the northern part of the country, and 143 municipalities (64 in the Republika Srpska and 79 in the Federation). Many different layers of government structures, made of prime ministers, legislatures, ministers, presidents, and constitutional courts govern BiH. This complex governance structure, complicated bureaucratic apparatus and limited coordination between various levels of government compelled by weak rule of law translates into an investment-unfriendly environment. They hinder BiH in its efforts to optimize international trade relations and collaboration with neighbouring countries and the EU. BiH's accession to the EU and its associated requirements has provided a strong framework for broad reform goals. Upon the signing of the Stabilisation and Association Agreement (SAA), Bosnia and Herzegovina entered into the first contractual relation with the European Union²².

9. The foreign trade deficit has decreased significantly, but is still sizeable; Croatia is one of BiH's major foreign trade partners. Its entry into the EU in July 2013 however affected significantly trade and commerce with BiH, with particular impact on the agricultural sector as certain produce is no longer eligible for export into the EU market due to the difficulty to set up state level instruments and enact legislation (e.g. for animal products: dairy, poultry and eggs).

B. Rationale

10. BiH has favourable agro-ecological and soil conditions for the production of a broad range of vegetables and fruits. Climate variations between northern continental part of Bosnia and southern Mediterranean part of Herzegovina enable provision and delivery of fruit and vegetables for the market throughout most of the year but the country remains nevertheless a net importer for most fruits and vegetables. These favourable conditions in combination with rather captive export markets represent an important potential for the agricultural sector. BiH, with its abundant forest resources, is also very suitable for the collection of wild fruits, mushrooms, medicinal and aromatic plants (MAPs) thus constituting an important income generating activity for rural people, in particular those with small revenues. MAPs are also premium products in domestic and export markets while their value chains are often complementary to fruit value chains (using the same collection points and cold storage facilities).

11. Fruits', vegetables' and non-timber forest products' (NTFP) subsectors offer particularly good opportunities for rural poverty reduction, economic and export growth in the medium and long term. These subsectors are attractive to smallholder farmers because of: (a) the possibility to maximize the

²¹ The HDI provides a comparative measure of quality of life in terms of life expectancy, literacy, education and the standard of living for countries worldwide (UNDP, 2013).

²² The Stabilisation and Association Agreement (SAA) is a new, third generation of European agreements offered exclusively to the Western Balkans countries, in the framework of the Stabilisation and Association Process. The Agreement is signed for an undefined period of time with a view to contributing to economic and political stabilisation of Bosnia and Herzegovina. States which have become members through the EU fifth enlargement have signed Association Agreements (the so-called European agreements). The basic difference between the two mentioned agreements is in the content of the "evolution clause" in the SAA and in the emphasis on regional cooperation in Western Balkans (Official site of the Directorate for European Integration, Bosnia and Herzegovina, 2015).

comparative advantages inherent to small farms in essentially based on family labour (b) their capacity to generate income and employment; (c) their potential to earn a decent incomes on small plots of land; (e) their attractiveness for mixed, part-time and even specialized farming; (f) the possibility to maximize BiH's agro-ecological potential and abundant forest resources; (g) the presence of agribusinesses interested in setting up or strengthening supply chains for both processing and fresh markets; (h) favourable market prospects, with produce that can be freely exported to the EU and other international markets and characterized by a growing consumer demand; and (i) the possibility to build up on successful initiatives developed by other development partners, including USAID, SIDA, SDC, GIZ, CARITAS, OXFAM, etc. and local economic development (LED) agencies.

12. Agricultural production is mainly organized by the private sector. The majority of agricultural holdings are fragmented with a low level of adoption of modern agricultural practices. The agricultural sector is characterized by relatively low levels of processing and reduced capabilities in terms of marketing BiH produce.

13. During the next decade, the Government of Bosnia-Herzegovina (BiH) will face the challenge to modernize its agricultural sector, based on the country's comparative advantages in a context of liberalized European and regional markets. While the agricultural sector is potentially well positioned with several comparative advantages, in particular for fruits, vegetables, non-timber forest products (NTFP) and organic products, both for export and domestic markets, the country is not yet reaping the full benefits of trade liberalization processes and existing market potential. The Rural Competitiveness Development Project (RCDP) would be one of the main IFAD tools to support entity Governments to achieve the goal of modernizing food and agricultural systems. The responsibility for agricultural and rural policy implementation resides at the entity-level ministries of agriculture. Decisions related to local support measures (subsidies and eventual investments) are mainly taken at cantonal and municipal level (in FBiH) or municipal level (in RS).

14. In alignment with the Bosnia and Herzegovina development strategy, and IFAD Strategic Framework 2011-2015, the overall goal of the Results-based country strategic opportunities programme (RB-COSOP 2013) is to enable poor rural people to improve their food security and increase their incomes through support to non-commercial and commercial farmers, and to on- and off-farm enterprises.

15. The rationale for RCDP is based on the need for smallholder farmers, essentially the needs of poor 'non-commercial' (whether registered or not²³) to: (a) access to more integrated forms of production and marketing and so become more competitive while reaching a viable commercial scale in a context of integrating regional markets; (b) increase their participation in decision making processes and become more active stakeholders in local economic development through their organisations; and (c) ensure the inclusiveness of poor farmers, women and youth men and women through their organizations into sustainable opportunities of economic development.

16. A second set of challenges is to create economic opportunities for women and youth, in particular in rural areas. Women equality indexes in BiH have been worsening since the Balkan wars, deteriorating women's role and condition in Bosnian society. Conflict in BiH and the subsequent migration of men led to a rise in the number of women-headed households representing eventually up to a quarter of the HHs in rural areas. Many elderly women live alone in rural areas, surviving without a pension or other regular income. The generally weak institutional setting and reduced number of initiatives and programme in support of women leaves a gap in terms of protection of women's rights and promotion of gender equality.

17. At farm level, women are generally involved in family agricultural production activities, performing most of the work related to irrigation, berry picking and horticulture harvesting, hence playing a very relevant role in the selected value chains. Women are often excluded from marketing and commercialization activities, preventing them from accessing and controlling income generated

²³ Non-registered farmers have no access to subsidies

by the produce. Besides lower education levels rural women's also face constraints in terms of access to organizations, such as producers' organizations and social networks. To the exception of women-led PAs, women's contribution to the value chain is also often not recognized nor can they voice their concerns or take part in decision-making processes. Among the constraints faced by rural women in boosting their economic empowerment there is limited access to land (80% of the land is owned by men), to training (e.g. modern farming techniques), and to finance, as well as lower education levels compared to their urban peers. The situation is different when women are employed by processing and trading companies, where they perceive a salary.

18. **Youth** unemployment rate is calculated to be around 50%. Young men and women in rural areas face high levels of unemployment and very limited opportunities for self-employment leading, to massive migration flows towards urban areas or abroad. Young people interviewed expressed an overall sense of distrust in the capacity of local institutions to support their economic empowerment, while voicing concerns over the widespread nepotism in the work place. Young people would be willing to work or start their own businesses in agriculture, rural tourism, and others, but they face lack of specific policies geared towards them, limited possibilities to access to credit, low levels of education preparedness, as well as lack of possibilities for undertaking vocational training, blocking their economic empowerment possibilities.

19. The development hypothesis on which RCDP is premised is that, with adequate support, smallholder farmers, men, women and young will be able to improve the competitiveness of their farming activities and scale up their farms to viable commercial units. This will require: (i) linking them to agribusiness partners and markets, technological innovation and business development services; (ii) supporting the inclusion of small farmers', women and youth in PAs and cooperatives²⁴; and (iii) strengthening PAs and cooperatives' organizational, managerial and entrepreneurial skills. A crucial dimension of a sustainable solution is to strengthen PAs and cooperatives by improving their outreach to the poorer segments of population, strengthening their organizational capabilities and enhancing their market power.

20. In order to achieve structural changes in the targeted subsectors, RCDP is designed as a long-term intervention, to be implemented in two cycles of five years each. Prior to the end of the first cycle, an Inter-cycle Review Mission (IRM) will be organized to assess progress, adjust the approach and prepare the next cycle. At IRM, if new opportunities arise, additional Subsectors could be included.

Subsector approach

21. As a variation from a more conventional approach to development based on area development approach, the strategic vision of RCDP is to use subsector development and programmatic approaches in order to support structural improvements in five core areas necessary to ensure sustainable economic and social benefits, namely:

- An enabling policy framework, at State and Entity levels in order to tackle the related trade, policy and institutional issues, and at Canton and Municipality levels, which are responsible for local economic development, are providing local subsidies and support mechanisms and local policy dialogue/engagement;
- Subsector governance by private stakeholders and their professional organizations, involved ministries and municipalities through consultations and joint strategic planning of interventions; coordination of RCDP activities with all involved development partners;
- Subsector performance monitoring and accountability based on active participation of local and country-level authorities, beneficiaries and private stakeholders/investors;
- Mobilization of the required private and public financial resources. The role of public investments, including RCDP contribution, would essentially be to leverage private sector

²⁴ PAs are rather loose organisations, which are registered but have no right to get into commercial activities.

investments. Public investments would be targeted according to priorities of private sector stakeholders, while leveraging social inclusiveness and promoting environmental friendly and climate-change adaptation technologies; and

- Strengthening relevant institutions' capacities in the subsector to ensure adequate supply of specialized services; these would include specialized extension, business development services (BDS), adaptive research, inclusive targeting and strengthened capacities to contribute to the M&E system.

II. Programme description

A. Programme area and target group²⁵

22. RCDP will be implemented at national level through value chain clusters. Currently twelve clusters have been pre-identified thus constituting the project area for its first cycle (see Appendix 2 for the list of clusters and municipalities). Given the focus on supporting the most vulnerable groups (poor farmers, women and youth) the project will foster the inclusion of poor municipalities that have the potential to be involved in the selected value chains in the context of larger clusters of municipalities. Typically, these municipalities will be either close to the areas currently active in the selected sub-sector value chains or municipalities where important 'poverty pockets' still subsist. Clusters will be identified on the basis of common characteristics in terms of socio-economic and institutional potential.

23. **Value chains.** RCDP will focus on the fruits, vegetables and Non Timber Forest Products (NTFP) sub-sectors, in which the best opportunities exist to impact rural poverty and economic growth. The selected value chains offer maximum potential for inclusion of the vulnerable groups in nearly every municipality in both entities.

24. Within the fruit sub-sector, the focus will be on the soft fruit (berries), which ranks high as an export product and provides excellent opportunities for inclusion of the vulnerable groups. Fruits production includes in particular berries, cherries, apples, pears, plums, peaches, grapes and apricots. The country is a growing producer of a broad range of berries, in particular raspberry and strawberry, but also blueberry, blackberry, redcurrant, blackcurrant and others. In this respect, the majority of activities will be related to raspberries, but also strawberries, blackberries and blueberries. In the vegetable sub-sector the emphasis will be given to the production of gherkins (both open field and greenhouse), greenhouse production of peppers, tomatoes and cucumbers, and open field production (early potatoes, peppers for the processing industry, etc.). The NTFP sub-sector is strongly export oriented and provides excellent opportunities through the collection of wild mushrooms, forest fruit and medicinal and aromatic herbs for (landless) rural households. In order to ensure sustainability of the NTFP sub-sector, the cultivation of selected crops, in combination with some value-adding activities, will be promoted.

25. **The cluster approach and geographic coverage.** The selection of clusters will be based on eligibility criteria, to ensure that those with the strongest pro-poor agenda are chosen for project support. One of the key criteria for selection of clusters will be the total number of poor and vulnerable beneficiaries that could benefit from project interventions. This number will obviously be affected by the two critical factors: (i) size of the proposed cluster, with respect to the number of municipalities, and (ii) the existing level of activities, in terms of the number of operating FOs and agribusinesses within the cluster. While the objective is to include the poor municipalities across the country, the final selection of clusters will also depend on the local initiative and the interest to participate in and support the project interventions. A preliminary identification of potential clusters has been undertaken²⁶, through a process of mapping and based on the following criteria: (i) agro-ecological conditions; (ii) level of existing activity in the selected sub-sectors; (iii) labour availability and interest

²⁵ Details are presented in Appendix 2.

²⁶ The final selection of clusters will be an outcome of a validation exercise led by the APCU/PCU.

of the farmer organizations to get involved in the selected VCs; (iv) institutional capital, in terms of the willingness of both the private and public sector to support the sub-sector development, as well as the availability of relevant support services; (v) infrastructure, especially in terms of road network; and (vi) presence of marketing infrastructure for storing, processing and/or packaging etc.. Based on this analysis, maps were produced²⁷ based on the listed criteria, suggesting the possible clusters for each value-chain²⁸. Physically, these sub-sector value chain clusters usually span up to 10 municipalities, with favourable agro-ecological conditions for production and where private and public stakeholders and actors are interlinked and willing to establish partnerships to mutually develop the value chain. Ideally, the possible clusters should include some strong / very active municipalities, but also bordering municipalities with potential for growth.

26. Specifically, in total there are six possible **berry clusters**, four in the Federation with 36 municipalities and two in the RS with 28 municipalities. This implies that the average number of municipalities per cluster is around eleven (11.7). However, within the possible clusters, some of the municipalities may not be interested to participate in the project, while some new ones in the region may be interested to step in.

27. The **vegetables sub-sector** was further split into the three most appropriate product categories: (i) gherkins; (ii) greenhouse production; and (iii) open-field production. The maps quickly point the attention to areas where certain possibilities for cluster establishment exist. For gherkins, northern parts of the country clearly demonstrate some advantages over the southern parts. However, the sub-sector is still to develop, as there is no major concentration of the activities in a single part of the country. The possible clusters for **gherkin** production are four, with 33 municipalities, around 8 on average (8.25). There are two regions in the RS with 17 municipalities and two regions in FBiH with 16 municipalities. For **greenhouse production**, in total, there are six clusters with a total of 55 municipalities (an average of 9). In the Federation of BiH, there are 4 possible clusters with 38 municipalities, while in the RS the number is a bit smaller – 2 clusters with 17 municipalities.

28. Finally, in the vegetables sub-sector there have also been considered the value chain related to **open field vegetable production**. The envisioned crops include the production of early potatoes, pepper and tomato production and similar. Compared to the other two types of vegetable production, the map is significantly less promising, with most of the country being modestly suitable for this kind of production, when combined with pro-poor targeting agenda. The exceptions are mostly in the north and somewhat in the south, with very limited areas active in central-western parts of the country, known for production of early potatoes. Altogether, these 5 potential (2 FBiH, 3 RS) clusters include a total of 29 municipalities (14 FBiH, 15 RS), or on average about 6 municipalities per cluster.

29. The third sub-sector selected for intervention under the RCDP project is the one for Non-Timber Forest Products (NTFPs). This sub-sector is very important for the landless poor as it relies heavily on the natural resources available in most parts of the country. Wild mushrooms, wild fruit and wild herbs are found in abundance in BiH, and the differences in the use of these resources and the development of the NTFP sector largely depends on the private sector initiative to organize the collection processes in certain regions. Altogether, these 8 potential (5 FBiH, 3 RS) clusters include a total of 45 municipalities (27 FBiH, 18 RS), or on average about 6 municipalities (5.6) per cluster.

30. In total, the proposed sub-sectors could include up to 26 clusters across the country. Given the project approach to work with a minimum of 12 clusters, the selection of clusters will be very competitive. In total, the 12 pre-identified clusters suggested in the Appendix 2 include 142 municipalities (98 unique), which gives an average of about 12 municipalities per cluster. The proposal includes 72 municipalities in FBiH (56 unique) and 70 municipalities in RS (42 unique). A number of municipalities have more than 1 clusters identified, but the approach of the project will remain focused on targeting the poor and vulnerable groups. To the extent possible, in case of an overlap at the municipality level, the project will avoid working in the same local communities and if

²⁷ See Appendix 2 on Cluster pre-identification

²⁸ See Appendix 2.

this is not always possible, the single household will be eligible to benefit only from the intervention related to one sub-sector.

31. The final decision on cluster composition should be made between the municipalities in the field and in the end the APCU/PCU will choose the most promising clusters.

Targeting strategy²⁹

32. RCDP places particular emphasis on the inclusion of poor farmers, women and youth, and hence fosters the development of selected sub-sectors for its poverty reduction potential. RCDP direct beneficiaries will be rural poor, both women and men, young and adults, organized in Producers' Associations (PAs) and Cooperatives active in the selected VCs. Individuals currently not associated to PAs and co-operatives can be eligible, but they should have a real possibility to be incorporated to these organisations and PAs and cooperatives are willing to associate these individuals. Among these beneficiaries, the Project will undertake the necessary efforts to reach out to three target groups: the **very poor**, **poor** and **borderline poor**, analysing their specific constraints and challenges to access the selected VCs, specifically analysing the constraints faced by **women** and **youth**³⁰.

33. The targeting strategy will respond to these challenges, providing enabling measures that could allow their access to project activities. Basically, RCDP will target poor, non-commercial farmers that are not sufficiently incorporated into the supply systems that link them to the market and support them to become competitive commercial farmers. In the implementation of the Pilot on Pro-Poor Value Chains in BiH by Oxfam Italy, the poverty characterization previously developed in IFAD designs was taken a step further. In agriculture, the simultaneous analysis of land size and household income constitutes a good starting point. The first table provides some indicative ranges for the income.

Table 1: Categorization by income per capita at household level valid for all RCDP sub-sectors

Categorization	Monthly income per capita of the household (in KM)
Very poor	Up to 200
Poor	201-400
Borderline poor ³¹	401-500
Not poor	Over 501

34. The second table has been adapted from Oxfam's Pilot experience (in the berries sector) to also incorporate the vegetables sub-sectors of interest in RCDP. The main sub-sector of interest to the project is the berry sub-sector. It includes production (cultivation) of various berry fruit, with focus on raspberries. Other products of interest in this sub-sector are strawberries, blackberries and blueberries, as well as currants.

35. Gherkins are highly profitable crops, similar to berries with regards to the contribution that these can generate to the households' sources of income. Greenhouses production can yield higher profits despite the apparent smaller surfaces, while open field production (including, but not limited to, peppers, tomatoes, potatoes, etc.) are generally less profitable, but also less labour intensive.

36. Complementing this overall situation analysis, and in order to cover all sub-sectors of interest for RCDP, the NTFP value chain is one in which the collectors' income per capita is the only criteria that applies. Collection from the wild very often constitutes an integral part of rural livelihoods in BiH, although usually, the households have no land.

²⁹ Inputs for this section are based on the methodology developed by Oxfam Italy, as part of the pilot value chain initiative started in October 2014. This pilot initiative was financed by RLDP. In addition, a "Workshop on Pro-Poor Targeting in Rural Areas in Bosnia and Herzegovina" was organized in Sarajevo on 15-16 April 2014.

³⁰ More details on poverty, targeting and gender are provided in Appendix 2.

³¹ Generally, people in this target segment are not considered de facto poor, but vulnerable to falling back into poverty (below poverty line) with the occurrence of external shocks.

Table 2: Categorization of beneficiaries by land size by sub-sector and type of production

Average land plot size	Vegetables			
	Berries	Greenhouses	Gherkins	Open field
Very poor	Up to 0.2 ha	Up to 300m2	Up to 0.2 ha	Up to 1 ha
Poor	0.21-0.5 ha	301-600m2	0.21-0.5 ha	0.51-1 ha
Borderline poor	0.51-1 ha	601-1.200m2	0.51-1 ha	1.1-3 ha
Not poor	Over 1.1 ha	Over 1,200m2	Over 1.1 ha	Over 3.1 ha

37. The categories presented in both tables (by income, and land size) are an indication of land productivity, adequate access to technology and specialised extension (among others), while the ranges are based on profitability calculations for each crop.

38. In case that a single household falls into different categories based on the land / income criteria, priority should be given to the income per capita criteria, as it probably better reflects the overall poverty situation at the household level. Nevertheless, both criteria should be included to better inform the targeting process and unfolding of the strategy adopted under the intervention.

39. **Implementation of the targeting approach.** RCDP will select smallholders, organized in PAs and cooperatives, within the targeted value chain clusters, following clear criteria to ensure transparency in selection and mitigate the risk of elite capture. Key actors in the targeting process are local authorities at municipal level (extension workers, social service centres, employment bureau, heads of the local communities, and others), as they hold the list of those people that are benefitting from social security and are hence able to determine who belongs to the three target groups (very poor, poor and borderline poor). The local authorities are also responsible for managing the entity-level Farm registers, which are a valuable source of information and can be an excellent starting point for project intervention. For the implementation of the targeting approach, questionnaires will be used.

40. The targeting process will include extensive communication with PAs and cooperatives, which will be, together with agribusinesses, the main partners for the inclusion of smallholders. In that process, PAs and cooperatives will promote the inclusion in selected local communities by explaining the ways smallholders can become a part of the existing value chain. Once the interest from the farmers is established, PAs and cooperatives will be responsible for preparing the lists of farmers, collecting the field questionnaires and organizing them into the database for further analysis³². Eventually, PAs and cooperatives should be the ones to make the final selection of the farmers that fulfil the targeting criteria, based on the knowledge of individual farmers in the field. This list will be verified by the Business Facilitation Partners (BFPs) and/or the local facilitators (such as the local development agency).

41. Local authorities will be partnering with LED/RED³³/consultancy firm/NGO that will be hired to work on cluster development as BFPs. Facilitators from the consultancy firm/ NGO would support local authorities in: (i) conducting training and awareness raising on the targeting approach and principles; (ii) capacity support to municipalities /cluster stakeholders' platforms to identify criteria and set up and implement a transparent and fair targeting approach; (iii) support the selection of beneficiaries', so as to avoid exclusionary practices and elite capture; and (iv) follow up and monitoring of targeting implementation and activities delivery.

42. **Selection of PAs and Cooperatives.** RCDP will work with PAs and Cooperatives that are active in the selected clusters. The vision of the Project is to facilitate emergence and growth of cooperatives through technical and organizational support and funds to cofinance BPs. Minimal eligibility criteria for PAs and cooperatives as project partners will be the following: (i) compliance with current legislation of cooperative and governance principles; these conditions are different for PAs

³² Sample questionnaires have been prepared by Oxfam Italia during the implementation of the Pilot project. They include questions on household assets and revenues, which are the basis for classifying the HHs into poverty categories.

³³ LED Local Economic Development Agency, RED Regional Economic Development agency

and Cooperatives; (ii) at least one formal market channel established; (iii) number of members and their categorization in poverty groups based on the landholding size; (iv) type of membership so as to give preference to organizations with a favourable proportion of women and youth among their members; (v) proven experience in developing concrete measures to include women among their members, favouring their participation; (vi) examples of willingness to expand membership, in particular reach out to smallholder farmers and rural poor; (vii) capacity to improve provision of services and guaranteeing access to production factors by all members; and (viii) work towards social and sustainable use of natural resources.

43. Representatives of target groups and PAs and cooperatives, women and youth will participate as full members in cluster stakeholder platforms to be established at cluster level. It will ensure they can monitor progress in terms of local VC development, voice their concerns on VC issues, participate in decisions taken in CSPs, interact with other partners in the cluster and VCs, etc.

44. Specific activities will be undertaken to ensure the organizational strengthening of PAs and cooperatives as well as to ensure inclusiveness and empowerment of rural poor, women and youth through their organisations. Activities will include: (i) organizational strengthening of PAs and cooperatives; (ii) information and mobilisation campaigns; (iii) business counselling for members of PAs; (iii) matching grants to leverage investments; (iv) support to ensure active participation of women and youth in PAs and cooperatives' decision-making process; and (v) information campaign on rural labour conditions, food safety, enforcement of regulations in agriculture and agribusinesses.

45. **Agribusinesses.** The involvement of exporters, wholesalers and enterprises is crucial to ensure effective access of smallholders to productive assets, finance, services and markets. Eligible agribusiness companies should comply with the following criteria: (i) proven know-how and technical expertise in the subsector; (ii) company's willingness to use environmental friendly production practices and compliance with social, labour and gender standards; (iii) company's strategy is focused on long-term presence and viable business relationships with producers; and (iv) proven experience in or formal commitment to establishing business with small producers. Regarding the inclusion of women and youth, the project will ensure that they effectively participate in and directly benefit from the BPs and throughout the value chain and not just through specific activities specially tailored for them. RCDP will prepare guidelines on proper governance and management, checks and balances and monitor the process to ensure that PAs and cooperatives will be able to engage with agribusiness companies on the basis of fair deals.

46. **Number of Beneficiaries.** The Project will, over a period of 10 years, directly target 16,000 beneficiaries through the implementation of BPs. Over the project lifetime, 3,150 jobs would be created at post-harvest level (minimum 20% of jobs created for women). Indirect beneficiaries will benefit from thriving VCs and private agribusiness investments, improved subsector governance and upgraded collective marketing infrastructure. The estimated number of indirect beneficiaries is minimum 5,000 (about 30% of the number of the total number of beneficiaries).

B. Development objective and impact indicators³⁴

47. **Leverage points and guiding principles.** RCDP's approach is based on the private-public partnership model, whereby public funds are expected to be used to leverage private sectors' investments in a win-win partnership, whereby the private sector can expand its business while a high number of small-scale producers can expand their production and make it more profitable. Business Proposals (BPs) within clusters and subsectors will be prepared and implemented by different actors.

48. The **goal** of the project will be "to contribute to sustainable rural poverty reduction in Bosnia and Herzegovina". The project development objective will be to "enable smallholders to take advantage of fruits, vegetable and non-timber forest products subsector development for the sustainable improvement of their social and economic conditions and those of other poor rural groups".

³⁴ Details are presented in Appendix 4.

49. The **expected impact** would be the effective incorporation of smallholders in dynamic fruit and vegetable and NTFP subsectors and ensure that it has durably improved economic and social perspectives for rural areas in Bosnia and Herzegovina. The project has a clear **emphasis** on social targeting and inclusiveness. Its **strategic vision** is to use a **subsector development approach** in order to support a core of interventions necessary for sustainable structural changes and leading to the expected economic and social benefits: tackle the related trade, policy and institutional issues and promote local economic development; leverage private sector investments through bankable BPs; ensuring social inclusiveness; promoting environmental friendly and climate-change adaptation technologies; ensure adequate supply of specialized services; subsector governance by private stakeholders and their professional organizations; and subsector performance monitoring and accountability based on active participation of local authorities, beneficiaries and private stakeholders. The adaptation of a sub-sector development approach will maximize impact on poverty reduction.

50. The Project will take advantage of existing value chain dynamics in the selected value chains where the private sector (i.e. agro input dealers, collectors, processors, traders, wholesalers, retailers) is actively engaging with smallholders, either organised or individually. These business relationships frequently provide in-kind credit for product pre-financing and technical assistance to smallholders. The **value added** of the project stems from: (i) expanding the number of small-scale producers/collectors benefitting from these opportunities in the selected subsector value chains (maximise inclusion); (ii) enhancing the capacity of small-scale producers to develop their business activities and to take decisions regarding the needed organisational structure (e.g. PA, cooperative) and marketing and, whenever possible, processing and value adding strategies; and (iii) creating a business environment attractive to private agribusiness investors.

51. The project is **aligned** with Bosnia and Herzegovina's development strategy and IFAD Strategic Framework 2011-2015. The overall goal of the Results-based country strategic opportunities programme (RB-COSOP 2013) is "to enable poor rural people to improve their food security and increase their incomes through support to poor non-commercial and commercial farmers, and to on- and off-farm enterprises. Within this frame, the Rural Competitiveness Development Project (RCDP) has been designed to be one of the main IFAD tools to achieve this goal.

52. The **justification** for RCDP is based on the need for smallholder farmers in BiH to: (a) improve their competitiveness and scale up their farm activities to viable commercial units in a context of local and regional markets in view of potential EU accession; (b) through farmers organizations, increase smallholder participation in decision making processes and help them become more active partners in local economic development; (c) increase the outreach and inclusiveness of farmers' organizations, so as to provide opportunities for economic development to the very poor, as well as women and youth. This will require supporting small farmers' inclusion in Producers' Associations (PAs) and Cooperatives, strengthening their organizational, technical and business skills, linking them to agribusiness partners, markets and business and financial development services. The project will strengthen PAs and cooperatives by (i) improving their outreach to poorer segments of population, (ii) strengthening their organizational and entrepreneurial capabilities and (iii) enhancing their market power.

53. RCDP is designed as a **long-term development intervention**, to be implemented in two cycles of five years each.

C. Outcomes/Components

54. RCDP will adopt the following guiding principles: (a) establishing/strengthening local clusters of value chain stakeholders and scaling up value chain dynamics through partnerships between inclusive PAs, cooperatives, agribusinesses, municipalities and LED Agencies; (b) using straightforward and effective co-financing mechanisms that allows leveraging investments of local public and private stakeholders, based on transparent cost-sharing of interventions; (c) targeting male and female smallholder farmers, adults and young, creating incentives and conditions for the active inclusion of vulnerable groups; (d) facilitating effective and sustainable agreements between

agribusinesses, PAs and cooperatives; (e) making available appropriate technical and business development services at local level; (f) promoting the newest and environmental friendly technologies; (g) promoting technologies and standards that conform EU and international market access requirements; and (h) fostering the emergence of cooperatives of the social sector and with social meaning.

55. RCDP will be implemented through two components which are complementarity with each other: (i) Enabling Environment for Inclusive Subsector Development; (ii) Sustainable inclusion of smallholders in the thriving value chains.

Component 1: Enabling Environment for Inclusive Subsector Development

56. **Outcome 1** will be: “The improved policy and institutional environment attracts smallholders and investors to the selected subsectors.” Five elements of the subsector development approach of RCDP will be implemented through the component: (i) subsector governance by all concerned private and public stakeholders through consultations and joint strategic planning of interventions; (ii) developing relevant institutions’ capacities in the subsectors to ensure adequate supply of specialized services; and (iii) an enabling policy framework in order to tackle the related trade, policy and institutional issues and promote local economic development, (iv) subsector performance monitoring and accountability and (v) strengthening relevant institutions capacities.

Result 1: Stakeholders platforms at cluster level and subsector level improve value chain coordination and subsector governance, orient public policies and investments in order to warrant long term subsector competitiveness.

57. RCDP's approach is based on the private-public partnership model, whereby public funds will be used to leverage investments from the private sector in a win-win partnership, the private sector can expand its business and a higher number of small-scale producers can expand their production and make it more profitable. This model will translate into BPs within clusters and subsectors, to be prepared, funded and implemented by different private and public partners, including the BP partners themselves, the financial sector (banks, MFIs), municipalities and the project. In this context, RCDP aims to provide an institutional space to ensure a continuous dialogue among all stakeholders to help strengthening subsector development. Two new institutional settings, each of them having its own membership and functions, will be established, namely: (i) the Cluster Stakeholders Platforms (CSP); and (ii) the Subsector Stakeholder Platform (SSP)³⁵.

58. **Establishment of local Cluster Stakeholders Platforms.** For each of the clusters envisaged under RCDP during Cycle 1 a Cluster Stakeholders’ Platforms (CSP) will be established with the aim at supporting the development of clusters and selected value chains in their territories and enhance cluster competitiveness. At local level, issues related to cluster development would be discussed and analysed with the objective of identifying key priorities to be brought to the attention of municipal and canton authorities.

59. The CSPs will: (i) validate and agree on key priority action for cluster development; (ii) identify and aggregate buyers’ demands for agricultural produce, producers’ demands for inputs, extension and BDS services; (iii) identify financial gaps and sources of funds; (iv) promote horizontal and vertical integration among value chain actors; (v) coordinate service delivery; (vi) ensure inclusiveness of poor farmers, women and youth and enhance the pro-poor content in business proposals (BPs); (vii) monitor progress achieved in each cluster and its impact on poverty reduction; and (viii) identify constraints to the development of clusters and local issues for policy dialogue/engagement.

60. The setting up of the CSP will be preceded by the approval of clusters by APCU/PCU (see Component 2 for more details). Clusters will be promoted by the project (the APCU/PCU will be in charge of reviewing the proposals, and open negotiations with municipalities prior to clusters selection

³⁵ Any institutional innovation requires time for its establishment and even longer time for its consolidation, so platforms will require continuous support by RCDP.

and approval), but clusters will be established by municipalities and local stakeholders. Clusters are expected to be composed of local PAs, cooperatives, agribusinesses, traders, exporters, municipalities, service providers, commercial banks and MFIs, Local Economic Development (LED) agencies and other donor-supported projects operating in the value chains.

61. At the initial steps, it is expected that the Business Facilitation Partner (BFP), hired by the ACPU/CPU through a competitive process, will scout for relevant and eligible stakeholders from producers' organizations (PAs and cooperatives) and agribusinesses in quality of local 'VC champions'. Subsequently, the BFP will sound out the interests of all stakeholders and the Municipalities in particular, LEDs where they exist, local service providers, NGOs and donor-supported projects active in the cluster, local branches of banks and MFIs and the initial meeting will be convened. It is expected that the BFP will serve as the secretariat of the CSP but always with a role as a facilitator, supporting stakeholders take the necessary steps to promote cluster development.

62. Individuals, firms or consortia of BFPs will be selected based on their expertise, knowledge and familiarity with value chains in the area to provide training, technical assistance and support to CSPs on VC coordination and organization of the production, mobilization of private and public sector investments, inclusion of poor smallholders, etc.

63. **Establishment of country-wide Subsector Stakeholder Platforms.** For each of the three selected subsectors a SSP will be established with the aim to improve sub-sector governance and enhance sub-sector competitiveness. Overall the SSPs will identify key priority actions required to improve the competitiveness of each subsector, including investments required in public goods (marketing infrastructure) and public services (e.g. research and development of new varieties, policy development). Additional functions will include: (i) identifying policy and regulatory issues regarding the legal framework, public resources and fiscal incentives; (ii) formulating medium- and long-term strategies for sub-sector development; (iii) contracting sector specific studies and market research for domestic and international markets, when appropriate (iv) advocating sustainable subsector development and providing advice to policy makers; and (v) enhancing pro-poor sub-sectors' linkages and impact.

64. The establishment of the SSPs may follow the establishment of the CSPs when new platforms need to be established (not the case of berries). While it is expected that each CSP at local level will focus on issues related to the enhancement of the competitiveness of each cluster, the SSPs will involve institutional actors grouped by the common interest to promote the subsector as a whole, and bring relevant policy issues to the attention of policy makers.

65. In the initial steps, APCU/PCU will be responsible for identifying relevant stakeholders starting from those involved in the approved BPs in each cluster. Subsequently, the APCU/PCU will solicit the Lead Implementation Agency (Ministry of Agriculture) to invite relevant stakeholders and convene the initial meeting to establish the SSPs. After the establishment of the platform, APCU/PCU will continue supporting the SSP, acting as secretariat, with responsibilities for convene platform's members, organize and coordinate meeting, agenda, minutes and their dissemination among members. Ideally, the APCU and PCU will work together in this endeavour although initially, each SSP has been considered specific for each Entity. Alternately, each Project Coordination Unit could carry out the secretariat function on rotation basis. Meetings could be held on quarterly basis or more frequently according to the emerging issues and the agreement reached among its members.

66. Membership could vary among SSPs based on the specificities of each sector and the particular institutional framework in each Entity. Hence, an indicative list of potential members may include: the Ministry of Agriculture; apex-level producers organizations (already nascent for the berry sector); the private sector (input suppliers, processors, wholesale buyers, traders, exporters); commercial banks; NGOs/donors with relevant activities in the subsector, etc.

67. It is expected that SSP's members will joint efforts to: (i) avoid any crowding out of private financing from the financial and/or the business sector; (ii) allocate and channel public funds to counterbalance financial market failures; (iii) building on existing product financing practices between

farmers and buyers; and (iv) building on existing practices on the supply of inputs, provision of extension services, etc.

68. **CSP and SSP Governance Issues.** Both CSPs and SSPs will share a number of governance principles. To be successful and sustainable over time, these platforms should operate on the basis of common and self-defined interests that will allow them to gradually increase their strength and sense of ownership. Their agenda, initiatives and resolutions will be taken by their members and consequently decisions need to be transparent and minutes of each meeting should be appropriately recorded and circulated. The importance of effective communication among Platform's members is crucial. In order to ensure it is effective, it is suggested that each Platform be composed of no more than 20 members.

69. The capacity of platforms' members to address issues of common interests, build mutual trust and consensus and deal with disagreements will be key elements to determine their success and sustainability. After an initial period of handholding that may last one year or even longer according to the specificities of each platform, it is expected that the role of BFPs in CSPs and the APCU/PCU in SSPs may scale down to become just complementary to the functioning of the platforms. Participation in each Platform will be voluntary

70. Any established platforms could become a legal entity or just remain as a forum for clusters and subsectors partners, depending on decisions by their members. It is actually expected that SSPs will evolve from a kind of sector platform into a respected institution dealing with sectors' relevant policy issues; kind of useful lobbying institution, constantly trying to improve the subsector environment. The stakeholders of these platforms will have most likely, due to their commercial activities, deep insights into the actual development of the respective subsectors.

71. RCDP will allocate funds to support initiatives taken by each Platform (advocacy, meetings, studies, stakeholders' forums, training sessions, etc.). Between 20,000 KM and 30,000 KM has been allocated annually to support each CSP and SSP respectively. Same as BPs to be co-financed by RCDP, funds will be provided on a matching basis, initially established as 90:10 percent, to gradually declining over time until each platform relies on its own funds contributed by partners.

72. **Effective monitoring of VC and (sub) sectors' performance.** An effective way to set an agenda for policy dialogue between stakeholders and local and country authorities is to monitor and assess the performance of the subsectors. This performance monitoring will be an important area in which SSPs contribution will be required.

73. Participatory VC and subsector performance monitoring and a revision of internal accountability mechanisms will be undertaken annually to review project achievements (part of TORs of platforms). Accountability will rather be an outcome of progressively integrating more and more stakeholders in cluster and subsector decisions making processes. Special studies will be undertaken to examine specific aspects related to subsector development (e.g. possibilities and investments required for in-country transformation and the elaboration of specific B2B products), planning, M&E, learning and knowledge management³⁶.

74. Monitoring VCs and subsectors performance requires a starting point and reference standards, which should be established at the beginning of the process and take a form of a baseline reference to follow-up, monitor and assess performance. This baseline reference will identify specific sub-sector performance indicators so that the performance monitoring can be guided by a specific set of expected results, outputs and indicators. During implementation, performance monitoring would be complemented by VC and subsectors analyses and participatory self-evaluation.

75. Sector and subsector monitoring will be coordinated by the PCU/APCU, but should be assisted primarily by external BDS providers. Data collection will be actively assisted by local authorities (municipality level), local NGOs, rural organizations and others. This support from existing local

³⁶ Details are presented in Appendix 6.

stakeholders will foster greater ownership and learning as a desired side-effect. Substantial insider knowledge about the VC and subsector performance will be made available and will be an input for RCDP's own monitoring and reporting. The emphasis on subsector development in conjunction with the long-term perspective for the project provides the necessary space for initiating change and effectively monitoring project outcomes and impact.

76. Key data will be shared on a regular basis with APCU/PCU and business development service providers. Results from the performance monitoring will allow partners further improve their competitiveness.

77. **Empowering SSPs to engage on policies affecting (pro-poor) subsector development and the allocation of public sector investments.** Successful policy engagement will depend on RCDP's capacity to approach policy makers providing supporting evidence of the issues raised, documenting the emerging achievements with impact data and business models, analyzing opportunities and threats for further subsector development. Policy engagement will take place by facilitating the initiatives of RCDP's stakeholders involved in SSPs at State/Entity level to engage in policy dialogue with decision-makers in both Entities to promote the agenda of selected subsectors.

78. The agenda for policy dialogue/engagement will derive from the needs of the subsector and (sub) sectors' performance, adequately monitored and assessed. Focus will likely lie on tackling trade-related issues, market regulations on input and output markets, issues of quality standards and requirements, certifications, and on other enabling measures to enhance the subsector's competitiveness in national, EU and non-EU markets.

79. At local level, it is expected that cluster stakeholders platforms will also engage in dialogue with relevant authorities (Municipalities, Local Development Authorities, and in FBiH Cantons) on more localized issues related to VCs and cluster development, new investments, public-private partnership, access to local development funds, inclusiveness and poverty-focus of cluster development activities, initiatives that incorporate women and youth women and men.

80. It is not enough with establishing a space for engaging in policy dialogue; it is also necessary to develop capacity of partners to engage in policy dialogue and allocate fund to facilitate the functioning of the platforms.

81. Policy dialogue will be supplemented by the preparation of related studies on specific issues of VCs and subsectors which limit their development and which need to be addressed by policy-makers to further consolidate subsector development. Potential environmental impact should be a topic of research. Provision has been made to support these studies. The studies can be proposed by CSP, SSP and the APCU/PCU and even by Entity authorities, when relevant for decision-making. These studies may include, among others, subsector studies, marketing studies, impact assessments, comparative studies on legislations, regulations and standards, learning and policy notes, and specific case studies regarding the VCs and subsectors.

82. The PCU/APCU will have the main responsibility for contracting through a competitive process consulting firm, universities and research institutions to carry out the studies. Provision has also been made to finance technical assistance from universities in the two Entities which will involve young university graduates as interns. RCDP will also provide technical assistance support and funds to hold workshops and carry out specialized training, information and communication campaigns. Priority would be given to strengthening collaboration with other development partners, as several of them are already involved in policy dialogue and stakeholder consultations regarding the selected subsectors.

Result 2: Appropriate technical and business development services are made available at local and entity level.

83. As part of the efforts to create an enabling environment for inclusive subsector development, RCDP will help to ensure adequate supply of specialized support services, public and private.

84. In order to implement BPs proposed by originators (promoters, VC champions) at cluster level, quality production related advisory services, business development services and organizational development services will be required. The Project will support the provision of a broad range of technical advisory and business development services to PAs and cooperatives, this mainly through a functional voucher system aimed at strengthening both the supply and demand for the range of services essential for the implementation of Business Proposals and sustained subsector development.

85. Supply of extension and business development support service to farmers and their organisations, both public and private, varies according to the entity considered: (i) fully financed public extension service in Republika Srpska; (ii) 'farmer-centred' extension services, helping members and their organizations and benefiting from permanent employment arrangements with cooperatives³⁷; (iii) public business development service providers tasked with regional economic development; (iv) specialised private (technical) advisory services; (v) private business development service providers; and (vi) private advisory services linked to commercial enterprises (tasked with promoting and selling inputs and securing and buying agricultural produce). In general, extension services are assisting farmers to produce more and better products, whereas BDSs are mainly supporting agro-processors.

86. The **public extension service** in the RS is thus essentially focussed on supporting primary production³⁸. Their responsibilities include the formulation of basic 'business plans' (mostly oriented in function of specific subsidies) and providing other advisory services for farmers, but these services are generally not market driven. In the RS, this service is provided by 77 staff members on entity level; out of them only 13 extension workers are dealing with fruits and vegetables. In general, the service is poorly equipped, underfunded and understaffed. In FBiH, the system, originally established at the canton level with no central service, is largely non-operational due to large administrative burden placed on the extension agents (processing/documenting of canton-level subsidy systems) and/or generally limited interest on behalf of cantonal authorities³⁹ to support the agriculture sector. Some municipalities finance extension officers to implement their municipal action plan for agriculture and livestock. These officers usually focus on technical issues, generally lacking expertise on issues regarding processing and marketing of fruits, vegetables and NTFP, farm management, BDS and cooperative management.

87. **Public BDS providers** in BiH consist of relatively important regional development agencies like SERDA and REDAH, usually initiated and seed-financed by the EU and other donors. These institutions have been established for strengthening, coordination and promotion of economic development in identified macro-regions. However, due to limited own funding, these agencies often remain dependent on donor-funded projects. Today these agencies exist just in FBiH as RS did not accept projects covering both entities. In practice, with a few exceptions, these agencies had only a limited impact on economic development. In parallel to these bigger agencies, many municipalities in FBiH have set-up small local development agencies to promote economic development, including agrifood and to get access to project funding⁴⁰.

88. **Private BDS providers** are available in most competence areas from marketing, branding and market research to legal and financial advice; however the majority of these BDS offer their services in the bigger cities like Sarajevo, Banja Luka, Mostar, Bihac and a few others. They can easily be found under business directories in the internet. The outreach of these private BDS to rural areas remains however limited the constraint being their relatively high cost (based on private sector going rates) to smallholder farmers and their organizations.

³⁷ Project support will be taken as 'incremental' and in no case it could be used to finance staff and services that are already financed by PAs and cooperatives (see table below).

³⁸ Extension offices were established throughout BiH with EU support.

³⁹ Each Canton has its own government including a cabinet of 'sector' ministers

⁴⁰ RAZ in the municipality of Zepce, ALDI in Gorazdi and the wood cluster in Prijedor are positive examples of public local economy facilitators.

89. **Private advisory services** are usually linked to companies that commercialize agricultural inputs or buy up specific agricultural produce. Their role is to secure that farmers are growing the right quality/quantity of produce.

90. RCDP will support access to a business development services **covering** in a broad range of subjects and competence areas; management, costing (product costing, gross margin calculations, marginal cost analysis, social return on investment etc.), accounting, branding and the development of marketing strategies, design of effective out-grower supply chains, service contracts, revision of existing management structures and systems, formulation and implementation of action plans, quality certification of products (e.g. Global Gap, Organic, HACCAP, ISO, and others), supply chain management, logistics, design of improved handling and inventory management systems, feasibility analysis, financial analysis, personnel management, cash flow management and other topics. As an initial step, RCDP will carry out an awareness-raising campaign in the rural areas about services available showing what impact different service providers could have to boost businesses.

91. Requirements for training, technical advisory and business development services will be identified jointly the BPs stakeholder and agribusiness, helped in this by specialists (BFPs and other subject matter specialists), and detailed in the BPs.

92. RCDP will help ensuring the supply of specialized technical and business development services in order to bridge production and business 'gaps'. This by promoting the use of innovative technologies and developing financial, business and organisational skills. The Project will foster capacity development of specialized service providers, in particular those extension and technical assistance services and business development services relevant for the implementation of the Business Proposals (be they technical e.g. post-harvest management or organisational).

93. For the provision of technical advisory services to small farmers the Project will support the development of: (a) qualified, 'farmer centred' extension services by through the training of trainers, lead farmers and groups of farmers through specialized consultants; and the dissemination of technologies and good practices in events organized by lead farmers, which can be identified by PAs and cooperatives from their own members or lead farmers from their area of coverage (b) the setup of a voucher system and (c) help increasing the local outreach of public technical advisory services

94. For what concerns Public extension services RCDP will support the strengthening of technical advisory services' capacities and outreach at local level. Public extension services in the Republika Srpska, as well as the canton and municipal level public extension services in FBiH, will receive training in different fields (production, processing and marketing of fruits, vegetables and NTFP, farm management, BDS and cooperative management) in order to strengthen their market orientation. Funds have been allocated to provide training over three years. The training will strengthen their capacity to deliver advice in the selected value chains. The participation of these services in project activities will be left to the decision of BPs' partners, who will decide if they wish to make use of their services, free of charge as they are financed by public funds, to provide any support to the implementation of their BPs.

95. **Setup of a functional voucher system.** The APCU/PCU will setup a voucher scheme to strengthen the capacity and outreach of both the required technical advisory and the BDS services at (sub) sector level.

96. The voucher scheme is a mechanism in which BP partners will get an entitlement (a voucher) to hire services from a broad range of pre-qualified service providers (instead of money), with the voucher then to be redeemed for cash from the APCU/PCU. The ultimate purpose of the voucher scheme is to empower PAs, cooperatives and BP partners to decide on how they wish to fulfil their business requirements (in terms of extension, of specialised technical advisory, of BDS); to negotiate services and to enter into agreement with service providers; to follow-up on and to assess the quality and efficiency of the rendered services. The scheme will also empower PAs and cooperatives in doing business procurement and thus stimulate entrepreneurship by giving them the equivalent of cash (the voucher).

97. The voucher scheme will make services more affordable (but not free of charge) for smallholders. The system will enable smallholders' organisations and stakeholders to choose the services they require from a repertory of service providers. The scheme will allow beneficiaries to choose the training, technical assistance and advisory services required to implement their BPs among the various private service providers across the country and hiring these BDS providers at a privately negotiated price. BP partners will select the service providers from a list (roster) of pre-qualified consultants, consultancy firms and consortia.

98. Part of the service cost will be financed by RCDP (. This will also encourage the service providers' sector to broaden the scope of their services (and eventually develop new services by ensuring a market for service-provision) to assist smallholders along the value chain. Through this scheme the service providers will be able to reach out to new clients, mainly consisting of PAs and cooperatives that previously did not have the means to afford such services. Vouchers can build additional demand for services and thus accelerate the consulting market development if smallholders are not already using these service providers.

99. Operationally, the APCU/PCU will set up the scheme, define procedures and prepare guidelines on how the scheme will be implemented, on how it will be administered (including control mechanism) and how its performance will be evaluated. A contract or an agreement between BPs' partners and services providers will regulate the relationship between the parties.

100. The management arrangements will be the following: (i) call for application targeted at interested service providers, individuals, firms and consortia interested in providing service to PAs, cooperatives and BP stakeholders (by APCU/PCU); (ii) pre-qualification of suitable candidates (by APCU/PCU with ad hoc independent specialized support). Applicants will undergo a short accreditation process handled by an ad hoc small commission of specialists. Eligibility criteria and the process of pre-selecting candidates should ensure that the roster includes a wide range of services so as to broaden the choice for the stakeholders; (iii) setup a roster of pre-qualified candidates (eligible consultants under the voucher scheme), which will be made accessible to all BP stakeholders in the Website of the Ministry of Agriculture and also in the project Website (by APCU/PCU)⁴¹; (iv) PAs, cooperatives and other stakeholders that had submitted a successful application to APCU/PCU choose one or several consultants or consultancies from the official roster. Prices may or may not be indicated in the BP; (v) PAs or cooperatives and the service provider(s) sign a contract/agreement describing the required services and expected results. A copy will be send to APCU/PCU. In return the PAs or cooperatives will receive a voucher in the agreed value from APCU/PCU; (vi) after the services are completed the consulting services, the PAs or cooperatives will hand over the voucher instead of cash to the consultants or consultancies; and (vii) the consultants or consultancies will go to the APCU/PCU and cash it in while submitting a short report about the services done.

101. The APCU/PCU will be in charge of maintaining and updating the roster of pre-qualified consultants and firms based on performance evaluation of services. The roster will be updated from time to time with a new call for interest to expand the supply of qualified service providers.

102. Follow-up and monitoring of services will be a primary responsibility of BP partners, although a role for monitoring will be reserved for the ACPU/PCU (M&E officer and/or consultants hired for that purpose), which should also involve in follow-up on the implementation of the services. To ensure understanding of the voucher scheme the APCU/PCU will hold workshops to explain in detail all necessary steps to set up and run such a scheme.

⁴¹ Based on previous experience with setting up a voucher system REDAH could support the project in setting up a small commission of experts who will examine the qualifications of the consultants. As 'selection' service provider REDAH could benefit from a fee for each tested candidate.

Component 2: Sustainable inclusion of smallholders in the thriving/successful value chains

103. The **outcome** of component 2 will be the “Sustainable inclusion of poor smallholders and vulnerable groups in selected subsectors.” **Main objectives** of Component 2 will be: (i) to help improve the livelihood of small scale producers and poor collectors through sustainable and profitable farming; (ii) consolidate their organisations and their capabilities to identify forthcoming business opportunities (in terms of markets, marketing channels, new products etc.) to expand their business; and (iii) have a voice and play an active role in the multi-stakeholders coordination platforms, both at cluster level and at subsector level. RCDP will take advantage of existing value chain dynamics in the selected value chains in which the private sector (i.e. agro input dealers, collectors, processors, traders, wholesalers, retailers) is actively engaging with smallholders, either organised or individually.

104. Business Proposals (BPs), allowing business partners (producers and agribusiness) to plan coordinate and carry out mutually benefiting investments, will be the main project instrument under Component 2. The BP will be the main instrument of BP business partners (small-scale producers and collectors and their organisations, agribusiness companies) for the sustainable development of their joint businesses in the selected sub-sectors and value chains. BPs will also frame partner's needs in terms of capacity development and investments of which part will be addressed by public (project) funds.

105. Two are the elements of the subsector development approach of RCDP that will be implemented through the component: (i) mobilization of the required private and public financial resources; and (ii) Subsector performance monitoring and accountability based on active participation of local & country-level authorities, beneficiaries and private stakeholders/investors;

Result 1: Inclusive business proposals developed and implemented

106. **Project promotion and awareness campaign, confirmation of preselected VCs and clusters.** During the initial stage of implementation APCU/PCU will hold several workshops across the country, at least 5 in each Entity, to promote the project and explain its approach; guiding principles; target groups; pro-poor and inclusive approaches; strategies and implementation modality; value chains, clusters and subsector approaches; pre-identified municipalities and clusters of municipalities; public-private linkages, leverage points etc. These events will follow the pre-identified clusters within each Entity and focus on value-chains that are specific to these clusters

107. After the start-up workshop, the APCU/PCU will contract a specialized consultancy services to update the baseline poverty information and repeat the exercise conducted during the design to pre-identify and pre-select promising clusters, which included a scoring of municipalities with potential to integrate clusters. This exercise will help confirming the proposed clusters or otherwise inform the selection of new clusters. Based on the information obtained from the exercise, APCU/PCU will promote inter-municipal coordination in regions where opportunities exist to establish a cluster. This is considered a key step in the cluster identification and development process to ensure municipalities have a better understanding of the potential for cluster formulation in their regions. Municipalities will submit their application to APCU/PCU for the approval of their clusters. As a final step of this process, the APCU/PCU will review the applications, negotiate with cluster applicants to make sure all project criteria are met and makes the final selection of clusters. In this process, APCU/PCU may initiate the revision of the cluster participants, if necessary.

108. Eventually, a minimum of 12 clusters are expected to be established around the country (probably six in each entity). It is expected that most clusters will have from 5 to 10 municipalities.

109. Local authorities will be partnering with qualified organisation or consortia of organizations (LED, RED, consultancy firms, NGOs), which will be hired to work on cluster development as **Business Facilitation Partners** (BFPs). Facilitators from these firms / NGO would support local authorities in: (i) conducting training and awareness raising on targeting principles; (ii) capacity support to municipalities /stakeholders' platform in setting up transparent and fair targeting criteria;

and (iii) carry out beneficiaries' selection process, so as to avoid exclusionary practices and elite capture.

110. Selection and training of Business Facilitation Partners (BFPs) on participatory formulation of inclusive BPs. In each Entity APCU/PCU will select through a competitive process a qualified organisation or a consortium of organizations to perform the role of **Business Facilitation Partner (BFP)** at cluster level for each of the three pre-identified sub-sectors (fruits, vegetables and NTFPs). A combination of subsectors should be explored and highly encouraged by APCU/PCU when a consortium has the experience and capability to serve more than a subsector. Main role of BFPs will be to identify viable business cases and eligible partners (producers, buyers) in one or more than one sub-sector and facilitate the participatory process of identifying and developing as many win-win, viable and bankable BPs as possible. The establishment of consortia of organizations that could ensure a better coverage of the region will be encouraged, particularly when it will better serve with its human, logistic and financial resources an specific region or sub-sector.

111. In the selection of BFPs, APCU/PCU will take into account: (i) how candidates are planning to operate; (ii) their experience in facilitating win-win public-private partnerships and pro-poor and inclusive approaches, particularly inclusive business relationships between poor small-scale farmers and buyers; (iii) commitment to gender equality and engagement with youth (iv) knowledge of sub-sectors and value chains; and. (v) expertise in providing business development support services to small scale producers' organizations and facilitating participatory business development processes. Additional selection criteria will take into account the geographic presence, particular knowledge of a specific territory, technical expertise offered by the candidate organization or consortia, experience working with one or more of the pre-selected sub-sectors, implementation capacity to cover one or more value chain, clusters and sub-sector.

112. BFPs induction workshop (induction training). Soon after the BFPs selection process has been completed, an induction workshop will be held in each Entity to provide BFPs with background information on: (i) the overall project proposal; (ii) approach and strategies; (iii) guidance on the facilitation role each BFP is expected to play at cluster level, (iv) the role of partners in clusters, value chains and BPs; (v) how the process of identification, preparation and submission of BPs is expected to be implemented, and (vi) BPs' scope and minimal content. Particular attention will be given to: (a) the project targeting methodology and eligibility criteria for producers organisations and private companies; (b) how to maximise inclusiveness and pro-poor nature of BPs in order to gain the support by the project; and (c) BPs' funding strategies, which will necessarily require the combination of private and public financing, in addition to project funds.

113. A proper induction workshop of BFPs combined with close monitoring by the APCU/PCU during implementation should ensure consistent and coherent project implementation across the two entities and for the three pre-selected sectors.

114. BP targeting. The Project will undertake, in consultation with PAs organizations and municipalities, specific actions to reach out to rural poor, youth and women. Priority will be given to specific partnerships that will ensure an equitable access of poor groups to project support. It will be the role of the BFPs to monitor the effectiveness of the efforts aimed at ensuring an inclusive targeting and that these specific target groups benefit from funds allocated by the Project to motivate their participation (top-up of 20%). Young landless farmers may rent land on long term lease or apply for publically-owned land in their municipalities. As part of their commitment in cluster development, municipalities are expected to expedite the process and facilitate access to land, especially for young people, who may or may not become registered farmers, and women, particularly female-headed households. The project has allocated funds under a "starter package" for production that can be adapted to better suit the needs of poor/vulnerable groups.

115. Identification and preparation of BPs with support of BFPs. The BP will be developed starting from market opportunities, hence the "BP originator(s)" will likely be the actor(s) who is(are) in close contact with that potential market, i.e. is performing the marketing and selling function of that

particular product in the selected cluster. Three different actors or stakeholders can be BP's originator(s): (i) eligible producers' cooperatives with extended membership and related governance structure bulking production from members and non-members, usually called 'cooperants'; (ii) eligible intermediaries (e.g. traders, lead farmers) linked to producers associations (PAs) and/or individual farmers; and (iii) eligible private agribusiness companies (collectors, processors, wholesale buyers and exporters) sourcing from organised or individual producers or collectors.

116. BFPs will be in charge of performing a preliminary screening of potential BP originators in each cluster on the basis of few eligibility criteria, specific for each category (see appendix 4 for more details). Basically cooperatives should be in line with the legislation and internationally agreed cooperative principles; be able to provide evidence of past consistent sales to a national or export market and/or market opportunity identified; profile of their membership; be open and willing to expand membership and to reach out to new farmers, in particular women and young men and women; be open and willing to improve their services and access to production factors, and work towards social and sustainable use of natural resources. Meanwhile, agribusiness companies should have proven know-how, technical expertise and economic activities in the subsector; business practices that are environmentally friendly; comply with social standards (labour, gender); business strategies based on long-term investments and viable business relationship with suppliers (producers, collectors, PAs and cooperatives); and demonstrate commitment to establish long-term business engagement with poor small producers and collectors.

117. Only those BP originators that comply with the eligibility criteria will be able to proceed with the preparation of a BP. The BP originator, with the support of the BFP, is supposed to lead the preparation of the BP. As expected, the BP will respond to its priorities and business development plans. Ultimately, there would be the BP originator who will submit the BP to different sources of funding, including the project.

118. The BP will include activities and investments to be funded complementarily by a number of different private and public financing sources, including the BP partners themselves, the financial sector (banks, MFIs), municipalities and the project. As a general principle, funds from the project will be used only to co-finance services and investments on public and semi-public⁴² goods and services required to turn small-scale producers/collectors and their organisations into a more viable actor in the value chains. It is expected that funds from municipalities will be used for the same purpose. Conversely, as part of viable and bankable BPs, complementary investments in private goods required by the VC business partners will be provided by other private market-based financial sources.

119. BPs should be prepared in a very participatory way by involving stakeholders during the whole process and ensuring their buy-in on the BP objectives, targets, implementation arrangements and are supposed to be demand-driven (based on and tailored to the specific needs of the parties involved). BFP should carefully play its role of facilitator creating the enabling conditions (e.g. trust) for the dialogue between the parties.

120. As a general reference, they can include some or all of the following business / value chain development strategies: (i) Process/product upgrading aims at "doing things better and/or bigger". These may include enhancing the efficiency of production processes such as using better inputs (e.g. better quality of seeds) or reducing costs, which can lead to greater margins or more productivity (higher yields), and hence larger volumes of produce sold; (ii) Functional upgrading which looks at the opportunities of a particular actor to move up the VC by taking on new value-adding functions (bulking, transporting, grading, processing and marketing). It implies a careful assessment of additional costs and risks, as well as potential benefits. Partnerships (e.g. joint ventures) with other VC actors already performing these functions could also be explored as part of the upgrading strategy; and (iii) helping to formalize through written contracts horizontal and vertical integrations

⁴² A "semi-public" good is a good that is owned and used collectively by a group of individuals for a common purpose. Typical example is a productive or processing equipment or infrastructure used by a group of farmers.

between organized producers and Pas and cooperatives and its members, a processing company and its producers/collectors, and actors in the same VC.

121. Among the **eligible activities** the BPs could include advisory activities and investments in areas such as: (a) technical advisory services and training to the producers (collectors) to adopt or upgrade their technologies and farming (collection) practices in order to meet market requirements and standards and cope with environmental sustainability and climate change; (b) obtain and renew certification labels and comply with quality standards of buyer and/or of the end market (e.g. Global Gap, Organic, HACCAP, ISO, organic, fair trade and others); (c) on-farm investments required to ensure production (seedlings, pesticides, fertilizers, on-farm irrigation schemes, etc.); (d) investment in collective productive infrastructure and equipment such as collection centres, storage rooms, warehouses, transport, and post-harvest equipment for grading, sorting, aggregating, and processing small producers' produce –provided that they are ultimately owned and managed by farmer's groups; (e) institutional and organizational strengthening of eligible PAs and cooperatives; (f) business development services (BDS) to enhance PA and cooperatives business management capacity; and (g) BDS and support (e.g. co-funding business to business trips, participation in fairs) to the agribusiness companies for market intelligence and marketing activities.

122. **Mainstreaming climate-change resilience and adaptation.** The Project will facilitate access to technologies and strengthening of capacities to adapt to climate-change at small-farm level, for example, promoting technologies for efficient irrigation and efficient use of energy sources, promoting equipment and technologies to reduce weather-related vulnerabilities at small farms level, introduce eco-labels to market local products, promote organic production. A top-up of 20% would be provided by the Project to encourage that during the preparation of BPs partners are motivated to include investments in climate change resilient, environmentally friendly, organic production, and energy efficient infrastructure and technologies.

123. **Cost sharing of BPs.** The main principle of the project is that each BP should include a cost sharing arrangement among different financing sources from the project and municipalities (public sector) and producers organisation, agribusiness partner and a financial institution, if necessary (the private sector). During BPs' preparation, all possible financing sources, private and public, will be identified and contributions and disbursement schedule from each source will be established. As a *rule of thumb* the project will co-finance extension and advisory services costs, and productive, processing and marketing assets. Working capital requirements might be provided by BP partners through value chain finance mechanism (contract farming) already well-established in the country, or by borrowing from the financial sector.

124. Main activities to be financed will include: (a) financing of training and capacity building; (b) financing of the 'starter packages' for new producers belonging to project target groups. (seedlings or seeds, drip irrigation system, pesticides, fertilizers and other items relevant for specific value-chains) for *new* producers (i.e. additional poor farmers included in the value chains) with the remaining to be funded by municipalities (10%) and beneficiaries (50%); (c) financing of investments. The project will finance the cost of collective equipment and collective post-harvest handling and processing facilities (70%) that are considered semi-public goods. The balance will be provided by beneficiary producer organisations through own resources or loans from the financial sector; and (d) financing climate-smart investments in areas in which the production in the selected value-chains is already developed and the existing producers meet the poverty criteria. The Project would provide an additional grant incentive (10% of the total amount) for investments in climate change resilience and adaption (see Cost sharing of Investments in table hereunder).

125. The project will not finance individual **working capital** for producers already engaged in the value chains. There is the evidence that financing mechanisms already exist in the value chain. These requirements are usually financed with short-term loans from the financial sector (bank or MFI) or through advance payments arrangements with buyers.

126. Finally, the Project would provide an additional (top-up) grant incentive (10% of the total amount) for investments that enhance the **inclusion of vulnerable groups and rural poor** in BPs. The two additional 10% top-up grants can be combined if appropriate. See table 3 below for more details.

Table 3: Cost sharing of investment support

Activity	Public sector		Private sector
	Project	Municipality	Producers and agribusiness ⁴³
Starter package for new poor producers (inputs, irrigation)	40%	10%	Individual producers 50%
Training and capacity building (private extension services, BDS, organizational strengthening, market intelligence, certification)	20%		Agribusiness company 80%
	70%	10%	Coop 20%
	70%	10%	PA 20%
Collective production equipment	70%		Coop 30%
	70%		PA 30%
Collective processing facilities	70%		Coop 30%
Investments that promote climate-change resilience and adaptation	top up of 10%		
Inclusion of vulnerable groups: investment support	top up of 10%		

127. **Role of the financial sector.** In some cases BPs will be funded exclusively through a combination of funds provided by BP actors, i.e. farmer organisation and agribusiness. In other cases, additional financing from the financial sector, for example to cover cash flow requirements for the purchase of products, will be needed. These needs should be identified during the preparation of the BP, and it will be left to the cooperatives to explore possible financial sources.

128. **BP assessment and approval.** The project will establish a BP Assessment Committee (BAC) with the specific task of reviewing and assessing BPs. The Committee will be composed of three to four members: a representative of a development organisation with strong pro-poor orientation; a representative of a financial institution; and an agribusiness specialist hired to provide technical advice to the project and a VC specialist when necessary.

129. The BAC will review the viability and the pro-poor nature of each BP and provide a written technical opinion to the APCU/PCU. This opinion can be positive, hence the BP is subsequently submitted for final approval or partially positive. When a BP is considered partially positive because it does not meet the quality standards, it will be send to the BP applicants with specific recommendations for improvement.

130. Main criteria for assessment will include: (i) formal buy-in and commitment of the parties involved in the BP supported by a formal agreement (e.g. contract agreements); (ii) financial viability and sustainability of the proposed business; (iii) number of new small producers/collectors reached and incorporated in the BP, with particular emphasis on number of women and youth; (iv) expected increase in the volume of production purchased from small producers; (iv) win-win (pro-poor) features of the proposed business (i.e. duration, existence of a transparent price setting mechanism, suitable payment terms, risk mitigation measures, amount of value-added shifter closer to the farm-gate); (v) grievance mechanism foreseen to settle potential disputes among parties; (vi) share of total cost of (investments, working capital and technical assistance requirements covered by the agribusiness company or farmers organizations from their own funds; and (viii) when necessary, review any specific evidence of the availability of funds to finance working capital and/or investments.

⁴³ It is expected that a portion of these funds will be provided by other actors within or outside the value chain such as financial institutions (banks, MFIs) and other private companies (buyers, traders, exporters, processors etc.). However it is impossible to estimate this at this stage.

131. BFPs, BP originators and the BCP will ensure that there will not be any transfer of land rights from farmers to private companies envisaged in the BP.

132. **BP approval.** Following the assessment of BPs, BP originators and their business partners will be formally invited to present their BPs to the BAC committee. The presentation will be carried out by BP partners themselves to ensure their full participation in its preparation, understanding and ownership of the BP. The BFP that facilitated the preparation of the BP will attend the presentation just to support the BP originator if needed. The BAC approval process will be chaired by APCU/PCU.

133. **BP implementation with the support of selected BFPs⁴⁴.** The project will hire BFPs to support the implementation of BPs. Depending on the quality of the services provided by BFPs during the identification, preparation and approval of BPs, the same BFP could be hired to facilitate its implementation. If that is not the case, another BFP will be selected from a roster of service providers established by APCU/PCU through a competitive process, which will be available in the Website of the Ministry of Agriculture.

134. Main functions of the BFP during this phase will be to: (i) monitor compliance with project targeting methodology and criteria to ensure project target group are effectively included, participate and benefit from the implementation of BPs; (ii) monitor the effectiveness and efficiency of activities implemented (training, technical assistance and business development services provided, development support, quality of assets purchased etc.); (iii) facilitate dialogue and conflict resolution between parties if necessary; (iv) facilitate clustering and bundling of BP activities in order to achieve economies of scale and reduce administrative costs.

135. **Phasing of BPs.** It is expected that the project will gradually expand the number of clusters until reaching a minimum of 12 clusters. This expansion in the number of BPs identified, prepared and approved will grow accordingly. Over the ten years duration of the project it is estimated that a total of 140 BPs will be implemented, involving all three types of BP originators: 55 originated by producers' cooperatives, 45 by intermediaries and 40 by agribusiness companies. Over 15,000 poor small producers and collectors will be directly benefitting from the implementation of the BPs.

Table 4: Phasing of Business Proposals

Approved BPs	Y1	Y2	Y3	Y4	Y5	Y6	Y7	Y8	Y9	Y10	Total
Clusters	4	6	8	10	10	10	12	12	12	12	12
BPs Coop	4	7	7	7	3	3	8	8	8	-	55
BP funds	558 000	976 500	976 500	976 500	418 500	418 500	1 116 000	1 116 000	1 116 000	-	7 672 500
No. Beneficiaries	400	700	700	700	300	300	800	800	800	-	5 500
BPs Intermediaries	3	5	6	6	2	2	7	7	7	-	45
BP funds	211 500	352 500	423 000	423 000	141 000	141 000	493 500	493 500	493 500	-	3 172 500
No. Beneficiaries	150	250	300	300	100	100	350	350	350	-	2 250
BPs Agribusiness	3	5	5	5	2	2	6	6	6	-	40
BP funds	486 000	810 000	810 000	810 000	324 000	324 000	972 000	972 000	972 000	-	6 480 000
No. Beneficiaries	600	1 000	1 000	1 000	400	400	1 200	1 200	1 200	-	8 000
Total BPs	10	17	18	18	7	10	21	21	18	-	140
Total BP funds	1 255 500	2 139 000	2 209 500	2 209 500	883 500	883 500	2 581 500	2 581 500	2 581 500	-	17 325 000
Total beneficiaries	1 150	1 950	2 000	2 000	800	800	2 350	2 350	2 350	-	15 750

136. **Result monitoring.** The project will ensure a close monitoring of the implementation of BPs in order to ensure that each BPs' party is actually delivering according to its commitment; verify that poor small-scale producers and collectors are effectively benefitting from the economic benefits generated and that also the social benefits (related to the inclusion of specific target groups is achieved as planned). The project will also produce a number of knowledge products (guidelines, manuals, case studies and a collection of lessons learnt) to inform about good practices and so provide guidance to the Government and other stakeholders to replicate and scale-up the approach.

44. Coordinated service delivery (support to development of necessary competences at FO level, hiring of technical and BDS service providers through the voucher system, mobilizing resources according to cost sharing and financing agreements)

Result 2: Very poor and poor farmers, women and youth have successfully integrated into competitive and rewarding value chains.

137. **Rationale.** Very poor and poor farmers need to reach a certain viable, commercial scale to be able to integrate competitive value chains and so benefit from rewarding markets. As these producers are mostly not registered (limited by the scale of their production) they often fall outside specific support mechanisms, be these at national or at municipal level. Very poor farmers may also face difficulties in accessing land on a long term basis, or, as in the case of female-headed households face difficulties with land titling (customary inheritance benefiting male descendants) The way forward for very poor and poor farmers, women and youth is then mainly through their integration in functional farmer organization. Existing organizations are however often characterised by their small membership base and generally weak governance structures. This limits their appetite for taking up risk ability to develop commercial ventures and increase their outreach to poor farmers.

138. Cooperatives are also very varied in nature; the law on cooperatives allowed five people to establish a cooperative, practise that somehow played against the concept of cooperatives as part of the 'social economy' organizations . Most of them thus operate more as limited liability companies (cooperatives are cheaper to register, have lower operating costs and can eventually access government subsidies or/and donor support,). These cooperatives usually rely on non-members ("cooperants") to develop their enterprises. Their activities typically include collecting and marketing of produce and as such their activities do not differ much from purely commercial ventures. Investments in this type of cooperatives should thus be carefully weighed against potential benefits for the very poor and poor farmers (e.g. in terms of enhanced market access).

139. Cooperatives owned and run by small farmers thus typically mix with the above described cooperatives. In order to fulfil their potential as social enterprises cooperatives that are effectively owned by small farmers (or Producer Associations) will benefit from project support to develop their capacities and increase their outreach to very poor, poor, women and youth.

140. **Improvement of women and youth's participation in rewarding VCs.** A wide range of opportunities for increasing involvement of women in value chains and for gender equity exists. Increasingly women become also part of farmers' organizations management structures. (With regards to upstream activities it emerges from the gender value chain analyses carried out for the design, that women's involvement in has markedly increased in the collection of NTFPs and productive side of the VC but decreased on the marketing side of the equation..

141. These observations are strong arguments for the need of the project to fund, at a very early step of project implementation, in-depth studies on conditions and existing socio-economic opportunities for women in order to boost their participation in rewarding VCs. Funds from the grant have been allocated by RCDP to analyse the roles and power structures that determine relationships between stakeholders in the selected value chains.

142. A preliminary analysis will inform about the obstacles that prevent poor farmers and particularly women and youth from participating in and benefitting from rewarding VCs, identifying the specific constraints to their participation and the specific measures needed to ensure their access to rewarding VCs. CSPs will be the forum where specific measures should be discussed and agreed.

143. RCDP, the cluster platforms that the project will help establish, and the selected BFPs will undertake the necessary efforts to reach out to poor and very poor farmers being the latter groups the most likely excluded from PAs and Cooperatives.

144. Actions will include 'production starter packages' for very poor and poor farmers, specific funds to incentive participation of women and youth in BPs ('top up'), facilitating land access by municipalities, specific training and awareness campaigns to solicit the interest of marginalised groups and others. Actions should be set up in association and coordination with PAs, cooperatives and in close collaboration with municipalities. Women and youth's involved in producers' organizations should benefit from complementary skill development training to feel in competence and knowledge

gaps (e.g. participatory planning, leadership skills, etc.). In municipalities with a significant number of poor and vulnerable households wishing to become value chain participants, the “production starter packages” may be adapted to better suit the needs of poor and vulnerable farmers.

145. In addition to the different mechanisms, tools and partners’ efforts to ensure project activities reach the very poor and poor farmers, women and youth, a grant of US\$ 500,000 has been allocated to finance specific activities to ensure inclusiveness, monitoring the inclusion of the project target groups and to finance the initial project information campaign.

146. Induction training by BFPs and APCU/PCU on inclusive VC development and targeting.

Similar to the workshop organized to the benefit of the BFP (on targeting and inclusive VC development), BFPs (with the eventual support of APCU/PCU) will organize workshops for all stakeholders involved in local value chains and clusters (private sector, PAs and cooperatives, Municipalities, youth and women’s organisations) to ensure inclusive targeting and monitoring, pro-poor and inclusive approaches, the implementation of enabling measures for women and youth to actively participate in BPs and project activities, make a proper use of top-up funds and starter packages to ensure inclusiveness, and set a monitoring system able to portray this dimension. Workshops could be carried out by an organization/NGO with experience in poverty targeting and gender able to portray.

147. Organizational strengthening of PAs and cooperatives (capacity development in a broad perspective). RCDP’s vision is to enhance market power of small farmers in the value chain through strengthening of PA and cooperatives. Based on needs assessment, systematic efforts should be undertaken to strengthen PAs and cooperatives organizational capabilities and skills so that they can – among others, represent small farmers and in general act as exponents of the social economy. The Project will actively support cooperatives willing to, broaden their membership (to 15 members and more), engage at cluster platform level and ultimately prepare business proposals. Cooperatives and PAs would be assisted to become more business-oriented and more active engaging more members, particularly the small famers.

148. Specifically, RCDP will: (a) support the transition from Producers Associations to commercial entities, namely farmers’ cooperatives and farmer owned companies to become more business oriented and ensure sustainability over time; (b) support the gradual consolidation of producers’ organizations into apex organizations; and (c) strengthen the capacities of producers’ organizations (farmers’ cooperatives and agribusinesses) to submit and implement BPs with the support of the BFPs. The bulk of the organizational strengthening will be supplied by service providers contracted through competitive process and will be broad in scope, going beyond the specific activities implemented by the project to develop capacity and institutions that will be available at local level.

149. Training requirements will be identified by the producers’ organizations, facilitated by BFPs. This training and capacity development will include capacity building of PAs and cooperatives and advisory services in production related advisory services, business development services and organisational development services. It will include membership increase and participation, leadership, good governance, business development, branding development and marketing strategies, design an effective out-grower supply, quality certification of products (e.g. Global Gap, organic, HACCP, ISO, and others), supply chain management, logistics, inventory management, strengthening of management structures and systems, financial management and communication skills, inclusiveness, sustainability and others. The ultimate objective is to have stronger, more commercially-oriented and more inclusive, sustainable, local grassroots organizations which set their own goals collectively, take informed decisions and have increased negotiation skills to participate in decision-making instances at value chain and cluster levels.

150. As planned, the training will be organized in modules arranged according to the needs and strength of each participating organization. Modules will be spread along 18 months for PAs and organisations. Training and technical assistance support for the organisations will be supplied by service providers, which will be selected from the roster of services established by APCU/PCU, while

the services will be paid with vouchers administered by APCU/PCU. Funds have been allocated to cover a significant number of organizations with different level of strength.

151. Participatory impact result monitoring as regards to the inclusiveness and pro-poor approaches developed by the intervention, knowledge management and promotion.

Monitoring of inclusiveness and gender issues. Monitoring of inclusiveness will be undertaken to look at impact of the interventions on the core target group. A civil society organization or NGO with experience in poverty targeting and gender will be contracted by APCU/PCU: (a) to develop tools and methodologies that enable BFPs to reach out to rural poor people, women and youth; (b) to support define and implement, mechanisms and activities to enable them to participate in the RCDP, (c) to support the build-up of capacity at APCU, PCU, municipalities, other cluster development stakeholders and implementing agents in the field of poverty targeting and gender; (d) to provide necessary backstopping on targeting and inclusiveness during implementation; and (e) to monitor inclusiveness and to support reporting on achievements and progress; and (e) ensure that disaggregated information can feed the RCDP M&E system. The service provider will operate under the direct supervision of the gender officer and close cooperation with cluster development facilitators. The service provider will build on the knowledge developed by Oxfam Italy pilot activity in 2014.

152. Monitoring of inclusiveness will include: (a) definition of baseline for each selected cluster and at subsector level in terms of each category of beneficiaries (very poor, poor, borderline poor), gender focused analysis, (b) facilitators' training and mentoring to define monitoring tools in each Cluster development plan, (c) survey on inclusiveness at the end of each programme cycle and definition of recommendations. As part of the induction training (workshop), the project will ensure the training/awareness to key actors about the targeting criteria.

D. Project Coordination, Monitoring and Evaluation

153. The Lead Project Agencies shall be the Federal Ministry of Agriculture, Water Management and Forestry and the Ministry of Agriculture, Forestry and Water Management of the Republika Srpska. In each Entity, project coordination as well as fiduciary management will be entrusted to the existing APCU and PCU.

154. With the view to promoting structural change and sustainable sub-sector development, a rigorous and outcome and impact-monitoring and evaluation (M&E) system will be developed, for which project stakeholders will bear shared/ joint responsibility; the APCU and PCU will however, besides overall coordination maintain their ultimate responsibility for M&E.

155. Critically, RCDP will thus have to shift its attention towards project coordination, monitoring and evaluation of all project supported activities. The demand-driven nature of the project as well as its participatory approach that will ensure beneficiaries take the lead in selecting, following-up and assessing performance of service providers will require that PAs and cooperatives members become part of the M&E process of RCDP. Participatory result monitoring as regards to inclusiveness and pro-poor approaches, or to take informed decisions at policy level will require to setting up of a consistent M&E system that will ensure actors and partner are part of the system, generate, collect, and review information on their own activities and that the information fluxes from the field and is channelled to the decision makers.

156. Inputs to M&E will be provided at decentralized level by the clusters, whose M&E capacity will be supported by BFPs and service providers, ensuring that disaggregated information on targeting effectiveness on different target groups are provided, as well as capturing project outcomes/impacts on different beneficiaries' groups.

157. Monitoring of activities will be a participatory endeavour, directly involving rural organizations, so as to foster project ownership and shared learning processes. Specifically, APCU/PCU will be responsible for M&E, coordinating the facilitation work and project monitoring and evaluation. Funds have been allocated to finance: (a) equipment; (b) management support; (c) a MIS and monitoring

and evaluation system. Detailed cost for project management and coordination are presented in COSTAB tables as well as in Appendix 5. Details on M&E are presented in Appendix 6.

E. Lessons learned and adherence to IFAD policies

158. The design of RCDP is based on lessons learned from: (a) past and ongoing IFAD-funded projects in BiH, in particular the ongoing Rural Livelihood Development Project (RLDP); (b) past and present VC and local development interventions led by USAID, SIDA, SDC-Caritas and UNDP; (c) a Pro-Poor Value Chain Development pilot project, financed by RLDP and designed and implemented by Oxfam Italy. The pilot started in August 2014 principally in order to prepare the design of RCDP; (d) a recent survey on livelihoods of women and youth in BiH.

159. The Mid-term review (MTR) of RLDP observed operational gaps essentially related to: (a) a weak articulation between project components (notwithstanding the underlying value-chain philosophy); (b) insufficient efforts to include the rural poor, (insufficient attention to targeting resulted in an *ad hoc* selection of beneficiaries both in the RLDP and REEP, failing short to meet the desired target groups, particularly the very poor. Responsibilities, check and balances among actors involved should also be defined; municipalities hold the register of the community members registered to the social security system, but the selection should be validated by the PCU or an implementing partner with sound experience in social inclusion); and (c) overemphasis on investments in rural infrastructure particularly in roads. This resulted in the implementation of an incomplete and unfocused value chain approach, insufficiently reaching out to the rural poor, hindering the project in its achievement of its poverty reduction objectives.

160. These lessons learned were integrated in RCDP design, namely: (i) a strong focus on inclusiveness and direct targeting mechanism to reach the rural poor, this with active involvement of municipalities and Producers' associations; (ii) a clear focus on promising and dynamic Subsectors with opportunities and advantages for poor smallholders; (iii) focussed value-chain and subsector development approaches in order to establish strong market linkages through the setup of cluster stakeholder platforms, co-financing of Business proposals that are to be jointly developed between cooperatives, PAs, SMEs and municipalities and subsector stakeholder platforms; (d) internally consistent project approach through mutually reinforcing project components; and (e) allocation of the majority of project funding to financially and economically sound BPs that will generate long term economic benefits at local and country level.

161. The design of RCDP is compliant with relevant IFAD policies, including IFAD's Strategic Framework 2011-2015, Rural Enterprise Policy, Private Sector Development and Partnership Strategy, Rural Finance Policy, Gender Policy, Youth Policy Brief, Targeting Strategy, and Environmental and Social Review Policy. Compliance with these policies is detailed in Appendix 12.

III. Programme implementation⁴⁵

162. The scope of the RCDP, foresees a need for partnership development and strengthening of national capacities. Most notably, the intensive planning, facilitation and coordination requirements envisaged by the project will necessitate substantial field presence both for facilitation and follow-up/monitoring. The various responsibilities will be shared amongst the project stakeholders, detailed in the agreements and terms of reference of the contractual arrangements.

163. The number of stakeholders and potential partnerships that will be facilitated and/ or supported by the project anticipates a considerable increase in the number and types of implementation arrangements (with service providers, implementation partners, etc.) that may have to be adopted by the project. Effectively, the operating modalities of the proposed RCDP will likely represent a shift from previous projects; it will be critical therefore, that this new generation of project will be matched with responsive coordination and strengthened management capacity.

⁴⁵ Details are presented in Appendix 5.

164. It is expected that the bulk of the institutional strengthening activities will be provided by service providers contracted on the market. Currently, public extension services are available only in RS and need to be strengthened. It is important to respect the fact that when it comes to organizational strengthening no blueprint approach is effective. Each organizational strengthening should be considered as a process, requiring an initial diagnostic and needs assessment.

165. With respect to the Business Proposals (BPs), these will be approved by the APCU/PCU upon a thorough assessment by a technical committee of three independent experts based on a set of criteria: e.g. the formal buy-in and commitment of the business parties involved in the BP, the financial viability and sustainability of the proposed business; the number of new small producers/collectors reached, especially the number of women and rural poor, win-win (pro-poor) features of the proposed business model (including no transfer of land rights from the farmers to the private company), percentage of the total cost of the BP covered by the agribusiness company or farmers organizations with their own funds or through a complementary loan from a financial institution.

166. The project will ensure a close monitoring of the actual implementation of BPs to ensure that each BP party is actually delivering as planned and poor small-scale producers and collectors are effectively benefitting. In addition, the project will produce a number of knowledge products (guidelines, manuals, case studies and lessons learnt) to identify good practices and document the experience in order to provide guidance to the Government and other stakeholders to replicate and scale-up the approach.

167. Overall, the APCU/PCU will have the main responsibility to contract service providers through a competitive process. Three modalities of service providers can be selected, according to the specific services required: (i) individual; (ii) single private or public service provider (consulting companies, regional development agencies, NGOs, Universities); or (iii) a consortia of service providers, the latter being needed because the broad range of training needs (organizational development, technical and business-related aspects), or a wide geographical coverage may require different service providers.

168. In addition, RCDP will be responsible to scout and contract informal farmers' leaders, pioneers, innovators who can be contracted as extension agents and community organizers.

A. Approach

169. During the first cycle, the Project would work in 12 VC clusters starting their establishment from PY1, after the baseline poverty information will be updated and the municipality scoring exercise will be repeated, in order to reflect the changes in the clusters pre-identified since project design. The exercise should confirm the clusters pre-identified. After their establishment a municipal level, the clusters will be developed with the support of the BFPs.

170. The vision of the Project is to take advantage of existing value chain dynamics in BiH. The agribusiness sector is already engaging with smallholders in establishing contractual relationships and for example using in-kind credit for product pre-financing and provision of extension and technical assistant to farmers ('cooperants'). Benefiting from these processes, RCDP main contribution would be to consolidate the perspectives for sustainable subsector development by: (i) expanding the number of small farmers benefitting from the opportunities offered in the selected subsector (ii) maximising the inclusion and participation of poor smallholders in profitable value chains, including women and youth; (iii) enhancing the capacity of small farmers to develop their business activities and to take decisions regarding the needed organisational structure (e.g. PAs and cooperatives) and marketing strategies (including value adding). The ultimate objective is to help improve the livelihood of small scale farmers through sustainable and profitable farming and consolidate their organisations and their capabilities to identify and seize forthcoming business opportunities (markets, marketing channels, products etc.), develop their business, play an active role in the cluster coordination platforms while benefitting in the long run from the sustainable development of the subsector.

B. Organizational framework

Overall responsibility and orientation

171. The State Ministry of Finance and Treasury (MOFT) will have overall responsibility of RCDP and will coordinate with the Entity Ministries of Finance which are responsible for externally-funded projects. An 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. The PSC would meet once or twice per annum. Each PSC will ensure that (i) project activities are in compliance with the Government and IFAD strategies and policies and goals and objectives defined at project design; (ii) endorse strategic orientations taken up by the project (iii) review project Entity level Annual Work Plans and Budgets (AWPB); (iv) oversee the transparent selection of service providers and partner institutions; (v) ensure that Project interventions are coordinated with other development programmes and projects and (vi) ensure adherence to the highest standards of financial management and audit. As expected, the PSC should invite representatives from the private, PAs and cooperative sectors the joint the Committee. A yearly inter-entity meeting (workshop) will assess the 'state of play' of the programme in particular as regards sustainable subsector development, performance and governance. The meeting will be co-chaired by the state-level Ministry of Foreign Trade and Economic Relations and state-level Ministry of Finance and Treasury.

Project coordination

172. In each Entity, project coordination as well as fiduciary management will be entrusted to the existing APCU and PCU. These units will demonstrate a clear orientation towards and renewed emphasis on targeting and social inclusiveness in line with the IFAD RB-COSOP (2013-2018).

173. Given the scope of RCDP, both Units will be required to develop new partnerships with state and non-state service providers and facilitators while building up their management capacity in several areas. Among others, the intensive planning, facilitation and coordination activities envisaged by the Project will not only require substantial field presence but also strong capabilities in facilitation, follow-up and impact monitoring. The number of stakeholders and potential partnerships that will be facilitated and/or supported by the Project anticipates a considerable increase in the number and types of implementation arrangements and agreements with service providers, implementation partners, etc., that may have to be adopted by the Project. Effectively, the operating modalities of the proposed RCDP will likely represent a shift from previous projects; it will be critical therefore, that this new generation of Project will be matched with responsive coordination and strengthened management capacity.

174. The APCU and PCU are already established and are implementing other IFAD funded projects in the country. Both APCU and PCU are headed by Directors appointed by the respective entity Minister of Agriculture and their appointment has been acceptable to IFAD. Salaries of the staff of both Units are already financed by other IFAD funded project and will be for the next four years; only supplementary staff specifically hired to carry out specialized functions for RCDP will be funded by this project. The APCU and PCU Director report to the respective entity Minister of Agriculture. The additional staff to be hired by the APCU and PCU will include: Business Development Officers, and M&E/Targeting Gender Officer. The A/PCU director will be tasked with policy dialogue and process facilitation at the SSP. For this he can eventually solicit specialised Short-Term support.

175. APCU and PCU will be responsible for coordination and liaison with municipalities, clusters and implementing partners, overall project management and monitoring, organizing start-up and annual workshops, preparation of AWPBs, fiduciary management. The APCU and PCU will recruit through a competitive process BFPs, technical advisory services, business development services and organizational development services and will establish a roster of service providers which will be made available to all BPs partners through a public Website or equivalent platform. BPs' partners will be selected and enter into agreements with services providers of their choice. Complementary, the APCU

and PCU will establish the voucher scheme, which will be an instrument to pay for the services rendered by the service providers to the BPs' partners. While the voucher scheme will be administered by APCU and PCU, it will be basically an empowerment instrument for business partners to ensure they select and negotiate service contents and price with the service providers of their choice, evaluate their performance and deliver the voucher for the providers to cash according to the administrative arrangements made by APCU and PCU to cash the vouchers.

176. They will also be responsible for providing logistical and administrative support to IFAD and Entity joint supervision missions, mid-term review and project completion missions. Detailed responsibilities are described in Appendixes 5, 6 and 7. The APCU and PCU will be responsible for ensuring the systematic collection of baseline data, monitoring and evaluation, policy facilitation, progress reporting and liaison with the Government.

Implementation of Component 1

177. **Policy dialogue/engagement.** At national or subnational level subsector stakeholder platforms, involving all key stakeholders, will oversee and coordinate activities in the respective subsectors, as well as work on all relevant policy issues, including regional trade issues and opportunities, regulatory frameworks, and core project risks. The APCU and PCU will contact professional organizations in the subsectors in order to provide logistic and financial support to facilitate meetings and the functioning of the platforms, in close collaboration with other development partners, as several initiatives are ongoing. At local level, cluster stakeholders' platforms will be established with the support of RCDP and BFPs in collaboration with public and private stakeholders. Municipalities, LED agencies will provide logistical support to this process and will be members of them. The CSP will function at local-level and be involved in participatory evaluation of project activities and progress.

178. **Cluster Development Facilitation.** The facilitation role will be played by BFPs from a LED, RED, NGO or a consortium of development actors to be contracted by RCDP, through a competitive process. BFPs will work closely with municipalities at cluster level and will reporting to Municipalities and the project. The consultancy firm or NGO will put an individual or a team of facilitators who would carry out its services on full-time or part-time bases according to the size of the cluster and requirement for services. Probably, the BFPs or consortium will cover more than one municipality and cluster what would increase coverage and make more efficient and effective the delivery of services.

Implementation of Component 2

179. **Identification and planning of activities.** Activities of component 2 will be implemented on the basis of Business Proposals (BPs), with the facilitation of BFPs. Each BP will determine the volume of activities, the contributions of municipalities, cooperatives and agribusiness, as well as the volume of subsidies to be accorded by the Project. **Marketing facilities** will be identified and prioritized at cluster level. Procurement will be organized at local level or by the APCU/PCU. Given the small scale of the interventions, no significant negative environmental impacts are expected from the investments in rural infrastructure. However, all approved designs should meet requirements of the environmental legislation of the FBiH and the RS. Submission of required documents and expenses for Environmental Assessment as per the existing legislation will be the responsibility of participating municipalities or local private stakeholders.

180. BFPs will be chosen according to a proven track record in facilitating contract farming arrangements for pro-poor value chain development. Although the design mission is attaching some suggested TORs for BFPs, they will be updated and finalised at a very early stage of project implementation. BFPs will be one of the first categories of services to be hired, through a competitive process, by APCU/PCU. As in every TOR and BFPs' TOR are not the exception, a special place on them will be reserved for the specific support required from the BFPs to ensure the implementation of inclusive targeting and following up on its implementation. A BFP could continue working with the

same cluster and BP based on its performance, but it can also happen that a new service provider could provide the support and facilitation to the implementation of the BP.

181. Responsibilities of Municipalities. The Municipalities will: (i) facilitate inclusive targeting of vulnerable groups and youth; (ii) provide funding and logistics to their relevant departments and development associations to implement their core mandate as far as facilitating VC cluster development processes and agribusiness development are concerned; (iii) give access to their facilities for meetings; (iv) provide incentives and enabling measures for agribusinesses development and investments of smallholders; (v) for commercial infrastructure and facilities, provide the land and contribute to investments, organize procurement and implementation; and (vi) facilitate programming and implementation.

182. Partnerships. RCDP will build on the positive experiences of USAID's FARMA and LAMP projects and the work of the SIDA, SDC, GIZ, CARITAS, OXFAM, etc. and RED/LED agencies, Czech Development Agency, Swedish International Development Agency (SIDA) and the Swiss Development Cooperation (SDC). In addition, EU, World Bank and IFC's investments in technical capacity building regarding Food Safety Standards in the country will be utilized for the benefit of smallholders by IFAD projects. RCDP will also build on its lessons from the grant provided to Oxfam Italy to pilot territorial marketing and explore the potential for branding products. The modalities and partnerships proposed by the project, are based on existing modalities and dynamics, though with some adaptation where appropriate to enhance feasibility.

183. Implementation partners Actors in the implementation of the project will comprise the following: Government (Entity-level); Ministry of Agriculture (Lead Implementation Agency), Project Coordination Unit (PCU) in the Federation and Agricultural Project Coordination Unit (APCU) in RS, are mandated by the government for day-to-day coordination of the project; primary target group project beneficiaries (including smallholder farmers, PAs, Cooperatives); identified service providers (specialized individuals, companies and consortia) and implementing partners (including local development agencies, NGOs, other development partners); agribusinesses; local government (Municipalities, Cantons); Project Steering Committee (PSC) and others. APCU and PCU

184. Moreover, the project will support the establishment of Cluster Stakeholder Platforms (CSP) and Subsector Stakeholders Platform (SSP). The cluster serves as a stakeholder platform for participatory planning and monitoring progress of value chains, clusters and subsector development, targeting and inclusiveness. CSP will eventually feed into the country level (SSP) planning and monitoring process.

The planning process

185. AWPB. The AWPB represents the key planning document for the Project and its implementation. The AWPB is driven by a participatory process particularly from the second year on, with feedback provided by the clusters, and thus encouraging the demand-driven nature of the project and bottom-up prioritisation.

186. Based on inputs from the stakeholder, the APCU/PCU will prepare spate Annual Work Plan and Budget (AWPB) in a format acceptable to IFAD and submit it to the Project steering committee (PSC) for approval and to IFAD for its non-objection at least two months before the beginning of the relevant fiscal year. The AWPB will represent the key planning document for the Project. The AWPB process will be based on proposals from stakeholder platforms at cluster level and will be initiated in September each year and will be prepared in participation with all stakeholders and finalized with the approval of the PSC. If required, the PCUs may propose adjustments in the AWPB during the relevant Project Year, which shall become effective upon approval by the respective PSC and IFAD. The PIM provides the overall format of the AWPB.

187. Considering that the AWPB has to be reviewed and approved by the Entity-level PSC (review and validation) and IFAD (review and approval) before the beginning of the fiscal year (30 to 60 days prior the commencement of the fiscal year), the elaboration of the AWPB should formally initiate few

months earlier. As expected, the work of the Business Facilitation Partners (BFPs) and the CSPs at cluster levels will inform the identification, prioritisation and planning of BPs and complementary activities that will be part of the AWPB. During the implementation year, flexibility to proactively respond to realities of implementation will be considered, and proposed adjustments to the AWPB can be made and informed to IFAD and Entity-level PSCs. The final Project Implementation Manual (PIM) will outline further guidelines and details for the overall format of the AWPB, and more importantly, on the process for its elaboration.

188. **Cluster level.** A concentration of activities implicating the key cluster stakeholders will be initiated with the purpose of establishing the planning and implementation process at cluster level, namely undertaking diagnostic mapping of the subsector and value chains, identifying M&E responsibilities and setting-up the M&E system, etc. contributing to establishing the baseline situation. The process will ensure that the project is carried out to respond to bottom-up and demand driven needs. This strategic planning phase is a critical stage, in which the Cluster Development Plan (CDP) will be elaborated, and first BPs will be identified, initiated, formulated and submitted to the BAC for approval.

189. During PY1, most of the preparatory actions will be implemented and several of the key mechanisms and systems for project implementation will be set up, so ACPU/PCU will have a central role in the planning process at the initial steps of RCDP. From the second year on, CSPs' partners at cluster level should take the lead in the planning process as most of the activities to be implemented will be identified and prioritised at that level and counterpart funds for co-financing BPs will be agreed at cluster level. As expected, the Cluster Development Plans should serve as inputs to integrate demands from clusters and for APCU/PCU to aggregate all demands under a single Entity-level AWPB. At **national level** planning consolidation of local-level needs, progress and realities of project implementation (including challenges and constraints faced) are expected to take place, resulting in the process of elaboration of the AWPB. It is at this stage that the PCU, APCU and Government will have the overall oversight and leadership responsibilities to ensure the relevancy and articulation of the AWPB. In the subsequent project implementation years, operationalization of CDPs will be closely monitored at the cluster level; the project's performance, and output level and results monitoring will be discussed twice-yearly, or quarterly as the need arises, and will inform the following year's planning for the cluster.

Monitoring and evaluation

190. **Objectives and principles of the M&E system.** The Monitoring and Evaluation (M&E) system aims to provide accurate and reliable data to ensure the effectiveness of project management, the achievement of the project objectives and targets and the sustainability of benefits provided through project interventions and activities. The key functions of the M&E system are to ensure that the project activities: (i) are being implemented according to plan; (ii) have the intended impact on the beneficiaries; (iii) are being effective in delivering benefits and that the benefits are being sustainably managed and owned by communities; (iv) are relevant to the needs of, and prioritized by, the beneficiaries; and (v) are being monitored so as to identify problems and risks early and ensure the progress of the project is on track.

191. The M&E system will be customized to the needs of the project and aligned with its objectives and expected results. To ensure that the objectives, outcomes and results are achieved, project management will track results at the output level, and place repeated emphasis on the outcome level analysis and tracking. This would enable results-based management that makes use of this information and implements timely and adequate improvements or adjustments to project components. In addition, the effectiveness and sustainability of the benefits of the project should be closely monitored, both at the local/ cluster level, and at the national subsector level, to measure subsector development and performance. The SPSC will have responsibility for M&E oversight on both technical and policy-related progress and results which are critical for subsector development.

192. The emphasis on bottom-up and joint/ shared responsibility for M&E will contribute to building a culture of real ownership, responsibility and accountability for delivering on results that are sustainable and will encourage continuity beyond project completion. Thus the identification of meaningful indicators, including performance indicators, to be validated through a participatory process, is a means to ensure relevancy of the project interventions (meeting the priority needs) and effective overall M&E. Finally, the M&E system needs to be cognizant of targeting-related issues. Large sections of the population are currently vulnerable including women and the youth, and need enhanced support to ensure their participation in agricultural and marketing activities.

193. The Monitoring and evaluation (M&E) system will be a key management tool for the Project and will serve the primary purpose of providing data and feedback to improve the effectiveness, efficiency, sustainability, relevance and impact of Project activities. The overall responsibility for the M&E activities will lie with APCU/PCU, which will be responsible for: (a) collecting and analysing the data gathered from all implementing partners and service providers; (b) organize impact evaluations (c) monitor service provider for inclusiveness and impact monitoring. The M&E Officer will be responsible for ensuring consistency, accuracy and timeliness of all reporting undertaken under the Project. All M&E activities will be in line with the IFAD Guidelines for Project M&E and IFAD RIMS first and second level Indicators Handbook. All indicators will be disaggregated according to gender, age and socio-economic status of beneficiaries to the extent possible so as to enable a proper assessment as to whether the Project is indeed reaching its intended target groups.

194. **Management information system (MIS).** In order to promote the M&E system as a decision-making tool, M&E information must be easily accessible to government, PCU and APCU and other project stakeholders, including beneficiaries. A **centralized computerized database** or MIS that contains all relevant data (project inputs, outputs and outcomes) collected by project stakeholders and consolidated by the PCU and APCU should be designed and developed, customized for the project. This MIS will be maintained by the respective M&E Officers in the PCU and APCU with assistance of all project team members and project implementation partners.

195. **Capacity building for M&E.** The capacities of project stakeholders responsible for M&E will be further assessed, and where needed, provision will be made to provide training and develop simple tools and mechanisms to facilitate more efficient and effective M&E.

196. An **Inter-cycle Review Mission (IRM)** will be conducted during project year five, to assess the progress, achievements, constraints and emerging impact and likely sustainability of Project activities and to provide detailed planning for the next cycle of five years. The IRM will be carried out jointly by the APCU/PCU and IFAD.

197. At the end of the project a completion evaluation will be conducted, as an input into the **Project Completion Report (PCR)** through a formal survey preferably undertaken by a neutral agency with no previous involvement in project implementation. IFAD itself may also undertake a formal Evaluation of the project through its Independent Office of Evaluation (OE).

Learning and knowledge management

198. Given the innovative character RCDP, the analysis, synthesis and dissemination of Project experiences and achievements will be important. Provision has been made for preparation of case studies of success and failure and for brief Learning Notes on key aspects of the project in order to inform policy dialogue. The APCU/PCU will have the main responsibility for commissioning these studies with the assistance of the M&E Officers. Provision has also been made to involve young University graduates as interns in the process and to commission technical assistance from the Universities in the two entities. These Learning Notes will be presented in donor forums in coordination with the State Ministry of Finance and Treasury (MOFT) and presented in other knowledge enhancing forums

C. Financial management, procurement and governance

Financial management⁴⁶

199. **Country context.** In accordance with IFAD guidelines, a Financial Management Assessment (FMA) has been undertaken as part of project design. The inherent risk of BiH is assessed as medium. The fiscal structure is highly decentralized as defined in the country's constitution. According to the Corruption Perception Index published by Transparency International, BiH has improved 3.2 (2011) to 4.2 in 2012 and 2013. But at the same time, World Banks' Doing Business ranking has slightly decreased from 104 in 2014 to 107 in 2015. The first Public Expenditures and Financial Accountability (PEFA) assessment report also identified areas in the public management system that require further improvement.

200. **Project risk.** The proposed project will take advantage of the established Project coordination units: PCU in FBiH and APCU in RS. The financial management arrangements, and capacity of the existing APCU/PCU are adequate to meet IFAD requirements and the initial risk rating is considered as medium-low. Given the proper implementation of the mitigation actions, the residual risk will be further decreased to low.

201. **Anticorruption.** IFAD's applies a zero-tolerance policy towards fraudulent, corrupt, collusive or coercive actions in projects financed through its loans and grants. 'Zero tolerance' means that IFAD will pursue all allegations falling under the scope of this policy and that appropriate sanctions will be applied where the allegations are substantiated. All project staff, project parties and all stakeholders must be made aware of IFAD's as well as the national anticorruption policies and whistle blowing procedures⁴⁷.

202. **Proposed financial management arrangements.** The proposed FM-arrangements including budgeting, accounting, internal controls, flow of funds, financial reporting, and audit arrangements will follow the FM arrangements already in place in the APCU/PCU with some adjustments.

203. **Accounting.** The APCU/PCU will maintain its accounting records in accordance with IPSAS-cash basis of accounting. The accounting systems will be further fine-tuned during the project start-up as necessary to fully automate the generation of reports required under the project. In order to ensure: (a) efficiency; (b) reliability of financial reports; and (c) compliance with applicable laws and regulations including the conditions set forth in the financing agreement. The APCU/PCU will ensure that adequate Internal Controls are maintained through the project implementation by all implementing entities and project partners.

204. **Flow of funds.** Separate bank accounts will be opened and maintained for each financing source and for each entity, FBiH and RS. Accordingly, there will be two designated accounts for the IFAD loan (in EUR) and two designated accounts for the IFAD grant (in EUR), and four operating accounts in BAM to receive financing from the respective designated accounts in a commercial bank acceptable to IFAD. In addition, there will be separate accounts for the government contribution and counterpart contribution. The IFAD financing shall be disbursed against duly certified withdrawal applications in accordance with the IFAD disbursement procedures.

205. **Financial Reporting.** Financial reports will link each transaction to a financier and compare incurred expenditures with planned amounts: actual vs. budget for a reporting period and cumulative vs. appraisal. The APCU/PCU will provide IFAD with consolidated financial reports within agreed timeframes as follows: (a) semi-annual consolidated Interim Financial Reports (IFRs) as agreed with IFAD; (b) annual consolidated Financial Statements within four months after the end of the fiscal year, prepared in compliance with IPSAS (cash) and IFAD requirements; (c) annual consolidated audit report and a management letter within six months after the end of the borrower's fiscal year.

⁴⁶ Details are presented in Appendix 7.

⁴⁷ Agency for the Prevention of Corruption and Coordination of the Fight against Corruption.

206. **External audit.** All audits of externally financed projects implemented by the Government in the country are covered by an umbrella agreement with one audit firm procured and contracted by the state Ministry of Finance. Accordingly, APCU/PCU will prepare their respective annual financial statements in a timely manner which will be audited by the selected auditor in accordance with International Standards on Auditing (ISA). The terms of reference for the audit will be agreed with IFAD on annual basis. The consolidated audit report covering the whole project, together with the separate audit reports for APCU and PCU, including the management letters covering the audit observations on internal controls, will be submitted to IFAD within six months of the end of fiscal year.

Procurement⁴⁸

207. **Country Assessment.** Bosnia and Herzegovina has established modern public financial management systems and a country-wide Law on Public Procurement (LPP) became operative in January 2005..However, it is not yet being consistently implemented at the State or Entity levels while, the first Public Expenditures and Financial Accountability (PEFA) report (2014) identified *competition, value for money and controls in procurement* as an area that requires improvement. As a result, the IFAD procurement guidelines will be adopted for the proposed project.

208. **Implementation arrangement.** The APCU/PCU will be mainly responsible for the procurement under the project in accordance with IFAD procurement guidelines, IFAD procurement handbook and the provisions stipulated in the Financing Agreement. For each contract to be financed by the IFAD financing, the different procurement methods, the need for prequalification, estimated costs, prior review requirements, and time frame will be agreed between the Borrower and IFAD project team in the Procurement Plan. The end-users will be included in developing the TORs to the extent possible. In selected cases the project will also allow for procurement with community participation where the procurement activities will be undertaken by municipalities, producers associations, co-operatives etc. in accordance with IFAD procurement guidelines.

209. **Procurement Plan, Reporting and contract management:** The APCU/PCU will prepare an AWPB and a Procurement Plan in a format acceptable to IFAD for the first 18 months of project implementation. The procurement plan will be updated annually and will provide the basis for the procurement methods and prior/post review threshold. Procurement progress reports will be generated by the APCU/PCU and submitted to IFAD, as part of the semi-annually and annual progress reports. In addition, all contracts will be listed in the Register of Contracts in a format agreed with IFAD and maintained by the APCU/PCU.

D. Supervision

210. The Project will be directly supervised by IFAD. Project supervision and implementation support missions will be conducted every six months. The composition of the mission in terms of expertise will be based on the annual supervision plan. The mission will also comprise the civil society organization or NGO/service provider recruited to develop methodologies and monitor project impact to reach out to rural poor people. The supervision plan will highlight in addition to the routine supervision tasks, the main thematic or performance area that requires strengthening and will deploy additional expertise for the purpose.

211. One of the semi-annual supervision missions will be scheduled to coincide with an annual inter-entity review workshop, to be scheduled in close coordination with the APCU and the PCU at the end of the financial year and be attended by stakeholders at both State and Entity level. This annual review workshop will provide an opportunity for the supervision mission to work closely with all stakeholders to identify progress, constraints, and to facilitate review and approval. A financial management specialist will participate in annual IFAD supervision missions to supervise and provide implementation support to the project

⁴⁸ Details are presented in Appendix 8.

E. Risk identification and mitigation

212. This section identifies the risks with the greatest likelihood of occurring and the highest potential impact on the achievement of the Project Outcomes.

Table 5: Risks and Mitigation Measures

Risk	Implications	Mitigation Measures
PCU/APCU unprepared / incapable to take up new role (e.g. policy dialogue/ engagement)	Delayed establishment of the Subsector Stakeholders' Partners (SSPs). Slow engagement in policy dialogue	Main role for policy engagement/dialogue rest on stakeholders; line Ministries and government authorities in both Entities within the framework of SSPs. The APCU/PCU has a facilitating role for VC and subsectors' actors to engage in policy dialogue and A/PCU directors can solicit specialized process management support .
Volume and nature of financial transactions may exceed the current capacity of the APCU/PCU.	Slow disbursement and project implementation as well as increased fiduciary risk.	Demand-driven approach to develop business proposals. The APCU/PCU technical and FM staffing arrangements will be reviewed, missing positions to be filled as appropriate and procedures manuals to be revised to reflect the project activities. Flow of funds arrangements at PAs and cooperatives level to be simplified (through use of technical service providers and facilitating institutions, transferring responsibility for some procurement to PAs and cooperatives, etc.). A full implementation of the voucher scheme should reduce number of transactions in key project activities (identification, preparation and implementation of BPs).
Traditional procurement by APCU/PCU not adequate.	Procurement requires increased involvement at the end-user level in order to avoid delays in implementation.	Allow for procurement with community participation, where municipalities, and in specific cases producers associations and co-operatives undertake procurement. Voucher scheme may provide PAs and cooperatives more familiarity with procurement of support services Service providers establish consortia that allow cluster stakeholders to expand coverage (in number of municipalities and BPs by consortium) and reduce number of biddings
Market risks inherent to the selected subsectors	Profitability in selected subsector might change.	Modification of the value chains within the three selected subsectors approach with flexibility with respect to the choice of value chains. Involvement of private sector in agribusiness linkages
Variable quality of technical advisory services	Smallholders do not obtain targeted yields and revenues.	Flexible approach combining private and public services and private BDS building up on pragmatic field solutions (combination of public and private support mechanisms) Service follow-up, monitoring and performance assessment (by BPs' partners and ACPU/CPU) help them to hire individuals, firms and consortia that provide quality services
Initial selection of clusters does not fulfil expectations in terms of dynamism/ stakeholder involvement	slower than expected project implementation	Refining criteria for cluster selection based on improved field knowledge and know-how at local level. Confirmation of pre-selected municipalities and clusters is planned to be implemented soon after the start-up workshops
Impact on the environment of the NTFP collection	Degradation, loss of the biodiversity, reduction of the crop	Sensitization on sustainable harvest technique, cluster development plan consider sustainability of the harvest and training of the collectors
Natural disaster	Destruction of crops leading to interrupted or broken value and supply chains	DRR activities to marginalize the impact of natural hazards, organizational strengthening of PAs and cooperatives, cluster platforms and SSP to build up necessary resilience (so they can 'bounce back' quickly without losing market share)
Natural events/Climate change effects		Some specific investments (greenhouses, drip irrigation, etc.) to adapt to climate events and reduce production risks

IV. Programme costs, financing, benefits and sustainability

A. Programme costs and Financing⁴⁹

213. The total project costs including physical and price contingencies are estimated at USD 61.45 million⁵⁰ (BAM 106.6 million) over a ten-year period. Project costs by components are summarized in the table below. Component 2, which is the main investment component, represents 86% of total project costs. A complete set of summary and detailed costs tables are attached in Appendix 9.

Table 6: Project costs by components

	(BAM '000)			(USD '000)		
	Local	Foreign	Total	Local	Foreign	Total
A. Enabling Environment for Inclusive Sub-sector Development						
1. Enabling Environment for Inclusive Sub-sector Development_FBiH	2,210.00	-	2,210.00	1,273.26	-	1,273.26
2. Enabling Environment for Inclusive Sub-sector Development_RS	1,503.00	-	1,503.00	865.93	-	865.93
Subtotal Enabling Environment for Inclusive Sub-sector Development	3,713.00	-	3,713.00	2,139.19	-	2,139.19
B. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains						
1. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_FBiH	55,346.80	-	55,346.80	31,887.31	-	31,887.31
2. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_RS	35,835.94	-	35,835.94	20,646.39	-	20,646.39
Subtotal Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains	91,182.74	-	91,182.74	52,533.70	-	52,533.70
C. Project Management, Monitoring and Evaluation						
1. Project Management, Monitoring and Evaluation_FBiH	4,322.28	157.29	4,479.56	2,490.22	90.62	2,580.84
2. Project Management, Monitoring and Evaluation_RS	3,730.31	149.77	3,880.08	2,149.16	86.29	2,235.45
Subtotal Project Management, Monitoring and Evaluation	8,052.58	307.06	8,359.64	4,639.39	176.91	4,816.29
Total BASELINE COSTS	102,948.32	307.06	103,255.38	59,312.28	176.91	59,489.19
Physical Contingencies	8.05	-	8.05	4.64	-	4.64
Price Contingencies	3,375.06	27.31	3,402.38	1,944.50	15.74	1,960.23
Total PROJECT COSTS	106,331.44	334.37	106,665.81	61,261.41	192.64	61,454.06

214. A total of US\$ 25.5 million of IFAD-financing is expected to be mobilized over the ten-year period. RCDP will absorb the entire PBAS allocation of 2013-2015, including a loan of US\$ 12.25 million and a grant of US\$ 500,000 specifically for inclusiveness-related activities to be implemented under Result 2 of Component 2. Subject to performance and availability, additional financing of US\$ 12.75 million could be earmarked from the 2016-2018 PBAS cycle⁵¹, which will be allocated for the co-financing of Cycle 2 of the project.

215. IFAD loans will be used to fully finance: (a) Component 1; (b) Project Coordination Unit in both Entities, and (c) to co-finance Business Proposals (BPs) implemented under Component 2. BPs are expected to be financed according to the following allocation: (a) 38% from IFAD loans; (b) 5% from Municipalities; (c) 17% from PAs; and (d) 39% from agribusiness and/or financial sector.

216. As mentioned, IFAD will also provide a grant of US\$ 500,000 which will be used to finance inclusiveness impact monitoring. The loan will be disbursed during the first 5 years of the project.

217. The Government of BiH will finance taxes and duties on imported goods, and Value Added Tax (VAT) for a total amount of up to US\$ 4.7 million. This is an estimate as the bulk of project funds will be channeled to co-finance BPs, which will be formulated during the implementation so it is not possible at this stage establish which kind of investments will be included in the BPs and in consequence calculate taxes.

⁴⁹ Details are presented in Appendix 9.

⁵⁰ Project total costs may increase during implementation depending on the accessibility of credit funds provided by other IFAD funded projects.

⁵¹ Additional financing from the 2016-2018 PBAS cycle will be subject to attaining the performance triggers (included in the logical framework) and to country selection, applicable and available IFAD finance.

Table 7: Total Costs by Financier

(USD Milion)

	IFAD LOAN CYCLE 1_FBIH		IFAD LOAN CYCLE 1_RS		IFAD LOAN CYCLE 2_FBIH		IFAD LOAN CYCLE 2_RS		IFAD Grant		Government		Municipalities		Private Sector		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Enabling Environment for Inclusive Sub-sector Development																		
1. Enabling Environment for Inclusive Sub-sector Development_FBIH	0.38	27.6	-	-	0.47	34.1	-	-	0.29	21.3	0.23	17.0	-	-	-	-	1.37	2.2
2. Enabling Environment for Inclusive Sub-sector Development_RS	-	-	0.27	29.2	-	-	0.29	31.6	0.21	22.2	0.16	17.0	-	-	-	-	0.93	1.5
Subtotal Enabling Environment for Inclusive Sub-sector Development	0.38	16.4	0.27	11.8	0.47	20.3	0.29	12.8	0.50	21.6	0.39	17.0	-	-	-	-	2.30	3.7
B. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains																		
1. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_FBIH	5.88	17.9	-	-	5.63	17.1	-	-	-	-	2.36	7.2	0.95	2.9	18.04	54.9	32.86	53.5
2. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_RS	-	-	4.17	19.6	-	-	3.26	15.4	-	-	1.52	7.2	0.61	2.9	11.68	55.0	21.24	34.6
Subtotal Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains	5.88	10.9	4.17	7.7	5.63	10.4	3.26	6.0	-	-	3.88	7.2	1.56	2.9	29.72	54.9	54.10	88.0
C. Project Management, Monitoring and Evaluation																		
1. Project Management, Monitoring and Evaluation_FBIH	0.84	29.9	-	-	1.75	62.7	-	-	-	-	0.21	7.4	-	-	-	-	2.79	4.5
2. Project Management, Monitoring and Evaluation_RS	-	-	0.72	32.0	-	-	1.35	59.6	-	-	0.19	8.4	-	-	-	-	2.26	3.7
Subtotal Project Management, Monitoring and Evaluation	0.84	16.5	0.72	14.3	1.75	34.7	1.35	26.7	-	-	0.40	7.8	-	-	-	-	5.05	8.2
Total PROJECT COSTS	7.09	11.5	5.16	8.4	7.85	12.8	4.91	8.0	0.50	0.8	4.67	7.6	1.56	2.5	29.72	48.4	61.45	100.0

B. Summary benefits and economic analysis⁵²

218. The RCDP is expected to primary generate substantial net incremental benefits for non-commercial farmers investing in the three selected sub-sectors a) berries; b) vegetables; c) NTFP. Benefits would directly accrue to farmers, women and youth through a comprehensive improvement of the sub-sectors' value chains returns.

219. The main benefits of Component 1 would result in (i) increased capacity of specialized institutions and service providers; (ii) structured and result-oriented policy dialogue/engagement at local and national levels (empowerment of local actors). Main benefits of component 2 would be: (i) expansion of acreage of berries; vegetables and NTFP both for domestic and export markets; (ii) establishment of agribusiness agreements between value chain actors in about 12 clusters; (iii) increased revenues for about 16,000

220. direct beneficiaries, who will develop or upgrade their berries and vegetable production; (iv) on an average additional national production of berries would be 7,600 tonnes per annum (40% increase of the current production, considering that 20% increase is expected from new production and 20% increase is expected from improved yields); (v) institutional strengthening of 120 PAs and 100 cooperatives; (vi) at wholesale and cooperative level, significant investments in collection and processing facilities would be supported; (vii) priority target groups of IFAD, including women, youth and rural poor would receive access; (viii) creation of 3,150 fulltime and part-time jobs upstream and downstream in the value chains (estimated at 1 job per 5 farmers); (ix) particular attention will be given to support climate change resilience.

221. The financial and economic analysis is presented in Appendix 10. RCDP interventions are analysed using seven illustrative crop models: (a) raspberries model; (b) strawberries model; (c) blackberries model; (d) blueberries model; (e) gherkins open field model; (f) potatoes open field model; (g) paprika for industry open field model. Considering that farmers investing in greenhouse will have the possibility to grow more than one crop during the year; also two representative greenhouse models were developed: (a) cucumbers and tomatoes greenhouse model; (b) cucumbers and paprika for the fresh market greenhouse model. Furthermore; in order to show the impact that the project will have not only on the target group but also on other actors of the value chain; two cooperative models were designed: a) berries cooperative model, b) vegetables cooperative model. These models were used as building blocks for the economic evaluation of the value chain analysis. All the technical assumptions within the models have been elaborated jointly with the team members on the basis of field surveys, national statistics, international and national expert consultation. The analysis builds

⁵² Appendix 10 summarizes the financial and economic analysis.

upon the precautionary principle, accounting for project benefits in a realistic and conservative manner. A cash-flow analysis is finally carried out to present the “with” and “without” project analysis. Summary results from the financial models are presented in Table 8. Overall, all financial models, designed to simulate benefits of the Project, indicate that profitability of the targeted interventions is positive; in case a) market access is ensured; b) farmers adopt good technologies; c) the VC approach functions properly; d) farmers have access to in-kind loans from buyers such as Pas, cooperatives or agribusinesses.

Table 8: Financial Profitability Indicators

	Net Income (year 4) BAM/dunum	Net Present Value BAM/dunum	Internal Rate of Return (%)	Return to Family Labour BAM/Day	B/C Ratio
Raspberries	3,887	11,935	85%	138	2.26
Blueberries	5,168	14,454	68%	157	2.22
BlackBerries	3,317	7,991	56%	109	1.86
Strawberries	2,555	5,265	93%	116	1.38
Potatoes_Open Field	942	1,918	89%	113	1.65
Paprika_Open Field	1,589	2,654	90%	85	1.54
Gherkins_Open Field	3,052	4,509	107%	95	1.9
	Net Income (year 4) BAM/300m2 GH	Net Present Value BAM/300m2 GH	Internal Rate of Return (%)	Return to Family Labour BAM/Day	B/C Ratio
Paprika+Cucumber GH	4,374	3,355	29%	99	1.42
Tomato+Cucumber GH	4,583	6,205	44%	118	1.49
	Net Income (year 4) BAM	Net Present Value BAM	Internal Rate of Return (%)	Return to Family Labour BAM/Day	B/C Ratio
Berries Cooperative	72,360	134,396	35%	-	1.06
Vegetables Cooperative	31,502	78,527	57%	-	1.04

222. The economic benefits were calculated for a 20-year period. The physical inputs and productions established in the financial analysis provided the basis to determine the viability of the project investment in terms of opportunity costs and quantifiable benefits to the economy as a whole. The opportunity cost of capital is 10%. Project inputs and outputs traded are valued at their respective market prices, and goods are expected to move freely within the Project area in response to market demand. The economic analysis is based on direct costs and benefits, while social and indirect benefits have not been taken into account of the “average farmer” compared to the best farmer. The economic analyses include the investment and incremental recurrent costs of Project components. The Project financial costs have been converted to economic values by removal of price contingencies, taxes and duties. In order to avoid double counting, the final aggregation considered only those costs that were not included in the financial models.

223. **Economic Rate of Return.** On the basis of the above assumptions, the ERR of RCDP would be 36.6% and the Net Present Value (NPV) would amount to USD 53.1 million. The high ERR reflects the ambition and potential leverage of RCDP; with an approach focused on clear comparative advantages and existing economic dynamics in Bosnia and Herzegovina.

224. **Sensitivity Analysis.** In order to test the robustness of this result, a sensitivity analysis has been carried out. It shows the economic impacts that a decrease in project benefits - of up to -50% - will have on the project’s viability. Similarly, it shows how the economic viability of the project will be affected with an increase – of up to +50% - in project costs and with one and/or two years delay in project implementation. Finally, the results show that the project remains economically viable after the variations.

Table 9: Sensitivity Analysis

	Assumptions	Related Risk	ERR	NPV \$ Million
Project Base Case			36.6%	53.1
Decrease in Project Benefits	-20%	Beneficiaries do not adopt new and more environmental friendly technologies. Price and market fluctuations. Low crop yields	32.9%	40
	-50%	Weak quality of extension services. Weak cooperation within the VC.	25.2%	20.1
Increase in Project Costs	20%	Procurement risks. Low	33.6%	50.5
	50%	management capacity.	29.9%	46.6
Delays in Implementation	1 year	Capacity of PCU & APCU to implement the project and cooperate on common activities.	31.9%	44.5
	2 years		28.0%	36.7

C. Sustainability

Exit Strategy

225. The exit strategy of RCDP is based on the following design features: (i) a focus on value chain clusters and linkages within a comprehensive Subsector approach; (ii) the demand-driven approach through private sector stakeholders, namely agribusinesses, POs, cooperatives and other service providers; (iii) alignment with interventions of Municipalities and Cantons; (iv) support that is mainly provided to smallholders on commercial terms; (v) focus on agribusiness activities that will be fully integrated in the regional market economy; (vi) risk mitigation through institutional capacity building of value chain stakeholders. Moreover, the operation will be implemented over a 10 years period, what will allow for the activities implemented, VCs and clusters to consolidate.

Climate Change Adaptation

226. Sustainability is at the centre of design considerations for the interventions funded through RCDP. The support provided through RCDP will enhance climate change resilience of smallholders within the fruits, vegetables and NTPF subsectors by: (i) mainstreaming commercial climate resilient production technologies; (ii) promoting training support and knowledge sharing amongst smallholder farmers; consequently, there is considerable potential for replication and up-scaling as these lessons learned are transferred to other localities; (iii) promoting more efficient water use in irrigation; (v) encouraging the active participation of government and municipality staff in the implementation of RCDP interventions and the development of planning and strategies for climate change adaptation that is country-specific and aligned with national priorities. The sustainability of the Project results will

largely depend on the effectiveness of stakeholder involvement, the appropriateness of the implementation of the adaptation measures whilst using proven technologies and practices, adequate technical, legal and institutional capacity and expertise at the national and municipality levels.

227. Environmental and Social Scoping Measures. Based on the relatively minor negative impacts of the targeted economic activities on the environment, the Project has been classified for the purposes of environmental scrutiny as Category B. To ensure environmental and social safeguards compliance, Environmental and Social Management Plans (ESMPs) will be developed and monitored for the main marketing facilities, and each of the value chain. Details on environmental concerns are examined in Appendix 12. The Project will only have positive social impacts. It will not have negative effects on indigenous population groups. Monitoring will be done of labour condition of smallholders, youth and female labour in the targeted value chains.

Appendix 1: Country and rural context background

A. Country Economic Background

1. With a per capita Gross National Income (GNI) of US\$ 4,780 in 2013, BiH is an upper middle-income country⁵³. Its population was estimated to be 3.83 million in 2013⁵⁴ and 58% of the people live in rural areas. Last Population Census was conducted in October 2013 but data are not officially available yet. Previous census was conducted before the war, in 1991.
2. After a successful post-conflict reconstruction since 1995, the economy has picked up and Gross Domestic Product (GDP) growth has averaged 2.5-3.0 % for the past two years with low inflation, but GDP growth was almost negative during 2104. This annual average GDP growth has led to a reduction in poverty of almost 4%, though the results achieved in terms of poverty reduction are fragile and are being reversed as many Bosnian citizens live only just above the poverty line. Even minor declines in economic growth can cause an increase in poverty.
3. The economy is characterised by a high level of informal employment, a high inactivity rate of people of working age (56%) and a high unemployment rate of youth (45-50%). The total ILO-defined unemployment rate is 29%, while the official or registered unemployment rate is 46.1%⁵⁵, and unemployment amongst young people is twice the national average⁵⁶. The service sector is the largest contributor to employment with 49.3%, followed by the industry sector at 31.0% and agriculture with 19.7% in 2010⁵⁷.
4. Agriculture contributes with less than 10% of the GDP of the country. Cultivable land amounts to 1 million ha⁵⁸ but less than 20% of agricultural land is suited to intensive agriculture, most of this located in lowlands and river valleys. As only about 1% of the arable land benefits from some kind of irrigation, the agricultural sector is considerably exposed to climate change related risks⁵⁹. Approximately 500,000 smallholder farms continue to dominate the agricultural sector in BiH, 50% own less than 2 ha and 89% own less than 5 ha⁶⁰. Many of them are mixed farms, providing incomes to people that have lost their jobs in the industrial sector during the 1990s. Farming is often a poverty coping strategy or part-time source of revenues for rural households. Predominantly unreliable wholesale linkages for processing, bulking and marketing are the main obstacle for farmers to expand their business and youth to invest in agriculture. Other factors are the small size of farm holdings, low yields, a low level of mechanization, and limited access to affordable credit. Within the sector, the subsectors of fruits, vegetables and non-timber forest products (NTFP) are growing rapidly, both for export and national markets and these subsectors are accessible to resource-constrained smallholders with adequate technical and organizational support.
5. Poverty in BiH is not so much about absolute destitution but it is rather defined by social-exclusion and a lack of access to basic services and economic opportunities. BiH's Social Exclusion Index is 50.3%, indicating that half of the BiH population is, in some way, excluded within the society, being denied access to social, economic and political rights. While there is little or no extreme poverty in BiH, between 19 to 21 % of the households suffer from chronic material deprivation and between 20 to 30% are at risk of falling into material deprivation.

⁵³ World Bank, Country Classification. 2013.

⁵⁴ World Bank, 2013.

⁵⁵ "Progress towards the realization of the millennium development goals in Bosnia and Herzegovina 2010", Ministry of Finance and Treasury, and the United Nations Country Team. Sarajevo. July-August 2010.

⁵⁶ UNDP, Human Development Report: The Ties that Bind, Social Capital in Bosnia and Herzegovina, 2009.

⁵⁷ Agency for Statistics of Bosnia and Herzegovina: Bosnia and Herzegovina in Figures 2010. Sarajevo, 2010.

⁵⁸ BiH Strategic Plan for Harmonization of Agriculture, Food and Rural Development, 2008-2011.

⁵⁹ Drought incidences have increased and these events can decrease yields by 30% (UNDP Climate Change Assessment).

⁶⁰ BiH Agriculture, Food and Rural Development Harmonization Strategic Plan 2008-2010.

6. With a Human Development Index of 0.735, Bosnia and Herzegovina is ranked on 81st place out of 186 countries⁶¹, which places it below all its neighbouring countries.

7. While the country has shown a general improvement in the goal of reaching universal primary education, secondary school enrolment, child mortality, and child health, the country has however fallen back on its Millennium Development Goals (MDG) indicators with regard to employment of women and youth. Gender parity in education is high, especially in higher education, but notwithstanding the legal and institutional framework to improve gender equality and the empowerment of women actual positive changes in employment practices, income generation opportunities and political participation remain modest.

8. The Dayton Peace Accords created a complicated governance structure for BiH's three constituent peoples, Bosniaks, Serbs and Croats, and 17 recognised minorities collectively referred to as "Others". This country structure consists of two Entities, Republika Srpska and the Federation of Bosnia and Herzegovina (FBiH), ten cantons within the FBiH, the Brčko District in the northern part of the country, and 143 municipalities (64 in the Republika Srpska and 79 in the Federation). Many different layers of government structures, made of prime ministers, legislatures, ministers, presidents, and constitutional courts govern BiH. This complex governance structure, complicated bureaucratic apparatus and limited coordination between various levels of government, compelled by weak rule of law, translates into a rather investment-unfriendly environment. This hinders BiH in its efforts to optimize international trade relations and collaboration with neighbouring countries and the EU. BiH's accession to the EU and its associated requirements has provided a strong framework for broad reform goals. Upon the signing of the Stabilisation and Association Agreement (SAA), Bosnia and Herzegovina entered into its first contractual relation with the European Union⁶².

9. The foreign trade deficit has decreased significantly, but is still sizeable; Croatia is one of BiH's major foreign trade partners. Its entry into the EU in July 2013 however affected significantly trade and commerce with BiH, with particular impact on the agricultural sector as certain produce is no longer eligible for export into the EU market due to the difficulty to set up state level instruments and enact legislation (e.g. for animal products: dairy, poultry and eggs).

10. **Stabilization and Association Agreement (SAA)**⁶³. The EU and BiH signed a Stabilization and Association Agreement (SAA) in June 2008. Pending effectiveness of the SAA, an Interim Agreement regulates trade relations. The EU is the first trading partner of BiH representing 63% of imports, and 73% of its exports. Most Bosnian products can enter the EU duty-free. BiH is however not reaping the full benefits of these agreements as, due to the absence of full EU-compliant food safety institutions and regulatory frameworks; a range of products remains banned from EU markets, in particular dairy, meat and processed food. Since Croatia's entry to the EU in June 2013, BiH is not able to export some products to this country anymore (exports to Croatia represent 14.6% of BiH's total exports).

B. Agriculture and Rural Poverty

11. Agriculture contributes less than 20% to GDP. Cultivable land amounts to 1 million ha⁶⁴ but less than 20% of land is suited to intensive agriculture, most of it located in lowland valleys. About

⁶¹ The HDI provides a comparative measure of quality of life in terms of life expectancy, literacy, education and the standard of living for countries worldwide (UNDP, 2013).

⁶² The Stabilisation and Association Agreement (SAA) is a new, third generation of European agreements offered exclusively to the Western Balkans countries, in the framework of the Stabilisation and Association Process. The Agreement is signed for an undefined period of time with a view to contributing to economic and political stabilisation of Bosnia and Herzegovina. States which have become members through the EU fifth enlargement have signed Association Agreements (the so-called European agreements). The basic difference between the two mentioned agreements is in the content of the "evolution clause" in the SAA and in the emphasis on regional cooperation in Western Balkans (Official site of the Directorate for European Integration, Bosnia and Herzegovina, 2015).

⁶³ The SAA is signed with countries that have made sufficient progress in terms of political and economic reforms and administrative capacity.

⁶⁴ BiH Strategic Plan for Harmonization of Agriculture, Food and Rural Development, 2008-2011.

515,000 smallholder farms dominate agricultural production in BiH. They are⁶⁵ engaged primarily in cereal production for home consumption, small-scale vegetable, fruit and livestock production. Only about 1% of all arable land benefits from some kind of irrigation. Consequently, the agricultural sector is considerably exposed to climate change related risks⁶⁶. Livestock production contributes to about one third of the agricultural GDP⁶⁷. Recognizing the importance of livestock for poverty reduction and as rural safety net, IFAD successfully supported restocking after the war. Overall crop and livestock yields⁶⁸ still are far below their technical potential. Vegetable yields are one-fifth of those in Southern EU member states with similar agro-ecological conditions. Labour productivity is limited by the size of the landholdings, relatively low levels of mechanization and the use of extensive production systems. Limited investment capacity of farmers, limited access to reliable output markets, to technological innovation and to business development services (BDS) constraint the risk adverse smallholders from expanding their farms and reaching full potential and obliges youth to leave rural areas.

12. Extension offices were established throughout BiH with EU support⁶⁹. Their responsibilities included designing business plans and providing advisory services for farmers. In the RS, the system includes 9 regional branches and a central unit in Banja Luka. Though appreciated and operational, the service is poorly equipped, underfunded and understaffed. Some municipalities finance their own extension officers to implement their municipal action plan for agriculture and livestock. In FBiH, the system was originally established at canton level with no central service. It is non-operational due to limited interest from the cantons. Also here, municipalities and projects undertake local initiatives.

13. The transition from a centralized to a free-market economy has induced profound changes in the business environment for both non-commercial and commercial smallholders⁷⁰ and agro-processors. Trade liberalization has increased exposure to regional competition, while input prices have often increased⁷¹. Over the last decades, the agricultural and livestock subsectors have suffered from a lack of investments and the disappearance of well-established marketing linkages. Unreliable wholesale linkages for processing, bulking, storage and marketing are now a main obstacle for farmers to expand their business. Government support to the sector is mainly targeted at expanding agricultural production⁷² on commercial farms and forcibly reduced in times of economic downturn. Uncertainties related to shifting policies and annual subsidies are further eroding farmers' incentives to respond to market opportunities. These subsidies were also used as social safety net to target the rural poor.

14. Access to credit with affordable terms is limited because of the uneven coverage of financial institutions, with most of them concentrated in urban areas and better-off municipalities, but also by a pattern of risk avoidance by commercial banks. These difficulties are even more pronounced when it comes to agricultural credit or financing for off-farm enterprises. In July 2013, MCOs charge interest rates from 8% to 20%, while commercial banks charge interest rates between 6% and 8%. These rates are considered to be unaffordable by both commercial and non-commercial smallholders. BiH is a post-conflict country with many of its smallholders still in the learning mode. In addition, the farm or herd size is often too small, so that the need for investments and credit at an affordable rate is significant. Smallholders cannot be competitive in the EU market in their current state with high costs of production, small farm or herd size, weak linkages to output markets and limited creditworthiness.

15. Notwithstanding the above the agricultural sector in BiH is relatively well endowed. The country benefits from a moderate continental climate with favourable conditions for a range of crop and livestock enterprises, climatic conditions allow for an earlier agricultural season than northern EU

⁶⁵ Dimitrievski, D., Agriculture in the process of adjustment to the common agricultural policy, Skopje, 2010.

⁶⁶ UNDP Climate Change Assessment. Drought incidences have increased and can decrease yields by 30% to 95%.

⁶⁷ European Commission, Agricultural and Rural Development, Bosnia and Herzegovina, July 2009.

⁶⁸ World Bank: Protecting the Poor during the Global Crisis: 2009 Bosnia and Herzegovina Poverty Update, 18 Dec. 2009.

⁶⁹ World Bank: Agricultural Sector Policy Note for Bosnia and Herzegovina - Trade and Integration Policy Notes, May 2010.

⁷⁰ The classification into 'commercial' and 'non-commercial' or "registered" and "non-registered" is mainly based on the number of assets and production factors – e.g. holdings that have less than 5 cows are considered non-commercial.

⁷¹ World Bank, Agricultural Sector Policy Note for BiH, May 2010.

⁷² For the period 2005-2010 between 50 to 70% of the agriculture budget has been used in subsidies while measures for market support and to agriculture in general remained modest making up only 10% of the budget.

countries, shipping costs are relatively low and land and labour costs remain competitive. BiH also has competitively-priced electricity, thanks to its well-developed hydroelectric capacity. Nevertheless, BiH has an overall self-sufficiency rate of only 35 to 40% for food, with the exception of potatoes, eggs and lamb. Therefore, significant growth potential exists. The country has a strong comparative advantage for labour-intensive productions that require limited area of land to earn a decent family income, for example vegetables, fruits, berries and honey. Competitiveness is an issue because of weak market linkages in neighbouring countries. In order to preserve their preferential market access to EU and other export markets, farmers have to meet the required quantity, quality and food safety standards, and need to be integrated in marketing channels. To seize opportunities in high value niche markets⁷³, farmers will have to adopt technological innovations and adapt their business model to those specific market requirements.

C. Rural Development Strategies

16. The Medium-Term Strategy of Agricultural Sector in FBiH (2006-2010) supported: (i) the return of refugees and displaced persons; (ii) sustainable development of natural resources; (iii) improvement of the profitability and competitiveness of agriculture and food industries; (iv) strengthening of cooperatives, enterprises and producer organisations and linking them with the food industry; (v) development of land markets through land consolidation; (vi) increasing quantity and quality of food to meet domestic and export demands; (vii) the institutionalisation of the sector in line with EU requirements; (viii) state-level agriculture and rural development policies; and (ix) promotion of exports of agricultural and food products.

17. It was followed by the RS Rural Development Strategy (2009-2015), which includes a Strategy for Agriculture Development. Its goal is to improve the well-being of rural households and to strengthen rural communities via measures that will increase employment on and outside farms and increase the quality of rural life and work in general. These strategies foresee the following: (a) improvement of competitiveness of agriculture and forestry; (b) rational management of natural resources; and (c) rural economic diversification. Within this frame, priorities include: (i) on-farm investments; (ii) investments in processing and marketing of agricultural products; (iii) support to farmers organisations; (iv) human resource enhancement in rural areas; (v) support to the rural finance sector especially for capital investments in agriculture; (vi) diversification of non-agricultural and agricultural activities in rural areas; (vii) the set-up and development of micro, small and medium-sized enterprises; (viii) construction and maintenance of rural infrastructure; (ix) support to rural tourism; and (x) support for local rural development initiatives.

18. The strategies of FBiH and RS are constructed around 4 similar priorities namely:

- improving competitiveness of the agricultural and food sector;
- institutional development and improvement of legal frameworks in order to stimulate agricultural and rural development,
- sustainable use of natural resources; and
- improvement of rural livelihoods and diversification.

19. An entity-level budget analysis illustrates that funding earmarked to rural development and environmental protection is often targeted towards direct production support to registered farmers. When it comes to support for non-commercial farmers, funding is rather limited⁷⁴. As registration implies paying taxes on sales small farmers do not register.. These non-commercial farmers can increase their possibilities of mobilizing support by joining an FO, diversifying their sources of income or by scaling up production.

⁷³ Berries, dried mushrooms, nuts, organic products or off-season vegetables.

⁷⁴ Registration as a commercial farmer is a precondition for most categories of support

D. Producers' Organisations, Cooperatives and Agribusiness

20. **Producers' Associations** are considered Civil Society Organizations (CSO) and operate under the State Law on Associations and Foundations adopted in 2001. Civil society organizations are not-for-profit membership organizations established by a minimum of 3 natural citizens, residents of BiH, or legal persons (in any combination) to further a common or public interest goal. Estimates suggest that there are more than 8,000 such civil society organizations in Bosnia and Herzegovina covering various sectors. Consequence of this undistinguishable status from classic NGOs and other type of associations, Producers' Associations, which most often operate at Municipality level are hardly recognized, even by Municipality authorities, except when they are benefiting from eventual donor support. There could be around 200 PAs in FBiH and around 70 in RS, a large part of which are dairy or bee-keepers associations, also as a result of the efforts invested in these sectors by post-war donors and administration.

21. Some recently established fruits and/or vegetables producers' association operate at national level, with the support of important donors/projects such as FARMA, UNDP, Caritas or Oxfam. In that case, the Farmers' Association appears to be a first step of organization (for training, negotiating activities) and may lead to the establishment of a Cooperative.

22. Associations are exempt from paying tax on donations, grants, membership fees and on any profits from economic activities directly related to the achievement of the organization's goals. For all other economic activities, associations are treated the same as any other profit-making enterprise and revenue from all activities not related to the organization's goals are liable to tax on profits at the standard rate.

23. **Cooperatives** are a legacy of the agricultural system of the socialist era and have become part of the country's organizational 'tradition'. "Old cooperatives" from the socialist era still exist, but are mostly inactive and often dealing with problems relating to the status of their assets. "New cooperatives" (formed after the end of the war) are mostly involved in marketing and input supply, exploiting the economies of scale not available to small individual producers. Most of these have a small membership base, often only the mandatory 5 founding members required by the law. To a large extent these "new cooperatives" are, in reality, limited liability share companies formed as cooperatives for a variety of reasons. It is cheaper and less time consuming to register as a cooperative than as a company⁷⁵. Cooperatives have lower operating costs than companies⁷⁶. Additionally, cooperatives have the advantage of having access to government subsidies and support (also from donors), generally unavailable to companies.

24. The **legal framework for cooperatives** has been established by The General Law on Cooperatives, a state law approved in 2003. This new law, modelled on current European practice, strives to install the principles of voluntarism, democracy, freedom and transparency, and regulates all aspects of cooperative operations (creation, membership, record keeping, operations, property rights, management and profit distribution). Nevertheless, this law has been shaped to encompass various forms of cooperatives (e.g. youth, house, savings cooperative) besides the purely agricultural cooperatives. Presently, about 800 cooperatives pertain to this legal framework, of whom only 550 are agricultural cooperatives. Monitoring of these cooperatives is mainly limited to checking their compliance to legal obligations related to biennial auditing of its operations, not concerned by the degree of implementation of cooperation principles. Only 150 cooperatives are estimated to be active in the whole BiH. In 2008 Republic of Srpska issued a specific Law on Agriculture Cooperatives which is largely in harmony with the BiH Cooperative Law of 2003. This law does not allow legal bodies (such as companies, or d.o.o.) to be a founding member of a cooperative and considers the property

⁷⁵ Registering a cooperative costs about BAM 1,500 and can take up to 30 days; while registering a company costs about BAM 4,000-5,000 and can take up to 60 days.

⁷⁶ Cooperatives have no legal obligation to have formal employees compared to companies (d.o.o.) which must have at least three employees for which they have to pay social security contributions amounting to some 40% of salary.

of the “old cooperatives” from socialist era, as common property subject to state (or Municipality) control, which has proved to be controversial.

25. **Apex Cooperative Organizations** exist at the three levels of BiH. Cooperative Union of Bosnia Herzegovina (BHCU) is the state level apex cooperative organization: according to their location, cooperatives can become members, on a voluntary basis and for a limited fee, of their respective entity union of cooperatives: the Republic of Srpska Cooperative Union (RSCU), regrouping 64 agricultural cooperatives, or the Federation of BiH Cooperative Union (FBiHCU), regrouping no more than 30 agricultural cooperatives (out of 78). Besides auditing the cooperatives of which they have the delegated responsibility, these two entity cooperative unions share the same objectives and purpose in terms of advocacy and lobbying for their members and while carrying out activities related to education, information and capacity building. They have equal representation in the BHCU Assembly, and function according to a system of alternating presidency. Three members of BHCU Assembly are women. As an apex organization, BHCU has the authority to work with the national government to pass laws that regulate cooperative practices and to set standards for auditing cooperatives. It also represents cooperatives abroad and collaborates with international organizations.

26. “New cooperatives” operate mainly in the dairy, fruit/vegetable and MAPs value chains, they act as aggregators for small/medium holder production. In such cases, the cooperative serves members (who own a share in the cooperative and have decision making powers) as well as non-members (called cooperants or contractors) who are only suppliers of produce to the cooperative. The members benefit from the profits the cooperative generates from its aggregator activities while the ‘cooperants’ mainly benefit from the access to market provided by the cooperative⁷⁷. This is evidently quite far from the operating rules and principles characterising EU cooperatives.

27. **Agribusiness.** These stakeholders (agro processors, traders and exporters) buy up agricultural produce from smallholders and other farmers, process the raw material (e.g. freezing) and then export the processed produce. They often pre-finance and sometimes co-finance smallholders the necessary inputs for production to. Agribusiness has currently the following qualifications: (i) experience in business development, management and marketing including sales; (ii) market knowledge based on own market research; (iii) market linkages. These skills concerning RCDP are underdeveloped.

E. Public and private Business Development Service providers

28. In BiH, Business Development Services (BDSs) are offered by private and public sector providers. Whereas extension services are aiming to improve the production on the field, BDSs are focusing on the downstream of the value chain and include product development, quality certification, production / productivity enhancement, branding, marketing and many other topics. The by the project foreseen Business Facilitation Partners are in essence also private BDS providers that will focus their facilitation on establishing linkages between FOs and agribusiness in order to develop commercial activities in selected VCs (e.g. by supporting the design of Business Proposals for RCDP support).

29. **Business Development Services provided by the public sector.** The public sector has several BDS providers such as regional and local development agencies in the FBiH and RS. Over the years, the government, heavily supported by the donor community, especially the EU, established several development agencies and similar institutions. Several of them have not survived after the international funding came to an end. Main active business development agencies in the FBiH are the following:

- The Economic Region Development Agency (SERDA d.o.o), located in Sarajevo;

⁷⁷ However, many aggregator cooperatives find it necessary to involve themselves with production, often through the contract farming modality with cooperants (supplying them with inputs, usually on credit basis, and technical advice) in order to meet the stringent quality, quantity and regularity of supply requirements of present-day processors.

- The Regional Development Agency for Herzegovina (REDAH), including the Regional Information Centre (RIC) and the Centre for Rural Development and Agriculture Herzegovina (CRRP). REDAH is located in Mostar;
- The Northeast Regional Development Association (NERDA), based in Tuzla; and
- The Regional Development Agency for Central BiH (REZ RDA), based in Zenica.

30. These institutions have been established with the aim to strengthen, coordinate and promote economic development at macro-regional level. The ultimate purpose is to stimulate economic development by developing a strategic vision while providing support to private actors, businesses, NGOs and governments wishing to work jointly on issues related to poverty reduction, economic sustainability, and the stability of the country. The implementation of donor driven projects such as "Business Environment Strengthening for more SMEs in Tuzla and Neighbouring Municipalities" are typical examples of their work.

31. The setup of these (business development) agencies followed the EU regional development approach purposefully not limiting its action to the entities they were localized in, the This approach was nevertheless rejected by the RS, which also abolished the Banja Luka Regional Development Agency. To replace this last agency the RS created the Agency for Development of Small and Medium Enterprises (RARS). It was established in 2004 with the aim of providing support for the establishment and development of small and medium enterprises. The agency currently has 33 staff and is coordinating the work of 13 local development agencies in the RS, including the City Development Agency Banja Luka (CIDEA), the Agency for Economic Development of the City of Prijedor (PREDA-PD), the Agency for Development of Small and Medium-Sized Enterprises of the City of Bijeljina, the Agency for Development of Small and Medium-Sized Enterprises of the City of Trebinje, the Development Agency of Municipality Modriča, the Agency for Economic Development of Municipality Mrkonjić Grad, the Agency for Development of Small and Medium-Sized Enterprises (APIS) Srbač, the Local Development Agency Kozarska Dubica, the Agency for Development of Small and Medium-Sized Enterprises Doboj, the Agency for Development of Small and Medium-Sized Enterprises Ugljevik, the Development Agency of Municipality Čelinac, and the Development Agency of Municipality Ljubinje. In municipalities in which there are no local development agencies, RARS cooperates with municipal departments for development. A substantial portion of their budget is funded by international donors through projects.

32. **Municipalities as public sector providers.** Many municipalities have set-up small local development agencies to get access to project funding. The head of these agencies is usually the economic advisors in the municipality.

33. The Development Agency Zepce (RAZ d.o.o.) is a small development agency, but quite active in supporting and promoting local business activities. Currently RAZ is working actively with two berry associations in the municipality of Zepce. ALDI in Gorazdi and the wood cluster in Prijedor exhibit a similar model of local network of local stakeholders.

34. The RS approach is different from the FBiH as the authorities tried to keep the local development competencies within the Economic Unit in the municipalities. In FBiH the post of economic advisor of the municipality has been outsourced to a local development agency. Although both Entities are implementing different approaches for development competencies, the roles and competencies of the economic advisors are quite similar.

35. **Other actors.** Chambers of Commerce in both Entities have a good reputation among business stakeholders and their activities have had a significant impact on business activities. The Chambers provide training to members companies and share information on different topics of economic development. By contrast, these chambers do not perform well in promote matchmaking events and in economic cooperation between members' companies.

36. Another agency with an interesting role in business development in the selected value chains is the Bosnia and Herzegovina Export Promotion Agency (BHEPA), founded in 2008. BHEPA is a

national agency operating within the Foreign Trade Chamber of Bosnia and Herzegovina. Its primary role is to assist all B&H's companies to access and expand export markets by promoting BiH's products and capabilities internationally. Notwithstanding, only a small number of companies is familiar with the activities of and services offered by BHEPA. Like other government organisations, the agency is understaffed, has a limited budget and needs more capacity building. Employees lack entrepreneurial spirit and do not understand what is needed to sell Bosnian products abroad.

37. Another approach to promote public sector business development services was the recent establishment of three Innovation Centres in Mostar, Zenica and Banja Luka, under a project funded by the EU. Their purpose is to promote entrepreneurship and education, business incubation and knowledge to foster economic growth.

F. Specific constraints in fruits and vegetables subsectors

38. In the project's targeted fruits and vegetable subsector, smallholder farmers and the rural poor currently face the following challenges:

- *Access to land.* Very poor people tend to be landless or have access only to very small plots of land. In the case of women, access to land is even more problematic, due to inheritance laws and land titles in the name of male relatives. Without formal land ownership, ability to use land as collateral for accessing credit is also a constraining factor.
- *Access to credit.* Current interest rates range between 9 and 15%, with no distinguishing difference for the use of the credit (commercial or individual use). Commercial banks have very limited products to support agricultural-related activities, particularly at the level of small farmers. Microcredit institutions are present in the country, though do not have adequate presence in the rural areas; whilst they offer credit on less stringent terms (e.g. collateral requirements), interest rates are around 24% per annum, with a credit ceiling of approximately 10,000 KM (approx. EUR 5,000).
- *Legislative framework.* In some cases, current legislation governing producers' associations (PAs) hampers poorer people's ability to gather into groups, pool resources and build a critical mass to sell their produce. Whilst PAs have a larger constituency base and can be very inclusive-oriented, they are constrained by law to be real economic actors that are able to make 'profit'. As such, this legal framework reduces the potential benefits deriving from being a member of a PA, making the value chain longer and increasing the number of actors involved.
- *Entrepreneurship and business skills.* Currently, the costs (financial and non-financial transaction costs) to register or set-up an enterprise are relatively high with cumbersome procedures that require specialised business skills or knowledge.

Country Economic Background Sheet

Bosnia and Herzegovina

Land area (km2 thousand) 2012 1/	51	GNI per capita (USD) 2012 1/	4 600
Total population (million) 2012 1/	3.83	GDP per capita growth (annual %) 2012 1/	-1
Population density (people per km2) 2012 1/	75	Inflation, consumer prices (annual %) 2012 1/	2
Local currency Convertible Marks (BAM)		Exchange rate: USD 1 = BAM 1.56588	
Social Indicators		Economic Indicators	
Population growth (annual %) 2012 1/	0	GDP (USD million) 2012 1/	16 853
Crude birth rate (per thousand people) 2012 1/	9	GDP growth (annual %) 1/	
Crude death rate (per thousand people) 2012 1/	10	2002	5.3
Infant mortality rate (per thousand live births) 2012 1/	6	2012	-1
Life expectancy at birth (years) 2012 1/	76		
		Sectoral distribution of GDP 2012 1/	
Total labour force (million) 2012 1/	1.45	% agriculture	8
Female labour force as % of total 2012 1/	39	% industry	25
		% manufacturing	12
		% services	67
Education		Consumption 2012 1/	
School enrolment, primary (% gross) 2012 1/	n/a	General government final consumption expenditure (as % of GDP)	23
Adult illiteracy rate (% age 15 and above) 2012 1/	2		
		Household final consumption expenditure, etc. (as % of GDP)	79
Nutrition		Gross domestic savings (as % of GDP)	-2
Daily calorie supply per capita	n/a		
Malnutrition prevalence, height for age (% of children under 5) 2012 1/	9		
Malnutrition prevalence, weight for age (% of children under 5) 2012 1/	2	Balance of Payments (USD million)	
		Merchandise exports 2012 1/	5 162
Health		Merchandise imports 2012 1/	10 024
Health expenditure, total (as % of GDP) 2012 1/	3	Balance of merchandise trade	-4 862
Physicians (per thousand people) 2012 1/	n/a	Current account balances (USD million)	
Population using improved water sources (%) 2012 1/	99	before official transfers 2012 1/	-4 066
Population using adequate sanitation facilities (%) 2012 1/	95	after official transfers 2012 1/	-1 633
Agriculture and Food		Foreign direct investment, net 2012 1/	-350
Food imports (% of merchandise imports) 2012 1/	18		
Fertilizer consumption (kilograms per ha of arable land) 2012 1/	n/a	Government Finance	
Food production index (2004-2006=100) 2012 1/	105	Cash surplus/deficit (as % of GDP) 2012 1/	-2
Cereal yield (kg per ha) 2012 1/	3 004	Total expense (% of GDP) a/ 2012 1/	40
		Present value of external debt (as % of GNI) 2012 1/	46
Land Use		Total debt service (% of GNI) 2012 1/	6
Arable land as % of land area 2011 1/	20	Lending interest rate (%) 2012 1/	7
Forest area as % of total land area 2011 1/	43	Deposit interest rate (%) 2012 1/	3
Agricultural irrigated land as % of total agric. land 2011 1/	n/a		

a/ Indicator replaces "Total expenditure" used previously.

1/ World Bank, *World Development Indicators* database CD ROM 2014-2015

Appendix 2: Poverty, targeting and gender

A. Poverty context

1. BiH has relatively strong social indicators, with most of the population having access to water, sanitation and health care. The country is placed 81st in UNDP's Human Development Index (HDI) ranking, with an Index of 0.735 in 2013. Poverty is not so much about absolute destitution, but is rather characterized by social exclusion and a lack of access to basic services and public goods that make up an acceptable standard of living. The most recent poverty analysis in the country indicates that there is little or no extreme (food) poverty. However, between 19 to 21% of households suffer from chronic material deprivation and between 20 to 30% are at risk of falling into material deprivation⁷⁸. During the period 2001-2007, absolute poverty dropped from 19.1% to 14.0%, but has increased again to 16% in 2010 and 17.9% in 2011⁷⁹ (Table 1). The country is thus unlikely to achieve its MDG regarding the eradication of poverty, extreme hunger and unemployment set for 2015. As well, progress in poverty alleviation has been uneven between urban and rural areas, and many poor households have a high dependency ratio, low levels of educational attainment, limited access to a regular income from formal employment, pension or remittances.

2. The country has also fallen back on its MDG indicators, especially with regards to employment and women's share in the non-farm sector. Official or registered unemployment for women now stands at just above 40%⁸⁰, and unemployment amongst young people is also reported to be approximately twice as high as amongst the population as a whole⁸¹.

Table 10: Absolute poverty rate in BiH (per cent)

	2001	2004	2007	2010a	2011/2012	2015 Target
Total	19.1	17.7	14	16	17.9 ^b	12
Urban	14.5	11.3	8.2	10	NA	
Rural	19.4	22	17.8	21	NA	

Source: a: computations from the LSMS-2001 and HBS. b: HBS 2011 preliminary data.

B. Agriculture and rural poverty

3. Poverty in BiH is characteristically a rural phenomenon. Despite the overall decrease of the national poverty level, the country has witnessed an uneven progress between urban and rural development. This discrepancy results from the slow growth in the agricultural and non-farm rural sectors against the rapid growth in higher-wage sectors in urban areas (such as the financial sector, manufacturing sector and the retail trade sector). Rural poverty in BiH is distinct from urban poverty and is characterized by a largely informal labour sector, social exclusion, income-poverty an aging population and high migration phenomena of the youth – towards cities or abroad.

4. About 75% of poor households in BiH live in rural areas⁸². The most recurrent types of rural poor are the following: (i) unemployed or with limited employment opportunities, especially rural youth; (ii) households (HH) with insufficient assets or without access to pensions or remittances; and (iii) female-headed households (FHH) who earn on average 20% less than male-headed HHs. Rural poverty correlates strongly with altitude and uneven access to land, irrigation, equipment, finance and markets. Rural communities suffer from limitations constraining agricultural production and general well-being, such as harsh climatic conditions, ineffective market linkages and underdeveloped rural infrastructure.

⁷⁸ IFAD study – Gender-sensitive poverty and livelihoods analysis. January 2011.

⁷⁹ This figure does not include the Household Budget Survey 2007 according to which 2 million people are vulnerable.

⁸⁰ Progress Towards the Realization of the Millennium Development Goals in Bosnia and Herzegovina 2010. Ministry of Finance and Treasury and the United Nations Country Team. Sarajevo. July-August 2010.

⁸¹ UNDP: Human Development Report: The Ties that Bind, Social Capital in Bosnia and Herzegovina, 2009.

⁸² Household Budget Survey 2007

5. Agriculture contributes to just under 10% of the GDP of the country. Cultivable land amounts to 1 million ha⁸³ but less than 20% of agricultural land is suited to intensive agriculture, most of this located in lowland river valleys. Due to underdeveloped irrigation infrastructure, only about 1% of the arable land benefits from some kind of irrigation. As a consequence of this, the sector is considerably exposed to climate change related risks⁸⁴.

6. Smallholder farms continue to dominate agricultural production in BiH. There are some 515,000 privately-owned smallholder farms⁸⁵ engaged primarily in cereal production for home consumption, and small-scale horticulture and livestock production. It is estimated that landholding size is about 0.59 ha per capita. Overall agriculture sector's productivity is very low⁸⁶. Crop and livestock yields are below potential (vegetable yields are one-fifth of those in the Southern European member states with similar geographic and climate conditions) while labour productivity is also limited – amongst other factors – by the size of the landholdings and the relatively low levels of mechanization.

7. Limited access to technological innovation and to effective business development services (BDS) further constrains smallholders from reaching their competitive potential in 2000. Extension offices were established throughout BiH with EU support⁸⁷. Their responsibilities included designing business plans and providing other advisory services for farmers. In the RS, the system is still in place and includes 9 regional-based advisors in most areas, assisted by a central support unit in Banja Luka. Though appreciated, the service is poorly equipped, underfunded and understaffed. In FBiH, the system was originally established at the canton level with no central service. It is largely non-operational due to limited interest from the cantons. Some municipalities financed their own extension officers to implement their municipal action plan for agriculture and livestock.

8. The agriculture sector has consistently suffered from a lack of investment, resulting in outdated and deficient rural (market) infrastructure. The lack of storage, processing and transport facilities is considered one of the main obstacles to developing value-adding activities.

C. Profile of the rural poor

9. The rural poor of BiH comprises three sub-groups, dependent on their assets and capacity for commercial production; these are: (i) the very poor, including the landless and elderly, who generally have no productive assets and whose livelihoods are based on remittances, collection of non-timber forest products, etc.; (ii) the borderline poor, with landholdings of approximately 0.1 to 0.2 ha and who may have 1 or 2 cows; and (iii) the poor, made up of farmers engaged in mixed farming on less than 4 hectares of land, though with limited opportunities for deriving additional income.

10. The poorest subsistence farmers (sub-groups (i) and (ii) above) have marginal production, if any. The main on-farm income is generated from milk production and horticulture crops and non-timber forest products, but income is limited due to the subsistence nature of production, low productivity, lack of quality produce and weak marketing linkages. In addition, the smallholders and subsistence farmers lack access to credit, improved agricultural inputs and know-how (especially as many of these farmers were not traditional farmers) to further develop and commercialise their farms for higher yields and profitability. These households can have high dependency rates and have either no or only a single non-farm income-earner in the family. These families often engage in seasonal casual labour for additional income, rely on forest products and depend on various social protection benefits. Effectively, this group could gain significant benefits from participation in farmers/producers' organisations, which could assist them in addressing some of the constraints of small-scale production.

⁸³ BiH Strategic Plan for Harmonization of Agriculture, Food and Rural Development, 2008-2011.

⁸⁴ Drought incidences have increased and these events can decrease yields by 30% to 95%, according to the UNDP Climate Change Assessment.

⁸⁵ Dimitrievski, D. Agriculture in the process of adjustment to the common agricultural policy, Skopje, 2010.

⁸⁶ WB: Protecting the Poor during the Global Crisis: 2009 Bosnia and Herzegovina Poverty Update, 18 Dec. 2009.

⁸⁷ WB, Agricultural Sector Policy Note for Bosnia and Herzegovina - Trade and Integration Policy Notes, May 2010.

Table 11: Target groups wealth ranking

TARGET GROUPS WEALTH RANKING			
			Poor
Occupation source and livelihoods	Substantially dependant on remittances or pensions Women: include war widows and elderly	Subsistence farming	farming their own land and producing a small surplus for sale
Copying strategy	they are generally not part of any group or association	Generally part of a producers' association	Generally part of a producers' association AND a cooperative
Assets availability	Landless Source of water for irrigation is distant, generally a river.	Land between 0,1 and 0,2 ha 1-2 cows Source of water for irrigation is distant, generally a river.	Land between 0,3 and 4 ha 4-5 cows Have a reliable water source at their disposal
Production surplus	No surplus	Little surplus is sold on local markets one to one	Surplus is sold through cooperatives or companies
Proximity to markets and intermediaries	Live in very remote areas	Live in remote areas	Live in remote areas but can access markets
Access to financial services	None	Possibility to access to microcredit loans	Possibility to access to microcredit loans and commercial loans
Vulnerability	Extreme climatic events, such as droughts and flood, which affect yields and cost of inputs		

11. The third category of smallholder farmers include those who have access to bigger parcels of land, either through immediate family or relatives who have left land behind or by renting it from neighbours. Farmers in this group usually have surplus production for marketing purposes. These farmers can have mix of income sources including often income from wage-labour in the formal sector, which enables them to securely access credit and to be less risk averse. Typically these farmers opt for increased number of livestock or for further engagement in higher value niche crops such as horticulture and fruits (berries in particular). In addition, these smallholders are actively seeking ways to diversify their farming activities and are likely to benefit from incremental investments in farming enterprises. This group might already engage in small-scale commercial fruit or vegetable production (typically 0.3-0.5 ha orchards), and are also likely to participate actively in farmers' organisations, thus capitalising on trainings; they are often more willing and likely to be credit-worthy to take credit for on-farm investments. These smallholder households have fewer dependents and may have technical, administrative or business skills acquired from past employment.

D. Findings from the pre-project focus groups

12. A preparatory study⁸⁸ was conducted in four municipalities (Bratunac, Foca, Konjic and Srebrenica) during October 2014 to assess the current poverty situation with special focus on gender and youth, which are involved in production of fruits and vegetables. The survey sample with face to

⁸⁸ The study included face-to-face interviews and focus group discussions, amongst a total sample population of 315 people (48% women, 31% men, and 21% youth) from the municipalities of Bratunac, Foca, Konjic, and Srebrenica.

face interviews was conducted for 315 people, 48% of whom were women, 31% men and 21% youth – selection criteria included those involved in non-commercial farming and who have less than 2 ha of land. In addition, 39 focus group sessions with 4 to 6 participants per group were also held, comprising 16 women's focus groups, 10 men and 13 youth groups. A sample survey and complementary focus group sessions were held to obtain more precise insight on the current livelihood situation of women, men and young people (between 18 and 25 years of age) in rural areas, and to identify the key challenges and possible solutions that could improve their socio-economic situation as perceived by the respondents (taking into consideration the social roles and power relations within the household and with local communities).

13. The survey and focus group discussions yielded confirmation of the challenges and constraints faced by rural smallholder households, and concerns of women and youth in particular. Some interesting findings are the following:

14. Demographics and economic activity:

- The average number of HH members is 4.15;
- In 24% of HHs, at least one member migrated for: (i) seeking employment opportunities; (ii) studies; and/ or (iii) for marriage;
- At the HH level, income earned by men only was 38%; 37% of HHs reported income earned by women and men, though in 70% of the cases women tended to earn less than the men; women were found to be the only income earners in 17% of the cases,
- In 48% of household, income is jointly managed;
- Main sources of income were the following: wages (39%); pension/ disability benefits (30%); social assistance benefits (18%); agriculture only (13%);
- Access to and control over resources: farming land as well as dwellings were found to be owned by male household members; in 20% of the cases, where families were headed by women, assets were owned and controlled by women solely, and in these cases there was also a direct correlation with women as sole breadwinners within the family.
- Whilst 81% of interviewees are involved in some form of agricultural activity, 46% of these are engaged in subsistence farming and 54% in semi-commercial or small-scale farming; the marketing of products is done primarily through collection points, dairies and cold storage facilities; 37% of those engaged in agricultural activity also said they were involved in off-farm activities in the form of seasonal or part-time employment or self-employment;
- Farmers expressed they are price takers, with limited or no bargaining power;
- 31% of those engaged in agriculture are members or cooperants of Farmers Organizations; the perceived value-added of being part of a FO includes benefits in the form of trainings, extension services, access to information, access to production subsidies; of the 69% not yet affiliated with an FO, 43% expressed willingness to become a member and 57% expressed no interest due to distrust or non-perception of its added value;
- When the analysis investigated women's strategic roles in society, women's participation in farmers' organizations' decision making processes was found to be particularly low, with exception made for women's associations that have emerged in recent years with donor or community support.
- Access to loans – only 35% of interviewees have managed to obtain credit through a formal financial institution;
- Willingness to remain in rural areas – 55% of interviewees expressed interest in remaining in the rural areas citing some of the following reasons: limited opportunities in urban areas; better opportunities offered by the farming sector given the context of high national unemployment and widespread poverty; agriculture presents a 'safe' source of income; the 45% who do not see a real future in the rural areas cited the following reasons: agriculture is

not enough as an only source of HH income; social events are scarce; poor rural infrastructure is a constraint; limited economic opportunities in rural areas;

15. A sense of discrimination was voiced by 36% of the women, correlated mainly with: (i) sense of powerlessness in decision making processes and very limited political participation; (ii) lack of sense of belonging to the local community; and (iii) weak protection policies. When asked whether women considered agriculture as an important source of livelihood, they confirmed this to be highly relevant, expressing a special interest for farming/collection of medical herbs, organic production, and berries mainly.

E. Project target group

16. RCDP direct beneficiaries will be rural poor, both women and men, organized in Producers' associations (PAs) and Cooperatives active in the selected value chains, or with the potential to be included in them – both at production or value addition stages. The Project would target 16,000 direct beneficiaries over a period of 10 years. Indirect beneficiaries will benefit from better collective infrastructure or improved subsector governance.

17. Among these beneficiaries, the Project will undertake the necessary efforts to reach out to the three target groups (the very poor, poor and borderline poor), analysing their different challenges in accessing the VC and singling out the specific problems faced by women and by youth. The targeting strategy will respond to these challenges, providing enabling measures that could allow their access to project activities.

- **Very poor** are usually non-registered or registered but not commercial farmers⁸⁹. Either way, they are likely not to be part of rural organizations, facing the risk of being excluded from RCDP opportunities. To that extent organizations outreach to additional members will be promoted, increasing their capacity to attract and retain the very poor. In order for them to be able to join the organizations, a set of enabling measures will be identified and put in place. Special efforts would be undertaken to reach landless people, including advocacy actions for municipalities to give land to youth or women, in order to offer them the opportunity to engage in one of the value chains selected for the cluster. For instance, they may rent land or apply for the use of publically owned land at their municipalities. As part of fulfilling their commitments, municipalities will be expected to expedite these processes and facilitate access to land especially for young people and rural poor.
- **Poor and borderline poor** tend to be organized in PAs and cooperatives; hence most of the targeting focus will be geared towards rural organizations' selection process, as explained below.
- **Women and youth** tend to be also excluded from rural organization, hence enabling measures will include i) setting up quotas for women/youth in rural organizations ii) use the presence of women and youth as a selection criteria for organizations to benefit from RCDP iii) preferential access to the project for women groups iv) provide specific enabling measures to ensure women's active participation in PA/Cooperatives (trainings on communication, leadership, access to communal lands, etc.) and other measures. In order to tackle intra-household dynamics that hamper women's participation in rural organizations, as well as their access to additional income that can be generated by increased production in VC, household methodologies will be used. These methodologies are implemented through PAs/ cooperatives and enable greater productivity thanks to more equitable workload distribution and joint planning of household members, also resulting in improved condition of women.

⁸⁹ Farm registers are kept at entity level (inputs are made at municipal level) and the registration process is fully voluntary for the farmers. The household that is registered needs to pay social and health contributions for the head of the household (and/or its members), if the agriculture is their only source of income. However, if the household is not registered, it cannot claim any subsidies from the government. In the RS, there is further distinction between the non-commercial and commercial farmers. For commercial farmers who meet certain thresholds, the subsidy levels are sometimes twice as high as for the non-commercial farmers.

18. RCDP Targeting strategy implementation will select smallholders, organized in PAs and cooperatives, within the targeted value chain clusters, following clear criteria to ensure transparency in selection and mitigate the risk of elite capture.

19. Key actors in the targeting process are local authorities at municipal level (extension workers, social service centres, employment bureaus, heads of the local communities, and others), as they hold the list of those people that are benefitting from social security systems and are hence able to determine who belongs to the three target groups. The local authorities are also responsible for managing the entity-level Farm registers, which are a valuable source of information and can be an excellent starting point for project intervention. In addition, the targeting process will include extensive communication with FOs, who will be responsible for collecting the field questionnaires and organizing them into the database, for further analysis. At the same point, FOs should be the ones to make the final selection of the farmers that fulfil the targeting criteria, as not all of them will be good producers in reality (some may be simply looking for donation that they will sell).

Targeting strategy⁹⁰

20. RCDP places particular emphasis on the inclusion of poor farmers, women and youth, and hence fosters the development of selected sub-sectors for its poverty reduction potential. RCDP direct beneficiaries will be rural poor, both women and men, young and adults, organized in Producers' Associations (PAs) and Cooperatives active in the selected VCs. Individuals currently not associated to PAs and co-operatives can be eligible, but they should have a real possibility to be incorporated to these organisations and PAs and cooperatives are willing to associate these individuals. Among these beneficiaries, the Project will undertake the necessary efforts to reach out to three target groups: the **very poor**, **poor** and **borderline poor**, analysing their specific constraints and challenges to access the selected VCs, specifically analysing the constraints faced by **women** and **youth**.

21. The targeting strategy will respond to these challenges, providing enabling measures that could allow their access to project activities. Basically, RCDP will target poor, non-commercial farmers that are not sufficiently incorporated into the supply systems that link them to the market and support them to become competitive commercial farmers. In the implementation of the Pilot on Pro-Poor Value Chains in BiH by Oxfam Italy, the poverty characterization previously developed in IFAD designs was taken a step further. In agriculture, the simultaneous analysis of land size and household income constitutes a good starting point.

22. The table below provides some indicative ranges for the income.

Table 12: Categorization by income per capita at household level valid for all RCDP sub-sectors

Categorization	Monthly income per capita of the household (in KM)
Very poor	Up to 200
Poor	201-400
Borderline poor ⁹¹	401-500
Not poor	Over 501

23. Table 13 has been adapted from Oxfam's Pilot experience (in the berries sector) to also incorporate the vegetables sub-sectors of interest in RCDP. The main sub-sector of interest to the project is the berry sub-sector. It includes production (cultivation) of various berry fruit, with focus on raspberries. Other products of interest in this sub-sector are strawberries, blackberries and blueberries, as well as currants.

⁹⁰ Inputs for this section are based on the methodology developed by Oxfam Italy, as part of the pilot value chain initiative started in October 2014. This pilot initiative was financed by RLDP. In addition, a "Workshop on Pro-Poor Targeting in Rural Areas in Bosnia and Herzegovina" was organized in Sarajevo on 15-16 April 2014.

⁹¹ Generally, people in this target segment are not considered de facto poor, but vulnerable to falling back into poverty (below poverty line) with the occurrence of external shocks.

24. Gherkins are highly profitable crops, similar to berries with regards to the contribution that these can generate to the households' sources of income. Greenhouses production can yield higher profits despite the apparent smaller surfaces, while open field production (including, but not limited to, peppers, tomatoes, potatoes, etc.) are generally less profitable, but also less labour intensive.

25. Complementing this overall situation analysis, and in order to cover all sub-sectors of interest for RCDP, the NTFP value chain is one in which the collectors' income per capita is the only criteria that applies. Collection from the wild very often constitutes an integral part of rural livelihoods in BiH, although usually, the households have no land.

Table 13: Categorization of beneficiaries by land size by sub-sector and type of production

Average land plot size	Vegetables			
	Berries	Greenhouses	Gherkins	Open field
Very poor	Up to 0.2 ha	Up to 300m2	Up to 0.2 ha	Up to 1 ha
Poor	0.21-0.5 ha	301-600m2	0.21-0.5 ha	0.51-1 ha
Borderline poor	0.51-1 ha	601-1.200m2	0.51-1 ha	1.1-3 ha
Not poor	Over 1.1 ha	Over 1,200m2	Over 1.1 ha	Over 3.1 ha

26. The categories presented in both tables (by income, and land size) are an indication of land productivity, adequate access to technology and specialised extension (among others), while the ranges are based on profitability calculations for each crop.

27. In case that a single household falls into different categories based on the land / income criteria, priority should be given to the income per capita criteria, as it probably better reflects the overall poverty situation at the household level. Nevertheless, both criteria should be included to better inform the targeting process and unfolding of the strategy adopted under the intervention.

28. **Implementation of the targeting approach.** RCDP will select smallholders, organized in PAs and cooperatives, within the targeted value chain clusters, following clear criteria to ensure transparency in selection and mitigate the risk of elite capture. Key actors in the targeting process are local authorities at municipal level (extension workers, social service centres, employment bureau, heads of the local communities, and others), as they hold the list of those people that are benefitting from social security and are hence able to determine who belongs to the three target groups (very poor, poor and borderline poor). The local authorities are also responsible for managing the entity-level Farm registers, which are a valuable source of information and can be an excellent starting point for project intervention. For the implementation of the targeting approach, questionnaires will be used.

29. The targeting process will include extensive communication with PAs and cooperatives, which will be, together with agribusinesses, the main partners for the inclusion of smallholders. In that process, PAs and cooperatives will promote the inclusion in selected local communities by explaining the ways smallholders can become a part of the existing value chain. Once the interest from the farmers is established, PAs and cooperatives will be responsible for preparing the lists of farmers, collecting the field questionnaires and organizing them into the database for further analysis⁹². Eventually, PAs and cooperatives should be the ones to make the final selection of the farmers that fulfil the targeting criteria, based on the knowledge of individual farmers in the field. This list will be verified by the Business Facilitation Partners (BFPs) and/or the local facilitators (such as the local development agency).

30. Local authorities will be partnering with LED/RED⁹³/consultancy firm/NGO that will be hired to work on cluster development as BFPs. Facilitators from the consultancy firm/ NGO would support local authorities in: (i) conducting training and awareness raising on the targeting approach and

⁹² Sample questionnaires have been prepared by Oxfam Italia during the implementation of the Pilot project. They include questions on household assets and revenues, which are the basis for classifying the HHs into poverty categories.

⁹³ LED Local Economic Development Agency, RED Regional Economic Development agency

principles; (ii) capacity support to municipalities /cluster stakeholders' platforms to identify criteria and set up and implement a transparent and fair targeting approach; (iii) support the selection of beneficiaries', so as to avoid exclusionary practices and elite capture; and (iv) follow up and monitoring of targeting implementation and activities delivery.

31. **Selection of PAs and Cooperatives.** RCDP will work with PAs and Cooperatives that are active in the selected clusters. The vision of the Project is to facilitate emergence and growth of cooperatives through technical and organizational support and funds to cofinance BPs. Minimal eligibility criteria for PAs and cooperatives as project partners will be the following: (i) compliance with current legislation of cooperative and governance principles; these conditions are different for PAs and Cooperatives; (ii) at least one formal market channel established; (iii) number of members and their categorization in poverty groups based on the landholding size; (iv) type of membership so as to give preference to organizations with a favourable proportion of women and youth among their members; (v) proven experience in developing concrete measures to include women among their members, favouring their participation; (vi) examples of willingness to expand membership, in particular reach out to smallholder farmers and rural poor; (vii) capacity to improve provision of services and guaranteeing access to production factors by all members; and (viii) work towards social and sustainable use of natural resources.

32. Representatives of target groups and PAs and cooperatives, women and youth will participate as full members in cluster stakeholder platforms to be established at cluster level. It will ensure they can monitor progress in terms of local VC development, voice their concerns on VC issues, participate in decisions taken in CSPs, interact with other partners in the cluster and VCs, etc.

33. Specific activities will be undertaken to ensure the organizational strengthening of PAs and cooperatives as well as to ensure inclusiveness and empowerment of rural poor, women and youth through their organisations. Activities will include: (i) organizational strengthening of PAs and cooperatives; (ii) information and mobilisation campaigns; (iii) business counselling for members of PAs; (iii) matching grants to leverage investments; (iv) support to ensure active participation of women and youth in PAs and cooperatives' decision-making process; and (v) information campaign on rural labour conditions, food safety, enforcement of regulations in agriculture and agribusinesses.

34. **Agribusinesses.** The involvement of exporters, wholesalers and enterprises is crucial to ensure effective access of smallholders to productive assets, finance, services and markets. Eligible agribusiness companies should comply with the following criteria: (i) proven know-how and technical expertise in the subsector; (ii) company's willingness to use environmental friendly production practices and compliance with social, labour and gender standards; (iii) company's strategy is focused on long-term presence and viable business relationships with producers; and (iv) proven experience in or formal commitment to establishing business with small producers. Regarding the inclusion of women and youth, the project will ensure that they effectively participate in and directly benefit from the BPs and throughout the value chain and not just through specific activities specially tailored for them. RCDP will prepare guidelines on proper governance and management, checks and balances and monitor the process to ensure that PAs and cooperatives will be able to engage with agribusiness companies on the basis of fair deals.

F. The cluster approach and geographic coverage.

35. RCDP will be implemented at national level though value chain clusters. Although in principle all municipalities in both Entities are eligible to participate in project activities, given the focus on supporting the most vulnerable groups (poor farmers, women and youth) the project will foster the inclusion of poor municipalities but that do have the potential to be involved in the selected value chains in broader clusters of municipalities. Typically, these municipalities will be either close to the areas currently active in the selected sub-sector value chains or municipalities where important 'poverty pockets' still subsist. Clusters will be identified on the basis of common characteristics in terms of socio-economic and institutional potential.

36. Clusters of municipalities will be identified based on common characteristics and interest. The selection of clusters will be based on eligibility criteria, to ensure that those with the strongest pro-poor agenda are chosen for project support. One of the key criteria for selection of clusters will be the total number of poor and vulnerable beneficiaries that could benefit from project interventions. This number will obviously be affected by the two critical factors: (i) size of the proposed cluster, with respect to the number of municipalities, and (ii) the existing level of activities, in terms of the number of operating FOs and agribusinesses within the cluster. While the objective is to include the poor municipalities across the country, the final selection of clusters will also depend on the local initiative and the interest to participate in and support the project interventions.

37. A preliminary identification of potential clusters has been undertaken, through a process of mapping and based on the following criteria: (i) agro-ecological conditions; (ii) level of existing activity in the selected sub-sectors; (iii) labour availability and interest of the farmer organizations to get involved in the selected VCs; (iv) institutional capital, in terms of the willingness of both the private and public sector to support the sub-sector development, as well as the availability of relevant support services; (v) infrastructure, especially in terms of road network; and (vi) presence of marketing infrastructure for storing, processing and/or packaging etc.. Based on this analysis, maps were produced based on the listed criteria, suggesting the possible clusters for each value-chain. Physically, these sub-sector value chain clusters usually span up to 10 municipalities, with favourable agro-ecological conditions for production and where private and public stakeholders and actors are interlinked and willing to establish partnerships to mutually develop the value chain. Ideally, the possible clusters should include some strong / very active municipalities, but also bordering municipalities with potential for growth.

38. Specifically, in total there are six possible **berry clusters**, four in the Federation with 36 municipalities and two in the RS with 28 municipalities. This implies that the average number of municipalities per cluster is around eleven (10.7). However, within the possible clusters, some of the municipalities may not be interested to participate in the project, while some new ones in the region may be interested to step in.

Table 14: Possible clusters in the berry sub-sector

Cluster	Entity	Region	# of municipalities	Municipalities	Average score
1	FBiH	NW FBiH	7	Velika Kladuša, Cazin, Bužim, Bosanska Krupa, Bosanski Petrovac, Ključ and Sanski Most	23.0
2	RS	Eastern RS	13	Rogatica, Višegrad, Novo Goražde, Rudo, Čajniče, Foča, Zvornik, Bijeljina, Šekovići, Vlasenica, Milići, Bratunac and Srebrenica	21.8
3	FBiH	NE FBiH	4	Banovići, Živinice, Tuzla and Čelić.	22.0
4	RS	NW RS	15	Banja Luka, Prijedor, Gradiška, Srbac, Laktaši, Derventa, Doboj, Modriča, Petrovo, Teslić, Kotor Varoš, Čelinac, Ribnik, Mrkonjić Grad and Šipovo	20.5
5	FBiH	Central FBiH 1	10	Visoko, Breza, Kakanj, Vareš, Zenica, Žepče, Zavidovići, Maglaj, Tešanj and Doboj-Jug	21.0
6	FBiH	Central FBiH 2	15	Bugojno, Jajce, Dobretići, Donji Vakuf, Gornji Vakuf, Vitez, Travnik, Novi Travnik, Prozor-Rama, Busovača, Fojnica, Kiseljak, Kreševo, Jablanica and Konjic	20.9

Note: This list is provisional, based on the assessment conducted in May 2015.

39. Within the possible berry clusters (identified above), some of the municipalities may not be interested to participate in the project, while some new ones in the region may be interested to step in. The final decision on cluster composition should be made between the municipalities in the field and in the end the A/PCU will choose the most promising clusters.

40. The **vegetables sub-sector** was further split into the three most appropriate product categories: (i) gherkins; (ii) greenhouse production; and (iii) open-field production. The maps quickly point the attention to areas where certain possibilities for cluster establishment exist. For gherkins, northern parts of the country clearly demonstrate some advantages over the southern parts. However, the sub-sector is still to develop, as there is no major concentration of the activities in a single part of the country. The possible clusters for **gherkin** production are four, with 33 municipalities, around 8 on

average (8.25). There are two regions in the RS with 17 municipalities and two regions in FBiH with 16 municipalities.

Table 15: Possible clusters in the gherkin sub-sector

Cluster	Entity	Region	# of municipalities	Municipalities	Average score
1	FBiH	NE and Central	12	Gračanica, Kalesija, Sapna, Srebrenik, Tuzla, Živinice, Doboj Istok, Doboj Jug, Maglaj, Tešanj, Zavidovići and Žepče	16.7
2	FBiH	NW	4	Velika Kladuša, Cazin, Bužim and Bihać	17.5
3	RS	NW and Central	9	Gradiška, Kostajnica, Kozarska Dubica, Novi Grad, Oštra Luka, Prijedor, Doboj, Čelinac and Teslić	16.3
4	RS	NE and Eastern	8	Bijeljina, Lopare, Ugljevik, Zvornik, Bratunac, Milići, Srebrenica and Višegrad	15.8

41. For **greenhouse production**, in total, there are six clusters with a total of 55 municipalities (an average of 9). In the Federation of BiH, there are 4 possible clusters with 38 municipalities, while in the RS the number is a bit smaller – 2 clusters with 17 municipalities.

Table 16: Possible clusters in the greenhouse vegetables sub-sector

Cluster	Entity	Region	# of municipalities	Municipalities	Average score
1	FBiH	Southern FBiH	5	Čapljina, Čitluk, Grad Mostar, Ljubuški and Stolac	18.8
2	FBiH	NE and Central FBiH	14	Čelić, Doboj Istok, Gračanica, Gradačac, Srebrenik, Tuzla, Živinice, Kakanj, Maglaj, Tešanj, Usora, Zavidovići, Zenica and Žepče	18.7
3	FBiH	NW FBiH	5	Bihać, Bužim, Cazin, Sanski Most and Velika Kladuša	18.2
4	RS	NE and Eastern RS	4	Bijeljina, Bratunac, Foča and Ugljevik	17.3
5	FBiH	Central FBiH	14	Bugojno, Donji Vakuf, Gornji Vakuf, Jablanica, Konjic, Prozor-Rama, Breza, Ilidža, Ilijaš, Novi Grad Sarajevo, Visoko, Vogošća, Foča-Ustikolina and Goražde	17.2
6	RS	NW and Central RS	13	Banja Luka, Gradiška, Kostajnica, Kozarska Dubica, Laktaši, Prijedor, Srbac, Brod, Doboj, Modriča, Pelagićevo, Šamac and Teslić	16.7

42. Finally, in the vegetables sub-sector there have also been considered the value chain related to **open field vegetable production**. The envisioned crops include the production of early potatoes, pepper and tomato production and similar. Compared to the other two types of vegetable production, the map is significantly less promising, with most of the country being modestly suitable for this kind of production, when combined with pro-poor targeting agenda. The exceptions are mostly in the north and somewhat in the south, with very limited areas active in central-western parts of the country, known for production of early potatoes. Altogether, these 5 potential (2 FBiH, 3 RS) clusters include a total of 29 municipalities (14 FBiH, 15 RS), or on average about 6 municipalities per cluster.

Table 17: Possible clusters in the open-field vegetables sub-sector

Cluster	Entity	Region	# of municipalities	Municipalities	Average score
1	FBiH	Southern and CW FBiH	11	Glamoč, Kupres, Čapljina, Čitluk, Grad Mostar, Grude, Ljubuški, Posušje, Ravno, Stolac, Široki Brijeg	18.8
2	RS	NW RS	7	Banja Luka, Gradiška, Kostajnica, Kozarska Dubica, Laktaši, Prnjavor, Srbac	18.0
3	RS	NE RS	5	Bijeljina, Donji Žabar, Pelagićevo, Šamac, Ugljevik	18.0
4	FBiH	NE FBiH	3	Domaljevac-Šamac, Odžak, Orašje	17.0
5	RS	SE RS	3	Berkovići, Istočni Mostar, Ljubinja	16.3

43. The third sub-sector selected for intervention under the RCDP project is the one for **Non-Timber Forest Products (NTFPs)**. This sub-sector is very important for the landless poor as it relies heavily on the natural resources available in most parts of the country. Wild mushrooms, wild fruit and wild herbs are found in abundance in BiH, and the differences in the use of these resources and the development of the NTFP sector largely depends on the private sector initiative to organize the collection processes in certain regions. Altogether, these 8 potential (5 FBiH, 3 RS) clusters include a total of 45 municipalities (27 FBiH, 18 RS), or on average about 6 municipalities (5.6) per cluster.

Table 18: Possible clusters in the NTFP sub-sector

Cluster	Entity	Region	# of municipalities	Municipalities	Average score
1	FBiH	NW FBiH	4	Bihać, Bužim, Cazin, Velika Kladuša	20.8
2	RS	NE and SE RS	13	Foča, Milići, Rogatica, Rudo, Sokolac, Srebrenica, Šekovići, Zvornik, Berkovići, Bileća, Ljubinje, Nevesinje and Trebinje	18.9
3	FBiH	Central FBiH	13	Bugojno, Fojnica, Gornji Vakuf, Travnik, Zenica, Žepče, Breza, Hadžići, Ilijaš, Kladanj, Tuzla, Visoko and Vogošća	17.6
4	FBiH	Southern FBiH	10	Čapljina, Mostar, Grude, Jablanica, Konjic, Ljubuški, Posušje, Prozor, Stolac, Široki	17.2
5	RS	NW RS	5	Banja Luka, Čelinac, Gradiška, Kotor Varoš, Kozarska Dubica	16.2

44. In total, the proposed sub-sectors could include up to 26 clusters across the country. Given the project approach to work with a minimum of 12 clusters, the selection of clusters will be very competitive. In total, the 12 pre-identified clusters suggested in the Appendix 2 include 142 municipalities (98 unique), which gives an average of about 12 municipalities per cluster. The proposal includes 72 municipalities in FBiH (56 unique) and 70 municipalities in RS (42 unique). A number of municipalities have more than 1 clusters identified, but the approach of the project will remain focused on targeting the poor and vulnerable groups. To the extent possible, in case of an overlap at the municipality level, the project will avoid working in the same local communities and if this is not always possible, the single household will be eligible to benefit only from the intervention related to one sub-sector.

Table 19: Possible clusters in all sub-sectors – TOP 12

Cluster	Sub-sector	Entity	Region	# of municipalities	List of municipalities	Average score per cluster
1	Berries	FBiH	NW FBiH	7	Velika Kladuša, Cazin, Bužim, Bosanska Krupa, Bosanski Petrovac, Ključ and Sanski Most	23.0
2	Berries	RS	Eastern RS	13	Rogatica, Višegrad, Novo Goražde, Rudo, Čajniče, Foča, Zvornik, Bijeljina, Šekovići, Vlasenica, Milići, Bratunac and Srebrenica	21.8
3	Berries	FBiH	Central FBiH 2	15	Bugojno, Jajce, Dobretići, Donji Vakuf, Gornji Vakuf, Vitez, Travnik, Novi Travnik, Prozor-Rama, Busovača, Fočnica, Kiseljak, Kreševo, Jablanica and Konjic	20.9
4	Berries	RS	NW RS	10	Banja Luka, Prijedor, Gradiška, Srbac, Laktaši, Derventa, Doboj, Modriča, Petrovo, Teslić, Kotor Varoš, Čelinac, Ribnik, Mrkonjić Grad and Šipovo	20.5
5	Gherkins	FBiH	NE and Central	12	Gračanica, Kalesija, Sapna, Srebrenik, Tuzla, Živinice, Doboj Istok, Doboj Jug, Maglaj, Tešanj, Zavidovići and Žepče	16.7
6	Gherkins	RS	NW and Central	9	Gradiška, Kostajnica, Kozarska Dubica, Novi Grad, Oštra Luka, Prijedor, Doboj, Čelinac and Teslić	16.3
7	Greenhouse	FBiH	NE and Central FBiH	14	Čelić, Doboj Istok, Gračanica, Gradačac, Srebrenik, Tuzla, Živinice, Kakanj, Maglaj, Tešanj, Usora, Zavidovići, Zenica and Žepče	18.7
8	Greenhouse	RS	NW and Central RS	13	Banja Luka, Gradiška, Kostajnica, Kozarska Dubica, Laktaši, Prijedor, Srbac, Brod, Doboj, Modriča, Pelagićevo, Šamac and Teslić	16.7
9	Open-field	FBiH	Southern and CW FBiH	11	Glamoč, Kupres, Čapljina, Čitluk, Grad Mostar, Grude, Ljubuški, Posušje, Ravno, Stolac, Široki Brijeg	18.8
10	Open-field	RS	NW RS	7	Banja Luka, Gradiška, Kostajnica, Kozarska Dubica, Laktaši, Prnjavor, Srbac	18.0
11	NTPF	FBiH	Central FBiH	13	Bugojno, Fočnica, Gornji Vakuf, Travnik, Zenica, Žepče, Breza, Hadžići, Iljaš, Kladanj, Tuzla, Visoko and Vogošća	17.6
12	NTPF	RS	NE and SE RS	13	Foča, Milići, Rogatica, Rudo, Sokolac, Srebrenica, Šekovići, Zvornik, Berkovići, Bileća, Ljubinje, Nevesinje and Trebinje	18.9

45. The final decision on cluster composition should be made between the municipalities in the field and in the end the APCU/PCU will choose the most promising clusters.

G. Gender⁹⁴

46. Generally, the typical scenario in BiH agriculture (for what concerns the production level and division of labor within the household) is such that men are usually more involved in physically demanding or machine-based activities (such as soil preparation), while the women are tasked with delicate operations, such as planting, weed control and harvesting. Men usually find themselves covering leadership positions in cooperatives. This is mainly attributable to cultural norms, affecting the different roles of women and men also in the agricultural and rural development sectors. The role of men with regards to decision-making in agricultural institutions is also a reflection of the membership situation in cooperatives, predominantly with men joining as members on behalf of the farming household. This implies that if a change is sought at management level (with an increased number of women in decision-making positions in cooperatives), promoting membership of women can be a more conducive strategy in this direction.

47. Although a number of women participate in the work of cooperatives, and they are working on very difficult and demanding jobs, their real needs, thoughts and attitudes are not recognized as a priority, their voices are not heard yet, and they are hardly to be found in decision-making positions. There is a clear need for organizing and joining women in farmers' associations or cooperatives, but because of the lack of information that is still predominant in the rural areas, because of cultural and norm barriers, as well as stereotypes diffused in Bosnia and Herzegovina, many women do not have enough motivation to fight for their own rights at a personal as well as professional level.

48. Women are largely excluded from the decision-making processes, because their work is not sufficiently valued and considered as an integral part of the family business, and their role is typically not seen and recognized as one of an agricultural worker or farm manager. Furthermore, decision-making power is related to ownership over assets. Men are the ones who, in 80% of cases, own property, have ownership over the farms. This is among another root cause behind the reduced recognition in monetary terms for the work undertaken by the women in the household.

49. Social and economic subordination of women is often regarded as something 'natural', that is, due to the patriarchal mentality that is still traditionally present in rural areas; women in fact usually cover the role of unpaid labour within the household.

50. In the majority of cases, male heads of households make up for membership of the farmers' associations and cooperatives (since one membership is accepted for each household), and cover leadership roles within these organizations. Being the member also implies the possibility to participate directly in the work of the organization, as well as in meetings.

51. Although some degree of progress emerges from the gradual increase in number of women involved in the work of agricultural associations and cooperatives, the difference is significantly noticeable in the functioning of cooperatives established/managed by women, compared to those established/managed by men. The cooperatives established by men typically include a very small number of women, mainly in the form of seasonal labor, often without being able to participate in decision-making processes of the organization.

52. **Women in farmers' organizations.** This group consists of women who express a strong willingness and the need for a commercial form of organization, because they typically own the property, have a higher volume of production, level of education, have attended a training course for business development. Women that fall within this category are usually members of a given organization, more empowered economically, and with better access to financial resources. As

⁹⁴ A total of 150 persons (125 women and 25 men) were interviewed through face-to-face and telephone interviews. Specifically, interviewees included: (a) 100 respondents at household level (85 women and 15 men) involved in agriculture, (b) 20 women members of FOs, (c) 10 women involved in decision making bodies in the rural areas (including in FOs management and executive boards, and FO members), (d) 5 men involved in FO decision-making functions (this with a view to compare the views of men and women on decision making processes and functions), (e) 15 telephone interview respondents (10 women and 5 men) from FOs in other regions of the country (to attempt to have a better representation and situational snapshot across the country). The Guidelines were used to guide the process.

opposed to those women who mainly depend on the male-of-the families' earnings, economically empowered women have better opportunities both on a personal and professional level.

53. However, production is mainly organized by the private sector and the majority of agricultural holdings are fragmented. There are few cases of intensive processing of products (also in the case of vegetables or even raspberries, mainly sold for the fresh or fresh frozen market, and in the second case only partially processed into jams and juices on relatively smaller scales) and adoption of modern agricultural practices. The agricultural sector is still insufficiently organized, also with regards to placement of products in the market. Although involved in the operation of cooperatives, most of these women are still not capable enough for primary processing products, and their further finalization (readiness for final market). In this case, the recommendation is that of promoting the diversification and multi-functionality of farms, because agriculture contributes not only to food production, but also secures products and services for the market.

54. **Women who are not involved in farmers' organizations.** Agricultural (and other rural development related) subsidies and incentive mechanisms do not sufficiently take into account different needs of women and men, and the fact that men are in the majority of cases the owners of the farms. This contributes towards a further inequality among women and men in the rural areas. For women to be able to equally avail of their rights, they should own some assets, which is possible through employment and access to economic resources.

55. In most cases, these women are excluded from the labor market. They lack the necessary knowledge and skills. Financial incentives are often inaccessible to them, which is caused largely because of the distance and remoteness from the main centres and institutions to support women, and because these women are generally not economically autonomous, largely dependent male family members, who are in the majority of cases heads of households and property owners. Women who are not heads of households and who are not part of an agricultural association or a cooperative are generally treated as additional workforce, and as such they lack any decision-making power compared to the male members of the households.

56. **Female-heads-of-households.** The situation is reversed – e.g. higher participation of women in production as well as marketing functions – in the case of female heads of households. In these cases, ownership of land and other farming equipment is in the name of the women in the household.

Gender and targeting issues in selected value chain

57. The sections below provide the gender and targeting analysis for the three sub-sectors of interest in RCDP: (i) (a) Non-timber forest products; (ii) berries; and (iii) vegetables.

58. It should be noted that the findings emerging from this analysis are representative of the general situation in the country, though the situation may widely vary among country regions. In general, the participation of women and youth within the three sub-sectors of interest is in the form of seasonal work, production tasks (including harvesting), and of a lesser degree in marketing activities. With regards to youth, no particular distinction is to be found between male and female participation. The share of women, men and youth participation along the different functions of the value chains is often very much correlated to types and volumes of production, as well as amounts of resulting revenue / profit from the sale of produce.

59. When it comes to agricultural production destined for the market, more than 70% of the workforce is composed of males. With regards to the transportation and marketing of products, men are significantly over-represented as transport of large quantities generally requires major physical strength, and male are better positioned also (generally) in negotiation and determination of farm-gate price with buyers (also mostly men). There is a correlation between households with an above-than-average education level (compared to the 'rural area' standard), also among the younger members of the family, and cases where women - together with their spouses – are more involved in decision-making processes. A higher degree of decision making on behalf of women is also found in the case of female-headed households. It is important to note that a wide range of opportunities for women's

increased involvement and for gender equity in value chains exists, and some positive examples around the country attest to this fact. These are cases where women are integral part of management structures within farmers' organizations (including cooperatives) or even processing firms. While the number of these cases is still a minority compared to the general situation, these examples show that the traditions and norms in the BiH society are slowly undergoing transformation. In general, with regards to upstream activities in the value chains, and as emerges from the gender value chain analyses seen above, women's involvement is increased in collection (for NTFPs) and productive activities (for all sub-sectors analyzed in this report), and reduced with regards to marketing functions. With regards to the private sector, women's participation/involvement is generally viewed of greatest value in (manual) processes that require major attention to detail, such as in the case of sorting, grading of medicinal herbs, or even in the fruits and vegetables sub-sector. Generally speaking, women's participation in the private sector is low. However, and as mentioned above, some excellent examples are nowadays emerging where companies are increasingly involving women in decision-making processes, and as part of the management structures. An entry point for increased women's involvement in value chains is where women cover managerial positions either at farmers' organization or processing and other private companies' levels

60. In these cases, situations are observed where major attention is given to women's participation in trainings, collective action, decision-making processes, and others. Increasing the membership of women is possible through women's organizations, especially those with a mandate focused on contributing towards women's empowerment. Women who are members of farmers' organizations usually have something in common: supporting family members, where the women's role as wives, mothers and housewives, is valued and respected, and where the role as bread winner in the family is recognized. This recognition serves as an ulterior incentive and motivation for women to gain increased profits from their farming activities, in the shared interest of the household. It is in this context that participation in farmers' organizations is an important entry point for women's access to education and training, including in the field of improved business skills, negotiating skills and others. When it comes to designing the specific interventions at local level, the recommended approach is that of analyzing roles and power structures revolving around the value chain of interest, and among the involved actors. Some concrete examples are given based on some of the emerging findings from the gender value chain analysis.

61. The analysis of the **NTFP sub-sector** reveals that most of the collection of fruit is undertaken by women. This implies that if, a training curricula needs to be developed to improve harvesting techniques among collectors, and also to reduce the over-exploitation of natural resources (a major threat to biodiversity preservation), location and time of these training sessions need to be carefully accounted for to maximize women's participation since these types of training sessions are likely to be mostly beneficial to them. The analysis of the **berries sub-sector** reveals women's increased involvement and decision-making with regards to planting and fertilising activities, or even at processing level; despite this, access to training for women is generally inferior to that of men. The intra-household decision-making processes clearly show that though formally men of households are in charge, family farming in BiH is predominant, hence most probably choice of varieties, crops and new technology adoption is the result of consultative processes within the households. Again, trainings will need to be conceived and organized accordingly, to ensure that the key training messages are delivered to those mostly involved in each activity. The analysis of the **vegetable sub-sector** shows a major involvement of women in production, marketing, as well as primary processing functions. This implies that trainings and specialized extension services should be tailored to this knowledge. Other mechanisms or incentives should be incorporated as part of the implementation processes to ensure increased gender equity. This may include - but may not be limited to - matching grant schemes with increased co-financing ratios where support is directed towards women (in cases where this is generally inferior), criteria for the selection of farmers' organizations where women cover managerial positions, or even formation of women as part of training of trainers programmes under the project. Complementing the above, and in order to improve the position of women and youth in rural areas, some possible measures (some of which are go

beyond the scope of action of RCDP, but may be achieved through synergies in the field with local authorities or other development actors involved also in social community development activities) may include:

- improvement of social services (such as rural kindergartens and centres for the elderly) to better balance work and family responsibilities;
- strengthening the participation of rural women and youth in decision-making processes at all levels;
- ensuring adequate, professional and free training and consultancy services to initiate, develop and improve businesses/start-ups;
- promotion of rural women's networks with local, regional or sectorial initiatives, and other forms of association;
- strengthened capacity, organizational and financial potential of women's organizations (agricultural cooperatives or associations of women) through technical assistance and direct financial support, to enable these to better provide services members and suppliers.

Appendix 3: Country performance and lessons learned

A. Country performance

1. IFAD's assistance to BiH commenced in 1996, soon after peace was restored. To date, its BiH portfolio comprised 6 projects valued at US\$ 167 million of which US\$ 70 million IFAD funding. The first two IFAD-supported projects focused on emergency relief and rehabilitation. They contributed significantly to the post-war revival of rural livelihoods through herd restocking with the distribution of 15,000 high-quality dairy cows and 13,000 sheep of improved breeds. IFAD's second generation projects have mainly focused on poorer and disadvantaged municipalities. Support to smallholders⁹⁵ was mainly operationalized through the provision of organizational and technical support to Producers Associations (PA). For example, the Livestock and Rural Finance Development Project (LRFDP) has succeeded in developing farmer's small-scale commercial livestock operations by strengthening linkages along the dairy chains. This approach was replicated by subsequent IFAD interventions for fruits, vegetables, non-timber forest and organic products. Conform to the 2005 COSOP, the third generation of IFAD interventions supported income diversification, strengthening of rural livelihoods in the context of economic transformation, and preparing for EU accession.

2. The 3 projects under this COSOP were: the Rural Enterprise Enhancement Project (REEP) from 2008 to 2012, the Rural Livelihoods Development Project (RLDP) from 2010 to 2015, and the Rural Business Development Project (RBDP) from 2014 to 2018.

B. Lessons learned on the efficiency of implementation of IFAD projects in Bosnia and Herzegovina

3. The design of RCDP is based on lessons learned from: (a) past and ongoing IFAD-funded projects in BiH, in particular the Rural Enterprise Enhancement Project (REEP), closed in 2013, and the ongoing Rural Livelihood Development Project (RLDP); (b) past and present VC and local development interventions led by USAID, SIDA, SDC-Caritas and UNDP; (c) a Pro-Poor Value Chain Development pilot project, financed by RLDP and designed and implemented by Oxfam Italy. The pilot started in August 2014 principally in order to prepare the design of RCDP; (d) a recent survey on livelihoods of women and youth in BiH.

4. The main lessons learnt by REEP regarding design of strategy and approach can be summarised as follow: (i) outreach focus of the value chains should be incorporated at design and the methodology for inclusion of the poor segment households should be made very explicit and clear; (ii) to avoid spreading projects efforts and effectively establish the forward and backward linkages the project should be conceived more clearly around the pro-poor value chains it wishes to develop; (iii) the importance of linking entities in any value chain segments should be highlighted as otherwise, in spite of enhanced capacities of individual entities in different segments of potential value chains their backward and forward linkages may not adhere to the project approach thus diluting effectiveness and impact; (iv) value chain models and flow of incremental benefits to target group should be effectively monitored; (v) a cluster based approach should be adopted instead of spreading resources over large geographical area to develop momentum for creating linkages between the various segments of value chains; (vi) adopting an inclusive and pro-poor value chain approach while providing broad support at the household level economic activities can decisively contribute to the expected outreach and towards the project goals. For this an inclusive value chain approach should be based on meeting market demand by assembling relatively small volumes of marketable surplus of a large number of poor farmers. Produce like small fruits, berries are usually compatible and conducive to pro-poor value chain development; (vii) the preconditions for the development of pro-poor value chains should be the object of proper VC studies and participatory planning.

⁹⁵ The classification into 'commercial' and 'non-commercial' is mainly based on the availability of assets and production factors – e.g. holdings that have less than 5 cows are considered non-commercial.

5. The Mid-term review (MTR) of RLDP observed operational gaps essentially related to: (a) an absence of an effective articulation mechanism between project components (notwithstanding the underlying value-chain philosophy); (b) weak description of the target group; (c) insufficient efforts to include the rural poor, (insufficient attention to targeting resulted in an *ad hoc* selection of beneficiaries both in the RLDP and REEP, failing short to meet the desired target groups, particularly the very poor; (d) overemphasis on investments in rural infrastructure particularly in roads; and (e) responsibilities, checks and balances among actors involved were not well defined.

6. This translated into the implementation of an incomplete and unfocused value chain approach, insufficiently reaching out the rural poor, which hindered the project from achieving its expected poverty reduction objectives. To tackle this issue, in April 2014 IFAD organized a workshop, together with in-country counterparts and partners, entitled “Pro-Poor Targeting in Rural Areas in Bosnia and Herzegovina”, the purpose of which was to develop a collective systemic change perspective of how to target poor smallholders and vulnerable rural households more effectively and inclusively. Following the workshop, it was expected that RLDP refocused its resources to demonstrate the feasibility of pro-poor value chain approaches to be achieved by developing two 'inclusive value chain clusters,' one in FBiH and one in the RS, with the support of an institutional service provider competent in pro-poor value chain development.

7. To attain project objectives, RLDP was recommended to sharpen its poverty reduction focus while leveraging the outreach of its support interventions to the intended beneficiaries. Among others, the project was recommended to put the emphasis on: (i) technical assistance, through specialized institutional service providers, to support inclusive PAs to develop sound business plans and foster their emergence as collective marketing platforms, starting from July 2014; (ii) extending matching grant support to PAs that were capable of demonstrating sound business plans, to be reflected in revised eligibility and selection criteria; (iii) support those SMEs that could demonstrate backward linkages to project-supported PAs in a more structural approach to marketing; and (vi) prioritize investments in marketing infrastructure that effectively complements (and leverages) the development of inclusive value chains.

8. Another lesson learnt by (past and) ongoing projects was the need for APCU/PCU, the two coordination teams to: (i) recruit the targeting and gender officers; and (ii) thoroughly upgrade the M&E and reporting systems to be able to monitor and report on projects' outcomes in terms of inclusive value chain development, outreach, targeting of the intended project beneficiaries and progress towards the final project goals and objectives. RLDP's design provided for the recruitment full-time experienced targeting and gender officers in both FBiH and RS to deliver on the targeting and gender objectives. They were to be responsible for undertaking targeting studies during the early stages of project start up, developing targeting and gender action plans, and facilitating workshops. Both the APCU and PCU failed to appoint full-time experienced targeting and gender officers. The M&E officers have assumed the function for gender mainstreaming but had no specialist experience in the topic and have not received any training to develop their capacities. As a result of the lack of dedicated attention to these subjects, serious gaps have emerged.

9. As stressed by the Mid-term Review, there was a gradual shift from PCU and APCU's coordination functions, as foreseen at design, to taking up a role in project implementation. This, accompanied by gaps in understaffing, capacities, and implementation mechanisms. This raised serious concerns for this project (RLDP) as well as the forthcoming project, the Rural Business Development Project (RBDP) which is expected to start soon. Moreover, from an implementation point of view, there was an overall lack of understanding of the value chain approach among PCU and APCU staff, as well as poor coordination among project staff, leading to lack of capacity to organize coordinated delivery of support to beneficiaries for pro-poor value chain development interventions.

10. These lessons learnt were integrated in RCDP design, namely: (i) a strong focus on inclusiveness and direct targeting mechanism to reach the rural poor, this with active involvement of municipalities and Producers' associations; (ii) a clear focus on promising and dynamic Subsectors with opportunities and advantages for poor smallholders; (iii) focussed value-chain and subsector

development approaches in order to establish strong market linkages through the setup of cluster stakeholder platforms, co-financing of Business proposals that are to be jointly developed between cooperatives, PAs, SMEs and municipalities and subsector stakeholder platforms; (d) internally consistent project approach through mutually reinforcing project components; and (e) allocation of the majority of project funding to financially and economically sound BPs that will generate long term economic benefits at local and country level.

11. Institutional memory and continuity have been enhanced across multiple generations of IFAD-financed projects in BiH, through retention of the existing structures for coordination and management, and namely in the form of the Project Coordination Unit (PCU) in the Federation and the Agricultural Project Coordination Unit (APCU) in RS. The primary function of the PCU/ APCU was therefore envisaged as one of coordination, monitoring, consolidation and reporting, and with provision of guidance to, and oversight on the multiple project stakeholders implicated in the implementation of project activities (comprising contracted service providers, municipalities, project beneficiaries and as well the private sector). Efficiency in implementation therefore, is linked to the capacity for effective coordination.

12. Past performance in terms of timely disbursement and in achieving results, indicates that implementation capacity across the project-implicated actors has been mixed, especially in the context of the complexity of value chain development and the need to establish very strong and related linkages across interventions, activities and actors. On an ad hoc basis and in terms of outputs, contracting of service providers for carrying out infrastructure works and for very specific technical assistance and training has been relatively satisfactory. The challenge however, has been in consolidating and leveraging achievements to an appreciable scale that would ensure the complementarity of interventions and their sustainability; as well, establishing real linkages across interventions in the implementation cycle has not been obvious and needs attention. Past implementation arrangements were not designed with enough emphasis on building regular and predictable field-level assistance and advisory services (technical and management/organizational), nor with consistent follow-up and solid monitoring.

13. Recommendations: in addition to the need for more visible and active field presence; greater clarity is required to define responsibilities, including M&E responsibilities across project actors. Furthermore, project support to beneficiaries/ recipients, and the contracting of service providers, needs to be better conditioned on performance and results. Implementation would benefit from promoting deeper commitment of stakeholders and actors through partnerships, and tangible contribution (financial or in-kind) from these partners should be encouraged.

14. As the sector matures and investments in developing the value chain sector increase, there is need for early identification of service providers/ implementation partners with strong sector experience and understanding of their comparative advantages, so as to build on the existing processes, support and results in the sector (leveraging). Given the scale and scope of interventions envisaged, the APCU/PCU should be capacitated and prepared to substantially increase outsourcing the implementation of activities, and managing the contracts and/ or framework agreements with project-implicated actors, allowing for some adaptation and flexibility. Cross-dialogue will also be required to improve linkages.

C. Lessons learned in Extension and Business Development Services

15. In terms of the quality of contracted service providers in RLDP, the main issues which have emerged were: (i) support was provided at production level through training –though limited by lack of physical access to improved technologies; (ii) there was a lack of support to PAs and Cooperatives to develop sound business and marketing plans and combine profit-maximization objectives with social goals ; and (iii) current implementation modalities and approaches did not enable the coordinated delivery of services as envisaged under the project under the foreseen value chain approach, thus hindering the project's likelihood of achieving development goals.

16. Extension (technical advisory) services are supporting farmers to produce more and better products, whereas Business Development Services are mainly supporting agro-processors. BiH has both public and private sector actors providing these kind of services.

17. The **public extension service** in the RS is thus essentially focussed on supporting primary production⁹⁶. Their responsibilities include the formulation of basic 'business plans' (mostly oriented in function of specific subsidies) and providing other advisory services for farmers, but these services are generally not market driven. In the RS, this service is provided by 77 staff members on entity level; out of them only 13 extension workers are dealing with fruits and vegetables. In general, the service is poorly equipped, underfunded and understaffed. In FBiH, the system, originally established at the canton level with no central service, is largely non-operational due to large administrative burden placed on the extension agents (processing/documenting of canton-level subsidy systems) and/or generally limited interest on behalf of cantonal authorities⁹⁷ to support the agriculture sector. Some municipalities finance extension officers to implement their municipal action plan for agriculture and livestock. These officers usually focus on technical issues, generally lacking expertise on issues regarding processing and marketing of fruits, vegetables and NTFP, farm management, BDS and cooperative management.

18. **Private advisory services** are also mostly limited in man-power and it is estimated that there are no more than 20 well trained experts in fruits and vegetables for the whole country. Some of these experts are associated in professional organizations. As farmers are often reluctant to pay for extension service, most of private extension workers cooperate with donor-funded interventions to pay part of the fees not covered by the farmers. **Private advisory services** are usually linked to companies that commercialize agricultural inputs or buy up specific agricultural produce. Their role is to secure that farmers are growing the right quality/quantity of produce.

19. **Public BDS providers** in BiH consist of relatively important regional development agencies like SERDA and REDAH, usually initiated and seed-financed by the EU and other donors. These institutions have been established for strengthening, coordination and promotion of economic development in identified macro-regions. However, due to limited own funding, these agencies often remain dependent on donor-funded projects. Today these agencies exist just in FBiH as RS did not accept projects covering both entities. In practice, with a few exceptions, these agencies had only a limited impact on economic development. In parallel to these bigger agencies, many municipalities in FBiH have set-up small local development agencies to promote economic development, including agrifood and to get access to project funding⁹⁸.

20. **Private BDS providers** are available in most competence areas from marketing, branding and market research to legal and financial advice; however the majority of these BDS offer their services in the bigger cities like Sarajevo, Banja Luka, Mostar, Bihac and a few others. They can easily be found under business directories in the internet. The outreach of these private BDS to rural areas remains however limited the constraint being their relatively high cost (based on private sector going rates) to smallholder farmers and their organizations.

21. A first step in this Project could be to do an awareness raising campaign about available services or a kind of a "roadshow" in the rural areas showing what impact different service providers could have to boost businesses.

22. Private sector service providers, for extension as well as business development, will be paid by vouchers so that the beneficiaries have a free choice with whom to cooperate.

⁹⁶ Extension offices were established throughout BiH with EU support.

⁹⁷ Each Canton has its own government including a cabinet of 'sector' ministers

⁹⁸ RAZ in the municipality of Zepce, ALDI in Gorazdi and the wood cluster in Prijedor are positive examples of public local economy facilitators.

D. Cooperatives

23. Cooperatives are very variable in nature and potential. Three main types can be roughly identified: (i) cooperatives that have started to expand their membership beyond the initial founders and that claim to adopt a EU-compatible membership and governance model, which should receive immediate and close support to help them to achieve their goals, (ii) cooperatives that have been used as a way to develop their control on the VC and notably their marketing activities, by a very reduced number of individuals who had acquired by themselves an advanced level of professionalization, these persons don't need a lot of support for themselves apart from specific BDS (accounting and management training and advisory service, etc.), but they often have had to develop a network of suppliers in order to acquire a critical mass to negotiate with their clients, and the members of this network would need an intensive support, both technical (with the help of the leading farmers at the head of the Coop) and economical (in relation to their marketing choices), in order to level up these farmers, in the trail of the leading farmer(s), and allow them to organize better, with or in parallel to the existing restricted Cooperative, and (iii) Cooperatives that act in all ways as private actors of the VC providing marketing facilities to individual farmers, and should benefit of the same support as the one designed for SMEs.

Appendix 4: Detailed project description

A. Project description

Development objective and impact indicators

1. **Leverage points and guiding principles.** RCDP's approach is based on the private-public partnership model, whereby public funds are expected to be used to leverage private sectors' investments in a win-win partnership, whereby the private sector can expand its business while a high number of small-scale producers can expand their production and make it more profitable. Business Proposals (BPs) within clusters and subsectors will be prepared and implemented by different actors.
2. The **goal** of the project will be **"to contribute to sustainable rural poverty reduction in Bosnia and Herzegovina."** The project development objective will be to **"enable smallholders to take advantage of fruits, vegetable and non-timber forest products subsector development for the sustainable improvement of their social and economic conditions and those of other poor rural groups"**.
3. The **expected impact** would be the effective incorporation of smallholders in dynamic fruit and vegetable and NTFP subsectors and ensure that it has durably improved economic and social perspectives for rural areas in Bosnia and Herzegovina. The project has a clear **emphasis** on social targeting and inclusiveness. Its **strategic vision** is to use a **subsector development approach** in order to support a core of interventions necessary for sustainable structural changes and leading to the expected economic and social benefits: tackle the related trade, policy and institutional issues and promote local economic development; leverage private sector investments through bankable BPs; ensuring social inclusiveness; promoting environmental friendly and climate-change adaptation technologies; ensure adequate supply of specialized services; subsector governance by private stakeholders and their professional organizations; and subsector performance monitoring and accountability based on active participation of local authorities, beneficiaries and private stakeholders. The adaptation of a sub-sector development approach will maximize impact on poverty reduction.
4. The Project will take advantage of existing value chain dynamics in the selected value chains where the private sector (i.e. agro input dealers, collectors, processors, traders, wholesalers, retailers) is actively engaging with smallholders, either organised or individually. These business relationships frequently provide in-kind credit for product pre-financing and technical assistance to smallholders. The **value added** of the project stems from: (i) expanding the number of small-scale producers/collectors benefitting from these opportunities in the selected subsector value chains (maximise inclusion); (ii) enhancing the capacity of small-scale producers to develop their business activities and to take decisions regarding the needed organisational structure (e.g. PA, cooperative) and marketing and, whenever possible, processing and value adding strategies; and (iii) creating a business environment attractive to private agribusiness investors.
5. The project is **aligned** with Bosnia and Herzegovina's development strategy and IFAD Strategic Framework 2011-2015. The overall goal of the Results-based country strategic opportunities programme (RB-COSOP 2013) is "to enable poor rural people to improve their food security and increase their incomes through support to poor non-commercial and commercial farmers, and to on- and off-farm enterprises. Within this frame, the Rural Competitiveness Development Project (RCDP) has been designed to be one of the main IFAD tools to achieve this goal.
6. The **justification** for RCDP is based on the need for smallholder farmers in BiH to: (a) improve their competitiveness and scale up their farm activities to viable commercial units in a context of local and regional markets in view of potential EU accession; (b) through farmers organizations, increase smallholder participation in decision making processes and help them become more active partners in local economic development; (c) increase the outreach and inclusiveness of farmers' organizations, so as to provide opportunities for economic development to the very poor, as well as women and

youth. This will require supporting small farmers' inclusion in Producers' Associations (PAs) and Cooperatives, strengthening their organizational, technical and business skills, linking them to agribusiness partners, markets and business and financial development services. The project will strengthen PAs and cooperatives by (i) improving their outreach to poorer segments of population, (ii) strengthening their organizational and entrepreneurial capabilities and (iii) enhancing their market power.

7. RCDP is designed as a **long-term development intervention**, to be implemented in two cycles of five years each.

Outcomes/Components

8. RCDP will adopt the following guiding principles: (a) establishing/strengthening local clusters of value chain stakeholders and scaling up value chain dynamics through partnerships between inclusive PAs, cooperatives, agribusinesses, municipalities and LED Agencies; (b) using straightforward and effective co-financing mechanisms that allows leveraging investments of local public and private stakeholders, based on transparent cost-sharing of interventions; (c) targeting male and female smallholder farmers, adults and young, creating incentives and conditions for the active inclusion of vulnerable groups; (d) facilitating effective and sustainable agreements between agribusinesses, PAs and cooperatives; (e) making available appropriate technical and business development services at local level; (f) promoting the newest and environmental friendly technologies; (g) promoting technologies and standards that conform EU and international market access requirements; and (h) fostering the emergence of cooperatives of the social sector and with social meaning.

9. RCDP will be implemented through two components which are complementarity with each other: (i) Enabling Environment for Inclusive Subsector Development; (ii) Sustainable inclusion of smallholders in the thriving value chains.

Component 1: Enabling Environment for Inclusive Subsector Development

10. **Outcome 1** will be: "The improved policy and institutional environment attracts smallholders and investors to the selected subsectors." Five elements of the subsector development approach of RCDP will be implemented through the component: (i) subsector governance by all concerned private and public stakeholders through consultations and joint strategic planning of interventions; (ii) developing relevant institutions' capacities in the subsectors to ensure adequate supply of specialized services; and (iii) an enabling policy framework in order to tackle the related trade, policy and institutional issues and promote local economic development, (iv) subsector performance monitoring and accountability and (v) strengthening relevant institutions capacities.

Result 1: Stakeholders platforms at cluster level and subsector level improve value chain coordination and subsector governance, orient public policies and investments in order to warrant long term subsector competitiveness.

11. RCDP's approach is based on the private-public partnership model, whereby public funds will be used to leverage investments from the private sector in a win-win partnership, the private sector can expand its business and a higher number of small-scale producers can expand their production and make it more profitable. This model will translate into BPs within clusters and subsectors, to be prepared, funded and implemented by different private and public partners, including the BP partners themselves, the financial sector (banks, MFIs), municipalities and the project. In this context, RCDP aims to provide an institutional space to ensure a continuous dialogue among all stakeholders to help strengthening subsector development. Two new institutional settings, each of them having its own

membership and functions, will be established, namely: (i) the Cluster Stakeholders Platforms (CSP); and (ii) the Subsector Stakeholder Platform (SSP)⁹⁹.

12. **Establishment of local Cluster Stakeholders Platforms.** For each of the clusters envisaged under RCDP a Cluster Stakeholders' Platforms (CSP) will be established with the aim at supporting the development of clusters and selected value chains in their territories and enhance cluster competitiveness. At local level, issues related to cluster development would be discussed and analysed with the objective of identifying key priorities to be brought to the attention of municipal and canton authorities. The CSPs will: (i) validate and agree on key priority action for cluster development; (ii) identify and aggregate buyers' demands for agricultural produce, producers' demands for inputs, extension and BDS services; (iii) identify financial gaps and sources of funds; (iv) promote horizontal and vertical integration among value chain actors; (v) coordinate service delivery; (vi) ensure inclusiveness of poor farmers, women and youth and enhance the pro-poor content in business proposals (BPs); (vii) monitor progress achieved in each cluster and its impact on poverty reduction; and (viii) identify constraints to the development of clusters and local issues for policy dialogue/engagement.

13. The setting up of the CSP will be preceded by the approval of clusters by APCU/PCU (see Component 2 for more details). Clusters will be promoted by the project (the APCU/PCU will be in charge of reviewing the proposals, and open negotiations with municipalities prior to clusters selection and approval), but clusters will be established by municipalities and local stakeholders. Clusters are expected to be composed of local PAs, cooperatives, agribusinesses, traders, exporters, municipalities, service providers, commercial banks and MFIs, Local Economic Development (LED) agencies and other donor-supported projects operating in the value chains.

14. Individuals, firms or consortia of BFPs will be selected based on their expertise, knowledge and familiarity with value chains in the area to provide training, technical assistance and support to CSPs on VC coordination and organization of the production, mobilization of private and public sector investments, inclusion of poor smallholders, etc.

15. **Establishment of country-wide Subsector Stakeholder Platforms.** For each of the three selected subsectors a SSP will be established with the aim to improve sub-sector governance and enhance sub-sector competitiveness. Overall the SSPs will identify key priority actions required to improve the competitiveness of each subsector, including investments required in public goods (marketing infrastructure) and public services (e.g. research and development of new varieties, policy development). Additional functions will include: (i) identifying policy and regulatory issues regarding the legal framework, public resources and fiscal incentives; (ii) formulating medium- and long-term strategies for sub-sector development; (iii) contracting sector specific studies and market research for domestic and international markets, when appropriate (iv) advocating sustainable subsector development and providing advice to policy makers; and (v) enhancing pro-poor sub-sectors' linkages and impact. Overall the SSPs will identify key priority actions required to improve the competitiveness of each subsector, including investments required in public goods (marketing infrastructure) and public services (e.g. research and development of new varieties).

16. The establishment of the SSPs may follow the establishment of the CSPs when new platforms need to be established (not the case of berries). While it is expected that each CSP at local level will focus on issues related to the enhancement of the competitiveness of each cluster, the SSPs will involve institutional actors grouped by the common interest to promote the subsector as a whole, and bring relevant policy issues to the attention of policy makers.

17. Membership could vary among SSPs based on the specificities of each sector and the particular institutional framework in each Entity. Hence, an indicative list of potential members may include: the Ministry of Agriculture; apex-level producers organizations (like for the berry sector); the

⁹⁹ Any institutional innovation requires time for its establishment and even longer time for its consolidation, so platforms will require continuous support by RCDP.

private sector (input suppliers, processors, wholesale buyers, traders, exporters); commercial banks; NGOs/donors with relevant activities in the subsector, etc.

18. **CSP and SSP Governance Issues.** Both CSPs and SSPs will share a number of governance principles. To be successful and sustainable over time, these platforms should operate on the basis of common and self-defined interests that will allow them to gradually increase their strength and sense of ownership. Their agenda, initiatives and resolutions will be taken by their members and consequently decisions need to be transparent and minutes of each meeting should be appropriately recorded and circulated. The importance of effective communication among Platform's members is crucial. In order to ensure it is effective, it is suggested that each Platform be composed of no more than 20 members.

19. After an initial period of handholding that may last one year or even longer according to the specificities of each platform, it is expected that the role of BFPs in CSPs and the APCU/PCU in SSPs may scale down to become just complementary to the functioning of the platforms. Participation in each Platform will be voluntary

20. Any established platforms could become a legal entity or just remain as a forum for clusters and subsectors partners, depending on decisions by their members. It is actually expected that SSPs will evolve from a kind of sector platform into a respected institution dealing with sectors' relevant policy issues; kind of useful lobbying institution, constantly trying to improve the subsector environment. The stakeholders of these platforms will have most likely, due to their commercial activities, deep insights into the actual development of the respective subsectors.

21. RCDP will allocate funds to support initiatives taken by each Platform (advocacy, meetings, studies, stakeholders' forums, training sessions, etc.). Between 20,000 KM and 30,000 KM has been allocated annually to support each CSP and SSP respectively. Same as BPs to be co-financed by RCDP, funds will be provided on a matching basis, initially established as 90:10 percent, to gradually declining over time until each platform relies on its own funds contributed by partners.

22. **Effective monitoring of VC and (sub) sectors' performance.** An effective way to set an agenda for policy dialogue between stakeholders and local and country authorities is to monitor and assess the performance of the subsectors. This performance monitoring will be an important area in which SSPs contribution will be required.

23. Participatory VC and subsector performance monitoring and a revision of internal accountability mechanisms will be undertaken annually to review project achievements (part of TORs of platforms). Accountability will rather be an outcome of progressively integrating more and more stakeholders in cluster and subsector decisions making processes. Special studies will be undertaken to examine specific aspects related to subsector development (e.g. possibilities and investments required for in-country transformation and the elaboration of specific B2B products), planning, M&E, learning and knowledge management¹⁰⁰.

24. Monitoring VCs and subsectors performance requires a starting point and reference standards, which should be established at the beginning of the process and take a form of a baseline reference to follow-up, monitor and assess performance. This baseline reference will identify specific sub-sector performance indicators so that the performance monitoring can be guided by a specific set of expected results, outputs and indicators. During implementation, performance monitoring would be complemented by VC and subsectors analyses and participatory self-evaluation. Key data will be shared on a regular basis with APCU/PCU and business development service providers. Results from the performance monitoring will allow partners further improve their competitiveness.

25. **Empowering SSPs to engage on policies affecting (pro-poor) subsector development and the allocation of public sector investments.** Successful policy engagement will depend on RCDP's capacity to approach policy makers providing supporting evidence of the issues raised, documenting the emerging achievements with impact data and business models, analyzing

¹⁰⁰ Details are presented in Appendix 6.

opportunities and threats for further subsector development. Policy engagement will take place by facilitating the initiatives of RCDP's stakeholders involved in SSPs at State/Entity level to engage in policy dialogue with decision-makers in both Entities to promote the agenda of selected subsectors.

26. The agenda for policy dialogue/engagement will derive from the needs of the subsector and (sub) sectors' performance, adequately monitored and assessed. Focus will likely lie on tackling trade-related issues, market regulations on input and output markets, issues of quality standards and requirements, certifications, and on other enabling measures to enhance the subsector's competitiveness in national, EU and non-EU markets.

27. At local level, it is expected that cluster stakeholders platforms will also engage in dialogue with relevant authorities (Municipalities, Local Development Authorities, and in FBiH Cantons) on more localized issues related to VCs and cluster development, new investments, public-private partnership, access to local development funds, inclusiveness and poverty-focus of cluster development activities, initiatives that incorporate women and youth women and men.

28. It is not enough with establishing a space for engaging in policy dialogue; it is also necessary to develop the capacity of SSPs' partners to engage in policy dialogue, and allocate fund to facilitate the functioning of the platforms. Policy dialogue will be supplemented by the preparation of related studies on specific issues of VCs and subsectors which limit their development and which need to be addressed by policy-makers to further consolidate subsector development. Potential environmental impact should be a topic of research. Provision has been made to support these studies. The studies can be proposed by CSP, SSP and the APCU/PCU and even by Entity authorities, when relevant for decision-making. These studies may include, among others, subsector studies, marketing studies, impact assessments, comparative studies on legislations, regulations and standards, learning and policy notes, and specific case studies regarding the VCs and subsectors.

29. The PCU/APCU will have the main responsibility for contracting through a competitive process consulting firm, universities and research institutions to carry out the studies. Provision has also been made to finance technical assistance from universities in the two Entities which will involve young university graduates as interns. RCDP will also provide technical assistance support and funds to hold workshops and carry out specialized training, information and communication campaigns. Priority would be given to strengthening collaboration with other development partners, as several of them are already involved in policy dialogue and stakeholder consultations regarding the selected subsectors.

Result 2: Appropriate technical and business development services are made available at local and entity level.

30. As part of the efforts to create an enabling environment for inclusive subsector development, RCDP will help to ensure adequate supply of specialized support services, public and private.

31. In order to implement BPs proposed by originators (promoters, VC champions) at cluster level, quality production related advisory services, business development services and organizational development services will be required. The Project will support the provision of a broad range of business development services to PAs and cooperatives, this mainly through a functional voucher system aimed at strengthening both the supply and demand for a broad range of services essential for sustained subsector development.

32. Supply of extension and business development support service to farmers and their organisations, both public and private, varies according to the entity considered: (i) fully financed public advisory and extension service in Republika Srpska.; (ii) private extension services benefiting from permanent employment arrangements with cooperatives, helping members and their organizations to build up internal capacity and extension know-how¹⁰¹; (iii) public business development service providers tasked with regional economic development; (iv) specialised private (technical) advisory services; (v) private business development service providers; and (vi) private

¹⁰¹ Project support will be taken as 'incremental' and in no case it could be used to finance staff and services that are already financed by PAs and cooperatives (see table below).

advisory services linked to commercial enterprises promoting and selling inputs and securing and buying agricultural produce

33. In general, extension services are assisting farmers to produce more and better products, whereas BDSs are mainly supporting agro-processors. The **public extension service** in the RS is thus essentially focusing its support to primary production¹⁰². Their responsibilities include the formulation of basic 'business plans' (mostly oriented in function of specific subsidies) and providing other advisory services for farmers, but these services are generally not market driven. In the RS, this service is provided by 77 staff members on entity level; out of them only 13 extensionists are dealing with fruits and vegetables. In general, the service is poorly equipped, underfunded and understaffed. In FBiH, the system, originally established at the canton level with no central service, is largely non-operational due to large administrative burden placed on the extension agents (processing/documenting of canton-level subsidy systems) and/or generally limited interest on behalf of cantonal authorities¹⁰³ to support the agriculture sector. Some municipalities finance extension officers to implement their municipal action plan for agriculture and livestock. These officers usually focus on technical issues, generally lacking expertise on issues regarding processing and marketing of fruits, vegetables and NTFP, farm management, BDS and cooperative management.

34. **Public BDS providers** in BiH consist of relatively important regional development agencies like SERDA and REDAH, usually initiated and seed-financed by the EU and other donors. These institutions have been established for strengthening, coordination and promotion of economic development in identified macro-regions. However, due to limited own funding, these agencies often remain dependent on donor-funded projects. Today these agencies exist just in FBiH as RS did not accept projects covering both entities. In practice, with a few exceptions, these agencies had only a limited impact on economic development. In parallel to these bigger agencies, many municipalities in FBiH have set-up small local development agencies to promote economic development, including agrifood and to get access to project funding¹⁰⁴.

35. **Private BDS providers** are available in most competence areas from marketing, branding and market research to legal and financial advice; however the majority of these BDS offer their services in the bigger cities like Sarajevo, Banja Luka, Mostar, Bihac and a few others. They can easily be found under business directories in the internet. The outreach of these private BDS to rural areas remains however limited the constraint being their relatively high cost (based on private sector going rates) to smallholder farmers and their organizations.

36. **Private advisory services** are usually linked to companies that commercialize agricultural inputs or buy up specific agricultural produce. Their role is to secure that farmers are growing the right quality/quantity of produce.

37. RCDP will support the provision of a broad range of **business development services** in a broad range of subjects and competence areas; management, costing (product costing, gross margin calculations, marginal cost analysis, social return on investment etc.), accounting, branding and the development of marketing strategies, design of effective out-grower supply chains, service contracts, revision of existing management structures and systems, formulation and implementation of action plans, quality certification of products (e.g. Fair Trade, Global Gap, Organic, HACCAP, ISO, and others), supply chain management, logistics, design of improved handling and inventory management systems, feasibility analysis, financial analysis, personnel management, cash flow management and other topics. As an initial step, RCDP will carry out an awareness-raising campaign in the rural areas about services available showing what impact different service providers could have to boost businesses.

¹⁰² Extension offices were established throughout BiH with EU support.

¹⁰³ Each Canton has its own government including a cabinet of 'sector' ministers

¹⁰⁴ RAZ in the municipality of Zepce, ALDI in Gorazdi and the wood cluster in Prijedor are positive examples of public local economy facilitators.

38. Requirements for training, extension and business development services will be identified by specialists (BFPs and other subject matter specialists), BPs stakeholder and agribusiness and detailed in the BPs.

39. **Production related advisory services, extension and dissemination of technologies.** To provide qualified support to small farmers, their organisations and other stakeholders, the Project will support: (a) the provision of qualified, “farmer centred” extension services to PAs and/or cooperatives; (b) the training of trainers, lead farmers and groups of farmers through specialized consultants; and (c) to demonstrate and disseminate technologies and good practices in events organized by lead farmers, which can be identified by PAs and cooperatives from their own members or lead farmers from their area of coverage.

40. **Private advisory services.** RCDP will help to ensure the supply of specialized technical and business development services to bridge the production and business gaps by fostering and extending the use of innovative technologies, practices and financial, business and organisational skills. The Project will promote capacity development of specialized service providers, in particular extension and technical assistance services and business development services in relevant technical, organisational, cooperative and post-harvest related fields, including pro-poor approach and inclusiveness.

41. **Public extension services. Strengthened the technical advisory services capacities and outreach at local level.** Public extension services in the Republika Srpska, as well as the canton and municipal level public extension services in FBiH, will receive training in different fields (production, processing and marketing of fruits, vegetables and NTFP, farm management, BDS and cooperative management) in order to strengthen their market orientation. Funds have been allocated to provide training over three years. The training will strengthen their capacity to deliver advice in the selected value chains. The participation of these services in project activities will be left to the decision of BPs’ partners, who will decide if they wish to make use of their services, free of charge as they are financed by public funds, to provide any support to the implementation of their BPs.

42. **Setup of a functional voucher system.** The APCU/PCU will setup a voucher scheme to strengthen the capacity and outreach of required services at (sub) sector level.

43. The voucher scheme is a mechanism in which BP partners will get an entitlement (a voucher) to hire services from a broad range of pre-qualified service providers (instead of money), with the voucher then to be redeemed for cash from the APCU/PCU. The ultimate purpose of the voucher scheme is to empower PAs, cooperatives and BP partners to decide on how they wish to fulfil their business requirements (in terms of extension, of specialised technical advisory, of BDS); to negotiate services and to enter into agreement with service providers; to follow-up on and to assess the quality and efficiency of the rendered services. The scheme will also empower PAs and cooperatives in doing business procurement and thus stimulate entrepreneurship by giving them the equivalent of cash (the voucher).

44. The voucher scheme will make services more affordable (but not free of charge) for smallholders. The system will enable smallholders’ organisations and stakeholders to choose the services they require from a repertory of service providers. The scheme will allow beneficiaries to choose the training, technical assistance and advisory services required to implement their BPs among the various private service providers across the country and hiring these BDS providers at a privately negotiated price. BP partners will select the service providers from a list (roster) of pre-qualified consultants, consultancy firms and consortia.

45. As part of the service, cost will be financed by RCDP (ensuring the market for service providers); it will also encourage the service providers’ sector to broaden the scope of their services (and eventually develop new services) to assist smallholders along the value chain. Through this scheme the service providers will be able to reach out to new clients, mainly consisting of PAs and cooperatives that previously did not have the means to afford such services. Vouchers can build

additional demand for services and thus accelerate the consulting market development if smallholders are not already using these service providers.

46. Operationally, the APCU/PCU will set up the scheme, define procedures and prepare guidelines on how the scheme will be implemented, on how it will be administered (including control mechanism) and how its performance will be evaluated. A contract or an agreement between BPs' partners and services providers will regulate the relationship between the parties.

47. The management arrangements will be the following: (i) call for application targeted at interested service providers, individuals, firms and consortia interested in provide services to PAs and cooperatives and other BP partners (by APCU/PCU); (ii) pre-qualification of suitable candidates (by APCU/PCU with ad hoc independent specialized support). Applicants will undergo a short accreditation process handled by an ad hoc small commission of specialists. Eligibility criteria and the process of pre-selecting candidates should ensure that the roster includes a wide range of services so as to broaden the choice for the stakeholders; (iii) setup a roster of pre-qualified candidates (eligible consultants under the voucher scheme), which will be made accessible to all BP stakeholders in the Website of the Ministry of Agriculture and also in the project Website (by APCU/PCU)¹⁰⁵; (iv) PAs, cooperatives and other stakeholders that had submitted a successful application to APCU/PCU choose one or several consultants or consultancies from the official roster. Prices may or may not be indicated in the BP; (v) PAs or cooperatives and the service provider(s) sign a contract/agreement describing the required services and expected results. A copy will be send to APCU/PCU. In return the PAs or cooperatives will receive a voucher in the agreed value from APCU/PCU; (vi) after the services are completed the consulting services, the PAs or cooperatives will hand over the voucher instead of cash to the consultants or consultancies; and (vii) the consultants or consultancies will go to the APCU/PCU and cash it in while submitting a short report about the services done.

48. The APCU/PCU will be in charge of maintaining and updating the roster of pre-qualified consultants and firms based on performance evaluation of services. The roster will be updated from time to time with a new call for interest to expand the supply of qualified service providers.

49. Follow-up and monitoring of services will be a primary responsibility of BP partners, although a role for monitoring will be reserved for the APCU/PCU (M&E officer and/or consultants hired for that purpose), which should also involve in follow-up on the implementation of the services. To ensure understanding of the voucher scheme the APCU/PCU will hold workshops to explain in detail all necessary steps to set up and run such a scheme.

Component 2: Sustainable inclusion of smallholders in the thriving/successful value chains

50. The **outcome** of component 2 will be the "Sustainable inclusion of poor smallholders and vulnerable groups in selected subsectors." **Main objectives** of Component 2 will be: (i) to help improve the livelihood of small scale producers and poor collectors through sustainable and profitable farming; (ii) consolidate their organisations and their capabilities to identify forthcoming business opportunities (in terms of markets, marketing channels, new products etc.) to expand their business; and (iii) have a voice and play an active role in the multi-stakeholders coordination platforms, both at cluster level and at subsector level . RCDP will take advantage of existing value chain dynamics in the selected value chains in which the private sector (i.e. agro input dealers, collectors, processors, traders, wholesalers, retailers) is actively engaging with smallholders, either organised or individually.

51. Business Proposals (BPs), allowing business partners (producers and agribusiness) to plan coordinate and carry out mutually benefiting investments, will be the main project instrument under Component 2. The BP will be the main instrument of BP business partners (small-scale producers and collectors and their organisations, agribusiness companies) for the sustainable development of their joint businesses in the selected sub-sectors and value chains. BPs will also frame partner's needs in

¹⁰⁵ Based on previous experience with setting up a voucher system REDAH could support the project in setting up a small commission of experts who will examine the qualifications of the consultants. As 'selection' service provider REDAH could benefit from a fee for each tested candidate.

terms of capacity development and investments of which part will be addressed by public (project) funds.

52. Two are the elements of the subsector development approach of RCDP that will be implemented through the component: (i) mobilization of the required private and public financial resources; and (ii) Subsector performance monitoring and accountability based on active participation of local & country-level authorities, beneficiaries and private stakeholders/investors;

Result 1: Inclusive business proposals developed and implemented

53. **Project promotion and awareness campaign, confirmation of preselected VCs and clusters.** During the initial stage of implementation APCU/PCU will hold several workshops across the country, at least 5 in each Entity, to promote the project and explain its approach; guiding principles; target groups; pro-poor and inclusive approaches; strategies and implementation modality; value chains, clusters and subsector approaches; pre-identified municipalities and clusters of municipalities; public-private linkages, leverage points etc. These events will follow the pre-identified clusters within each Entity and focus on value-chains that are specific to these clusters.

54. Local authorities will be partnering with qualified organisation or consortia of organizations (LED, RED, consultancy firms, NGOs), which will be hired to work on cluster development as **Business Facilitation Partners (BFPs)**. Facilitators from these firms / NGO would support local authorities in: (i) conducting training and awareness raising on targeting principles; (ii) capacity support to municipalities /stakeholders' platform in setting up transparent and fair targeting criteria; and (iii) carry out beneficiaries' selection process, so as to avoid exclusionary practices and elite capture.

55. **Selection and training of Business Facilitation Partners (BFPs) on participatory formulation of inclusive BPs.** In each Entity APCU/PCU will select through a competitive process a qualified organisation or a consortium of organizations to perform the role of **Business Facilitation Partner (BFP)** at cluster level for each of the three pre-identified sub-sectors (fruits, vegetables and NTFPs). A combination of subsectors should be explored and highly encouraged by APCU/PCU when a consortium has the experience and capability to serve more than a subsector. Main role of BFPs will be to identify viable business cases and eligible partners (producers, buyers) in one or more than one sub-sector and facilitate the participatory process of identifying and developing as many win-win viable and bankable BPs as possible. The establishment of consortia of organizations that could ensure a better coverage of the region will be encouraged, particularly when it will better serve with its human, logistic and financial resources an specific region or sub-sector.

56. In the selection of BFPs, APCU/PCU will take into account: (i) how candidates are planning to operate; (ii) their experience in facilitating win-win public-private partnerships and pro-poor and inclusive approaches, particularly inclusive business relationships between poor small-scale farmers and buyers; (iii) commitment to gender equality and engagement with youth (iv) knowledge of sub-sectors and value chains; and. (v) expertise in providing business development support services to small scale producers' organizations and facilitating participatory business development processes. Additional selection criteria will take into account the geographic presence, particular knowledge of a specific territory, technical expertise offered by the candidate organization or consortia, experience working with one or more of the pre-selected sub-sectors, implementation capacity to cover one or more value chain, clusters and sub-sector.

57. **BFPs induction workshop (induction training).** Soon after the BFPs selection process has been completed, an induction workshop will be held in each Entity to provide BFPs with background information on: (i) the overall project proposal; (ii) approach and strategies; (iii) guidance on the facilitation role each BFP is expected to play at cluster level, (iv) the role of partners in clusters, value chains and BPs; (v) how the process of identification, preparation and submission of BPs is expected to be implemented, and (vi) BPs' scope and minimal content. Particular attention will be given to: (a) the project targeting methodology and eligibility criteria for producers organisations and private companies; (b) how to maximise inclusiveness and pro-poor nature of BPs in order to gain the support

by the project; and (c) BPs' funding strategies, which will necessarily require the combination of private and public financing, in addition to project funds.

58. **BP targeting.** The Project will undertake, in consultation with PAs organizations and municipalities, specific actions to reach out to rural poor, youth and women. Priority will be given to specific partnerships that will ensure an equitable access of poor groups to project support. It will be the role of the BFPs to monitor the effectiveness of the efforts aimed at ensuring an inclusive targeting and that these specific target groups benefit from funds allocated by the Project to motivate their participation (top-up of 20%). Young landless farmers may rent land on long term lease or apply for publically-owned land in their municipalities. As part of their commitment in cluster development, municipalities are expected to expedite the process and facilitate access to land, especially for young people, who may or may not become registered farmers, and women, particularly female-headed households. The project has allocated funds under a "starter package" for production that can be adapted to better suit the needs of poor/vulnerable groups.

59. **Identification and preparation of BPs with support of BFPs.** The BP will be developed starting from market opportunities, hence the "BP originator(s)" will likely be the actor(s) who is(are) in close contact with that potential market, i.e. is performing the marketing and selling function of that particular product in the selected cluster. Three different actors or stakeholders can be BP's originator(s): (i) eligible producers' cooperatives with extended membership and related governance structure bulking production from members and non-members, usually called 'cooperants'; (ii) eligible intermediaries (e.g. traders, lead farmers) linked to producers associations (PAs) and/or individual farmers; and (iii) eligible private agribusiness companies (collectors, processors, wholesale buyers and exporters) sourcing from organised or individual producers or collectors. The BP originator, with the support of the BFP, is supposed to lead the preparation of the BP. As expected, the BP will respond to its priorities and business development plans. Ultimately, there would be the BP originator who will submit the BP to different sources of funding, including the project.

60. BFPs will be in charge of performing a preliminary screening of potential BP originators in each cluster on the basis of few eligibility criteria, specific for each category.

61. The BP will include activities and investments to be funded complementarily by a number of different private and public financing sources, including the BP partners themselves, the financial sector (banks, MFIs), municipalities and the project. As a general principle, funds from the project will be used only to co-finance services and investments on public and semi-public¹⁰⁶ goods and services required to turn small-scale producers/collectors and their organisations into a more viable actor in the value chains. It is expected that funds from municipalities will be used for the same purpose. Conversely, as part of viable and bankable BPs, complementary investments in private goods required by the VC business partners will be provided by other private market-based financial sources. BPs should be prepared in a very participatory way by involving stakeholders during the whole process and ensuring their buy-in on the BP objectives, targets, implementation arrangements and are supposed to be demand-driven (based on and tailored to the specific needs of the parties involved). BFP should carefully play its role of facilitator creating the enabling conditions (e.g. trust) for the dialogue between the parties.

62. As a general reference, they can include some or all of the following business / value chain development strategies: (i) Process/product upgrading aims at "doing things better and/or bigger". These may include enhancing the efficiency of production processes such as using better inputs (e.g. better quality of seeds) or reducing costs, which can lead to greater margins or more productivity (higher yields), and hence larger volumes of produce sold; (ii) Functional upgrading which looks at the opportunities of a particular actor to move up the VC by taking on new value-adding functions (bulking, transporting, grading, processing and marketing). It implies a careful assessment of additional costs and risks, as well as potential benefits. Partnerships (e.g. joint ventures) with other

¹⁰⁶ A "semi-public" good is a good that is owned and used collectively by a group of individuals for a common purpose. Typical example is a productive or processing equipment or infrastructure used by a group of farmers.

VC actors already performing these functions could also be explored as part of the upgrading strategy; and (iii) helping to formalize through written contracts horizontal and vertical integrations between organized producers and Pas and cooperatives and its members, a processing company and its producers/collectors, and actors in the same VC.

63. Among the **eligible activities** the BPs could include advisory activities and investments in areas such as: (a) technical advisory services and training to the producers (collectors) to adopt or upgrade their technologies and farming (collection) practices in order to meet market requirements and standards and cope with environmental sustainability and climate change; (b) obtain and renew certification labels and comply with quality standards of buyer and/or of the end market (e.g. Fair Trade, Global Gap, Organic, HACCAP, ISO, organic, fair trade and others); (c) on-farm investments required to ensure production (seedlings, pesticides, fertilizers, on-farm irrigation schemes, etc.); (d) investment in collective productive infrastructure and equipment such as collection centres, storage rooms, warehouses, transport, and post-harvest equipment for grading, sorting, aggregating, and processing small producers' produce –provided that they are ultimately owned and managed by farmer's groups; (e) institutional and organizational strengthening of eligible PAs and cooperatives; (f) business development services (BDS) to enhance PA and cooperatives business management capacity; and (g) BDS and support (e.g. co-funding business to business trips, participation in fairs) to the agribusiness companies for market intelligence and marketing activities.

64. **Mainstreaming climate-change resilience and adaptation.** The Project will facilitate access to technologies and strengthening of capacities to adapt to climate-change at small-farm level, for example, promoting technologies for efficient irrigation and efficient use of energy sources, promoting equipment and technologies to reduce weather-related vulnerabilities at small farms level, introduce eco-labels to market local products, promote organic production. A top-up of 20% would be provided by the Project to encourage that during the preparation of BPs partners are motivated to include investments in climate change resilient, environmentally friendly, organic production, and energy efficient infrastructure and technologies.

65. **Cost sharing of BPs.** The main principle of the project is that each BP should include a cost sharing arrangement among different financing sources from the project and municipalities (public sector) and producers organisation, agribusiness partner and a financial institution, if necessary (the private sector). During BPs' preparation, all possible financing sources, private and public, will be identified and contributions and disbursement schedule from each source will be established. As a *rule of thumb* the project will co-finance extension and advisory services costs, and productive, processing and marketing assets. Main activities to be financed will include: (a) financing of training and capacity building; (b) financing of the 'starter packages' for new producers belonging to project target groups. (seedlings or seeds, drip irrigation system, pesticides, fertilizers and other items relevant for specific value-chains) for *new* producers (i.e. additional poor farmers included in the value chains) with the remaining to be funded by municipalities (10%) and beneficiaries (50%); (c) financing of investments. The project will finance the cost of collective equipment and collective post-harvest handling and processing facilities (70%) that are considered semi-public goods. The balance will be provided by beneficiary producer organisations through own resources or loans from the financial sector; and (d) financing climate-smart investments in areas in which the production in the selected value-chains is already developed and the existing producers meet the poverty criteria. The Project would provide an additional grant incentive (10% of the total amount) for investments in climate change resilience and adaption (see Cost sharing of Investments in table hereunder).

66. Finally, the Project would provide an additional (top-up) grant incentive (10% of the total amount) for investments that enhance the **inclusion of vulnerable groups and rural poor** in BPs. The two additional 10% top-up grants can be combined if appropriate.

67. **Role of the financial sector.** In some cases BPs will be funded exclusively through a combination of funds provided by BP actors, i.e. farmer organisation and agribusiness. In other cases, additional financing from the financial sector, for example to cover cash flow requirements for the

purchase of products, will be needed. These needs should be identified during the preparation of the BP, and it will be left to the cooperatives to explore possible financial sources.

68. **BP assessment and approval.** The project will establish a BP Assessment Committee (BAC) with the specific task of reviewing and assessing BPs. The Committee will be composed of three to four members: a representative of a development organisation with strong pro-poor orientation; a representative of a financial institution; and an agribusiness specialist hired to provide technical advice to the project and a VC specialist when necessary. The BAC will review the viability and the pro-poor nature of each BP and provide a written technical opinion to the APCU/PCU. This opinion can be positive, hence the BP is subsequently submitted for final approval or partially positive. When a BP is considered partially positive because it does not meet the quality standards, it will be sent to the BP applicants with specific recommendations for improvement. BFPs, BP originators and the BCP will ensure that there will not be any transfer of land rights from farmers to private companies envisaged in the BP.

69. **BP approval.** Following the assessment of BPs, BP originators and their business partners will be formally invited to present their BPs to the BAC committee. The presentation will be carried out by BP partners themselves to ensure their full participation in its preparation, understanding and ownership of the BP. The BFP that facilitated the preparation of the BP will attend the presentation just to support the BP originator if needed. The BAC approval process will be chaired by APCU/PCU.

70. **BP implementation with the support of selected BFPs¹⁰⁷.** The project will hire BFPs to support the implementation of BPs. Depending on the quality of the services provided by BFPs during the identification, preparation and approval of BPs, the same BFP could be hired to facilitate its implementation. If that is not the case, another BFP will be selected from a roster of service providers established by APCU/PCU through a competitive process, which will be available in the Website of the Ministry of Agriculture. Main functions of the BFP during this phase will be to: (i) monitor compliance with project targeting methodology and criteria to ensure project target group are effectively included, participate and benefit from the implementation of BPs; (ii) monitor the effectiveness and efficiency of activities implemented (training, technical assistance and business development services provided, development support, quality of assets purchased etc.); (iii) facilitate dialogue and conflict resolution between parties if necessary; (iv) facilitate clustering and bundling of BP activities in order to achieve economies of scale and reduce administrative costs.

71. **Phasing of BPs.** It is expected that the project will gradually expand the number of clusters until reaching a minimum of 12 clusters. This expansion in the number of BPs identified, prepared and approved will grow accordingly. Over the ten years duration of the project it is estimated that a total of 140 BPs will be implemented, involving all three types of BP originators: 55 originated by producers' cooperatives, 45 by intermediaries and 40 by agribusiness companies. Over 15,000 poor small producers and collectors will be directly benefitting from the implementation of the BPs.

72. **Result monitoring.** The project will ensure a close monitoring of the implementation of BPs in order to ensure that each BPs' party is actually delivering according to its commitment; verify that poor small-scale producers and collectors are effectively benefitting from the economic benefits generated and that also the social benefits (related to the inclusion of specific target groups is achieved as planned.). The project will also produce a number of knowledge products (guidelines, manuals, case studies and a collection of lessons learnt) to inform about good practices and so provide guidance to the Government and other stakeholders to replicate and scale-up the approach.

Result 2: Very poor and poor farmers, women and youth have successfully integrated into competitive and rewarding value chains.

73. **Rationale.** Very poor and poor farmers need to reach a certain viable, commercial scale to be able to integrate competitive value chains and so benefit from rewarding markets. As these producers

¹⁰⁷.Coordinated service delivery (support to development of necessary competences at FO level, hiring of technical and BDS service providers through the voucher system, mobilizing resources according to cost sharing and financing agreements

are mostly not registered (limited by the scale of their production) they often fall outside specific support mechanisms be these at national or at municipal level. Very poor farmers may also face difficulties in accessing land on a long term basis, or, as in the case of female-headed households face difficulties with land titling (customary inheritance benefiting male descendants) The way forward for very poor and poor farmers, women and youth is then mainly through their integration in functional farmer organization. Existing organizations are however often characterised by their small membership base and generally weak governance structures. This limits their appetite for taking up risk ability to develop commercial ventures and increase their outreach to poor farmers.

74. Cooperatives are also very divers in nature; the law on cooperatives allowed five people to establish a cooperative, – practise that played against the concept of cooperatives as 'social economy' organization . Most of them thus operate more as limited liability companies (cooperatives are cheaper to register, have lower operating costs and eventually can access government subsidies or/and donor support,). These cooperatives usually rely on non-members ("cooperants") to develop their enterprises. Their activities typically include collecting and marketing of produce and as such their activities do not differ much from purely commercial ventures. Investments in this type of cooperatives should thus be carefully weighed against potential benefits for the very poor and poor farmers (e.g. in terms of enhanced market access).

75. Cooperatives owned and run by small farmers thus typically mix with the above described cooperatives. In order to fulfil their potential as social enterprises cooperatives owned by small farmers (or Producer Associations) will benefit from project support to develop their capacities and increase their outreach to very poor, poor, women and youth.

76. **Improvement of women and youth's participation in rewarding VCs.** A wide range of opportunities for increasing involvement of women in value chains and for gender equity exists. Increasingly women become also part of farmers' organizations management structures. (With regards to upstream activities it emerges from the gender value chain analyses carried out for the design, that women's involvement in has markedly increased in the collection of NTFPs and productive side of the VC but decreased on the marketing side of the equation. These observations are strong arguments for the need of the project to fund, at a very early step of project implementation, to carry out in-depth, studies on conditions and existing socio-economic opportunities for women in order to boost women participation in local economies and rewarding VCs. Funds from the grant have been allocated by RCDP to analyse roles and power structures determining relations between stakeholders in the selected value chains.

77. A preliminary analysis will inform about the obstacles that prevent poor farmers and particularly women and youth from participating in and benefitting from rewarding VCs, identifying the specific constraints to their participation and the specific measures needed to ensure their access to rewarding VCs. CSPs will be the forum where specific measures should be discussed and agreed. RCDP, the platforms that the project will help establish, and BFPs will undertake the necessary efforts to reach out to poor and very poor farmers being the latter groups the most likely excluded from PAs and Cooperatives.

78. Actions will include 'production starter packages' for very poor and poor farmers, specific funds to incentive participation of women and youth in BPs ('top up'), facilitating land access by municipalities, specific training and awareness campaigns to solicit the interest of marginalised groups and others. Actions should be set up in association and coordination with PAs, cooperatives and in close collaboration with municipalities. Women and youth's involved in producers' organizations should benefit from complementary skill development training to feel in competence and knowledge gaps (e.g. participatory planning, leadership skills, etc.). In municipalities with a significant number of poor and vulnerable households wishing to become value chain participants, the "production starter packages" may be adapted to better suit the needs of poor and vulnerable farmers.

79. In addition to the different mechanisms, tools and partners' efforts to ensure project activities reach the very poor and poor farmers, women and youth, a grant of US\$ 500,000 has been allocated

to finance specific activities to ensure inclusiveness, monitoring the inclusion of the project target groups and to finance the initial project information campaign.

80. Induction training by BFPs and APCU/PCU on inclusive VC development and targeting.

Similar to the workshop organized to the benefit of the BFP (on targeting and inclusive VC development), BFPs (with the eventual support of APCU/PCU) will organize workshops for all stakeholders involved in local value chains and clusters (private sector, PAs and cooperatives, Municipalities, youth and women's organisations) to ensure inclusive targeting and monitoring, pro-poor and inclusive approaches, the implementation of enabling measures for women and youth to actively participate in BPs and project activities, make a proper use of top-up funds and starter packages to ensure inclusiveness, and set a monitoring system able to portray this dimension. Workshops could be carried out by an organization/NGO with experience in poverty targeting and gender able to portray.

81. Organizational strengthening of PAs and cooperatives (capacity development in a broad perspective). RCDP's vision is to enhance market power of small farmers in the value chain through strengthening of PA and cooperatives. Based on needs assessment, systematic efforts should be undertaken to strengthen PAs and cooperatives organizational capabilities and skills so that they can – among others, represent small farmers and in general act as exponents of the social economy. The Project will actively support cooperatives willing to, broaden their membership (to 15 members and more), engage at cluster platform level and ultimately prepare business proposals. Cooperatives and PAs would be assisted to become more business-oriented and more active engaging more members, particularly the small famers.

82. Specifically, RCDP will: (a) support the transition from Producers Associations to commercial entities, namely farmers' cooperatives and farmer owned companies to become more business oriented and ensure sustainability over time; (b) support the gradual consolidation of producers' organizations into apex organizations; and (c) strengthen the capacities of producers' organizations (farmers' cooperatives and agribusinesses) to submit and implement BPs with the support of the BFPs. The bulk of the organizational strengthening will be supplied by service providers contracted through competitive process and will be broad in scope, going beyond the specific activities implemented by the project to develop capacity and institutions that will be available at local level.

83. Training requirements will be identified by the producers' organizations, facilitated by BFPs. This training and capacity development will include capacity building of PAs and cooperatives and advisory services in production related advisory services, business development services and organisational development services. It will include membership increase and participation, leadership, good governance, business development, branding development and marketing strategies, design an effective out-grower supply, quality certification of products, supply chain management, logistics, inventory management, strengthening of management structures and systems, financial management and communication skills, inclusiveness, sustainability and others. The ultimate objective is to have stronger, more commercially-oriented and more inclusive, sustainable, local grassroots organizations which set their own goals collectively, take informed decisions and have increased negotiation skills to participate in decision-making instances at value chain and cluster levels.

84. As planned, the training will be organized in modules arranged according to the needs and strength of each participating organization. Modules will be spread along 18 months for PAs and organisations. Training and technical assistance support for the organisations will be supplied by service providers, which will be selected from the roster of services established by APCU/PCU, while the services will be paid with vouchers administered by APCU/PCU. Funds have been allocated to cover a significant number of organizations with different level of strength.

85. Participatory impact result monitoring as regards to the inclusiveness and pro-poor approaches developed by the intervention, knowledge management and promotion.

Monitoring of inclusiveness and gender issues. Monitoring of inclusiveness will be undertaken to

look at impact of the interventions on the core target group. A civil society organization or NGO with experience in poverty targeting and gender will be contracted by APCU/PCU: (a) to develop tools and methodologies that enable BFPs to reach out to rural poor people, women and youth; (b) to support define and implement, mechanisms and activities to enable them to participate in the RCDP, (c) to support the build-up of capacity at APCU, PCU, municipalities, other cluster development stakeholders and implementing agents in the field of poverty targeting and gender; (d) to provide necessary backstopping on targeting and inclusiveness during implementation; and (e) to monitor inclusiveness and to support reporting on achievements and progress; and (e) ensure that disaggregated information can feed the RCDP M&E system. The service provider will operate under the direct supervision of the gender officer and close cooperation with cluster development facilitators. The service provider will build on the knowledge developed by Oxfam Italy pilot activity in 2014.

86. Monitoring of inclusiveness will include: (a) definition of baseline for each selected cluster and at subsector level in terms of each category of beneficiaries (very poor, poor, borderline poor), gender focused analysis, (b) facilitators' training and mentoring to define monitoring tools in each Cluster development plan, (c) survey on inclusiveness at the end of each programme cycle and definition of recommendations. As part of the induction training (workshop), the project will ensure the training/awareness to key actors about the targeting criteria.

Project Coordination, Monitoring and Evaluation

87. The Lead Project Agencies shall be the Federal Ministry of Agriculture, Water Management and Forestry and the Ministry of Agriculture, Forestry and Water Management of the Republika Srpska. In each Entity, project coordination as well as fiduciary management will be entrusted to the existing APCU and PCU.

88. With the view to promoting structural change and sustainable sub-sector development, a rigorous and outcome and impact-monitoring and evaluation (M&E) system will be developed, for which project stakeholders will bear shared/ joint responsibility; the APCU and PCU will however, besides overall coordination maintain their ultimate responsibility for M&E.

89. Critically, RCDP will thus have to shift its attention towards project coordination, monitoring and evaluation of all project supported activities. The demand-driven nature of the project as well as its participatory approach that will ensure beneficiaries take the lead in selecting, following-up and assessing performance of service providers will require that PAs and cooperatives members become part of the M&E process of RCDP. Participatory result monitoring as regards to inclusiveness and pro-poor approaches, or to take informed decisions at policy level will require to setting up of a consistent M&E system that will ensure actors and partner are part of the system, generate, collect, and review information on their own activities and that the information fluxes from the field and is channelled to the decision makers.

90. Inputs to M&E will be provided at decentralized level by the clusters, whose M&E capacity will be supported by BFPs and service providers, ensuring that disaggregated information on targeting effectiveness on different target groups are provided, as well as capturing project outcomes/impacts on different beneficiaries' groups.

91. Monitoring of activities will be a participatory endeavour, directly involving rural organizations, so as to foster project ownership and shared learning processes. Specifically, APCU/PCU will be responsible for M&E, coordinating the facilitation work and project monitoring and evaluation. Funds have been allocated to finance: (a) equipment; (b) management support; (c) a MIS and monitoring and evaluation system. Detailed cost for project management and coordination are presented in COSTAB tables as well as in Appendix 5. Details on M&E are presented in Appendix 6.

Annex I: Business Proposal Estimates (according to the different Originators) - (US\$)

ASSUMPTIONS	ENTRY POINT	Production inputs and extension (starter package)	PRODUCTION EQUIPMENT	COLLECTION FACILITIES	PROCESSING FACILITIES	BDS AND ORGANISATION STRENGTHENING	BP PREPARATION	BP MONITORING	TOTAL
	COOPERATIVES	1,800,000	630,000	900,000	180,000	300,000	135,000	67,500	4,012,500
no BPs	30								
average total members	150								
average eligible members	120								
50%starter package	500								
70% equipment	3,000								
Average no collection points	7								
Average no processing facility									
No beneficiaries	3,600								
	INTERMEDIARIES								
No BPs	30	900,000	630,000			300,000	90,000	45,000	1,965,000
Average total members	80								
Average eligible members	60								
50%starter package	500								
70% equipment	3,000								
Average no collection points	7								
No beneficiaries	1,800								
	BUYERS								
No BPs	40	5,000,000	840,000			800,000	240,000	120,000	7,000,000
Average total members	400								
Average eligible members	250								
50%starter package	500								
70% equipment	3,000								
No beneficiaries	10,000								
Total		7,700,000	2,100,000	900,000	180,000	1,400,000	465,000	232,500	12,977,500

Annex II: Job description

Inclusive Business Officer (IBO)

Duties and responsibilities

The IBOs will be a member of the PCU/APCU and will be the focal point for all RCDP project activities related to component 2 aiming at a sustainable inclusion of smallholders and poor rural people, women and youth in thriving value chains. To this end s/he will:

- Organise and play an active role in the start-up workshop, promotion/awareness campaign of the RCDP project as focal point for its Component 2;
- Prepare the TOR and the documentation to hire a service provider to update the information about sectors and confirm the selection of clusters;
- Prepare the TOR and the documentation to hire through a competitive process the Business Facilitation Partners (BFPs);
- Organise and play an active role in the BFP induction training on inclusive VC development and targeting;
- Liaise with the PCU/APCU M&E officer and BFPs to set up an appropriate M&E system for systematic data collection and reporting related to all key activities supported by component 2;
- Follow-up on BFPs facilitation of the process of identification and preparation of Business Proposals through periodic reporting and field visits;
- Monitor the activities of Cluster Stakeholders Platforms and Sub-sector Stakeholders Platforms and carry out follow-up activities on behalf of PCU and APCU, if and when required;
- Together with the Coordinator of the PCU/APCU participate in the BP approval session;
- Prepare the TOR and the documentation to re-hire the Business Facilitation Partners (BFPs) to support the implementation of BPs;
- Monitor the functioning of the voucher scheme (in coordination with APCU/PCU M&E officer);
- Monitor the performance of approved BPs and progress made against baseline indicators (business and social) through periodic reporting and field visits;
- Monitor the effective application of measures to mainstream inclusion of poor farmers, women and youth men and women in supported BPs;
- Coordinate with BFPs the preparation of Knowledge-sharing products (guidelines, manuals, case studies, lessons learnt) to document and share the results of the component 2 and feed the agenda of cluster and sector platforms supported by component 1;
- Undertake any other assignment relevant to the RCDP project as requested by the PCU/APCU Coordinator.

Required Skills and Experience

- **Education.** Master degree in Business Administration, economics, agriculture, economic sciences or related areas;
- **Experience.** Minimum 5 years working experience in coordination and monitoring of value chain development projects;
- Knowledge of gender and targeting issues;
- Proven communication and organization skills.
- **Language.** Fluent spoken and written English

Annex III: Project phasing and sequencing

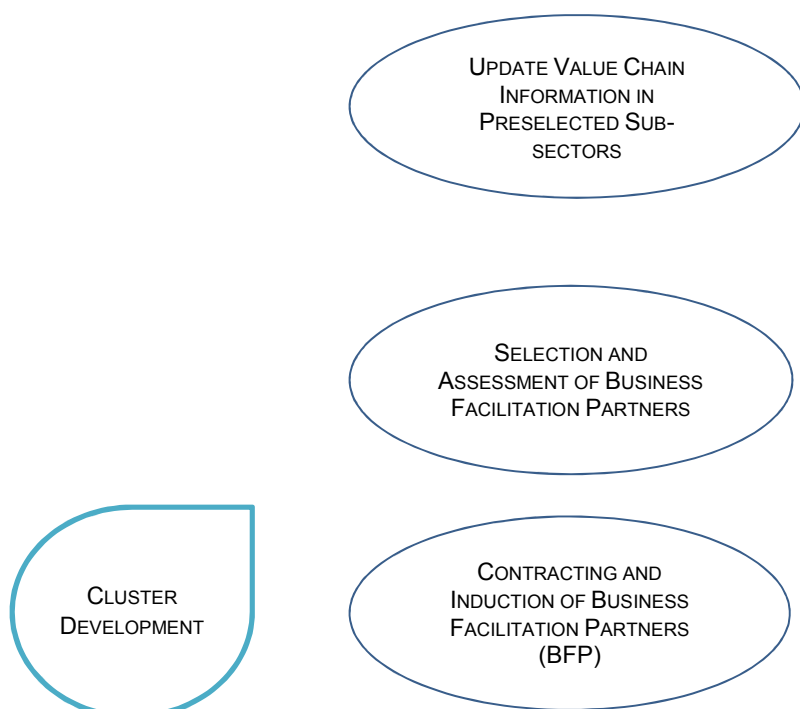


Preparatory Phase at APCU/PCU level

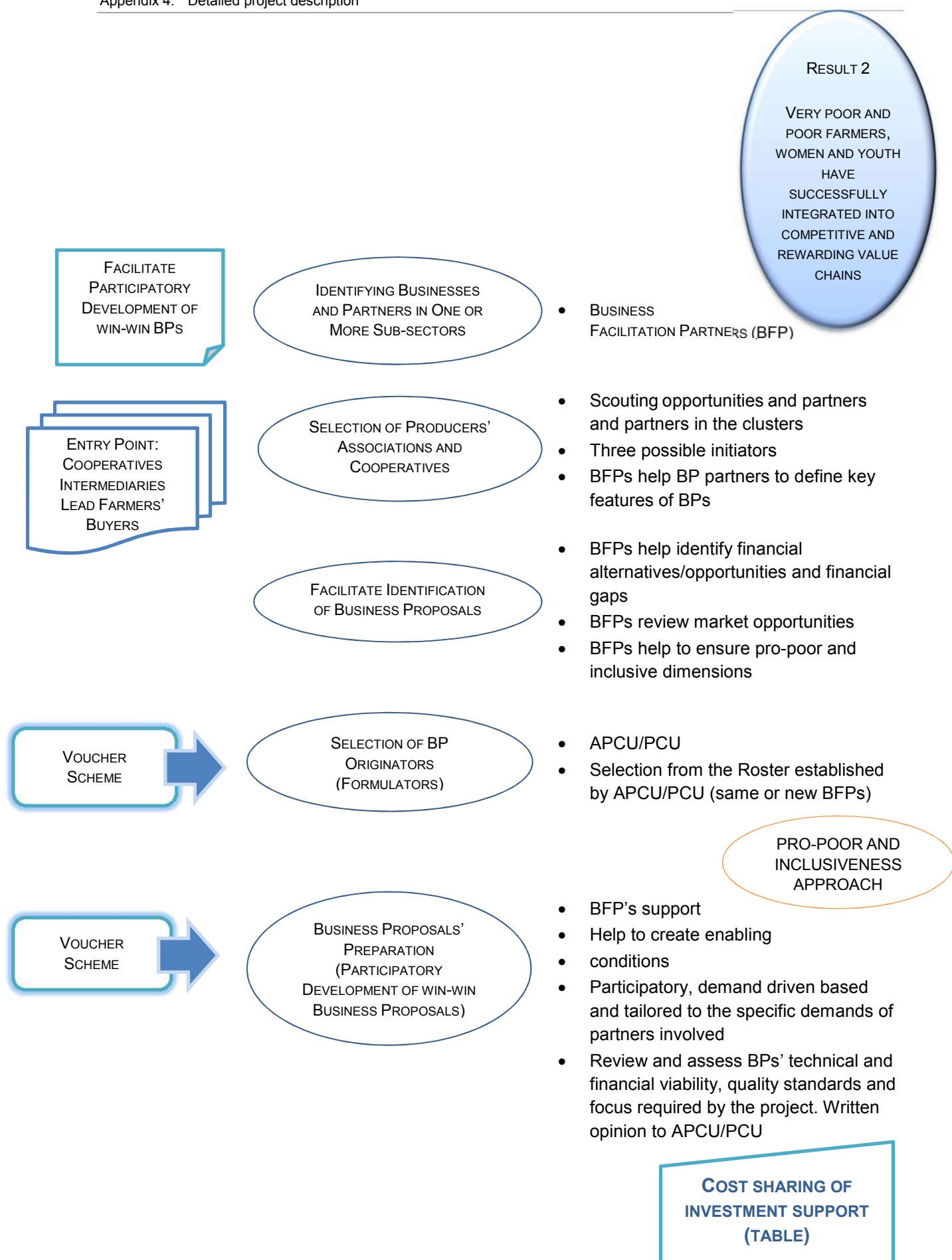
- REVIEW AND UPDATE TERMS OF REFERENCE OF CURRENT APCU/PCU STAFF
- PREPARE TERMS OF REFERENCE, SELECT AND CONTRACT NEW STAFF (BUSINESS FACILITATORS AND SPECIALISTS)
- REVIEW AND UPDATE PROJECT IMPLEMENTATION MANUAL
- REVIEW PROJECT TARGETING METHODOLOGY
- DEFINE BP'S CONTENT AND QUALITY STANDARDS (DEVELOP GUIDELINES WITH SUPPORT FROM SPECIALISTS)
- DEVELOP BP FUNDING STRATEGIES
- DESIGN BP'S PARTICIPATORY MONITORING AND FOLLOW UP METHODOLOGY AND INDICATORS
- SET UP ELIGIBILITY CRITERIA FOR SELECTING FARMERS' ORGANIZATIONS (FOS) AND PRIVATE AGRIBUSINESS
- PREPARE TERMS OF REFERENCE FOR BUSINESS FACILITATION PARTNERS (BFPs), BP ORIGINATORS/FORMULATORS AND GENERAL TORS FOR SERVICE PROVIDERS
- SELECT CRITERIA FOR ASSESSMENT AND PRE-QUALIFICATION OF SERVICE PROVIDERS
- DEFINE HOW AND WHO WILL ADMINISTER THE ROSTER OF SERVICE PROVIDERS AND THE MECHANISMS TO BE IMPLEMENTED TO ENSURE FULLY AVAILABILITY TO BUSINESS PARTNERS (WEBSITE)
- DEFINE MECHANISM FOR IMPLEMENTING THE VOUCHER SCHEME
- DEFINE CRITERIA FOR THE ESTABLISHMENT AND FUNCTIONING OF THE BP ASSESSMENT COMMITTEE (BAC), BP ASSESSMENT AND APPROVAL MECHANISMS

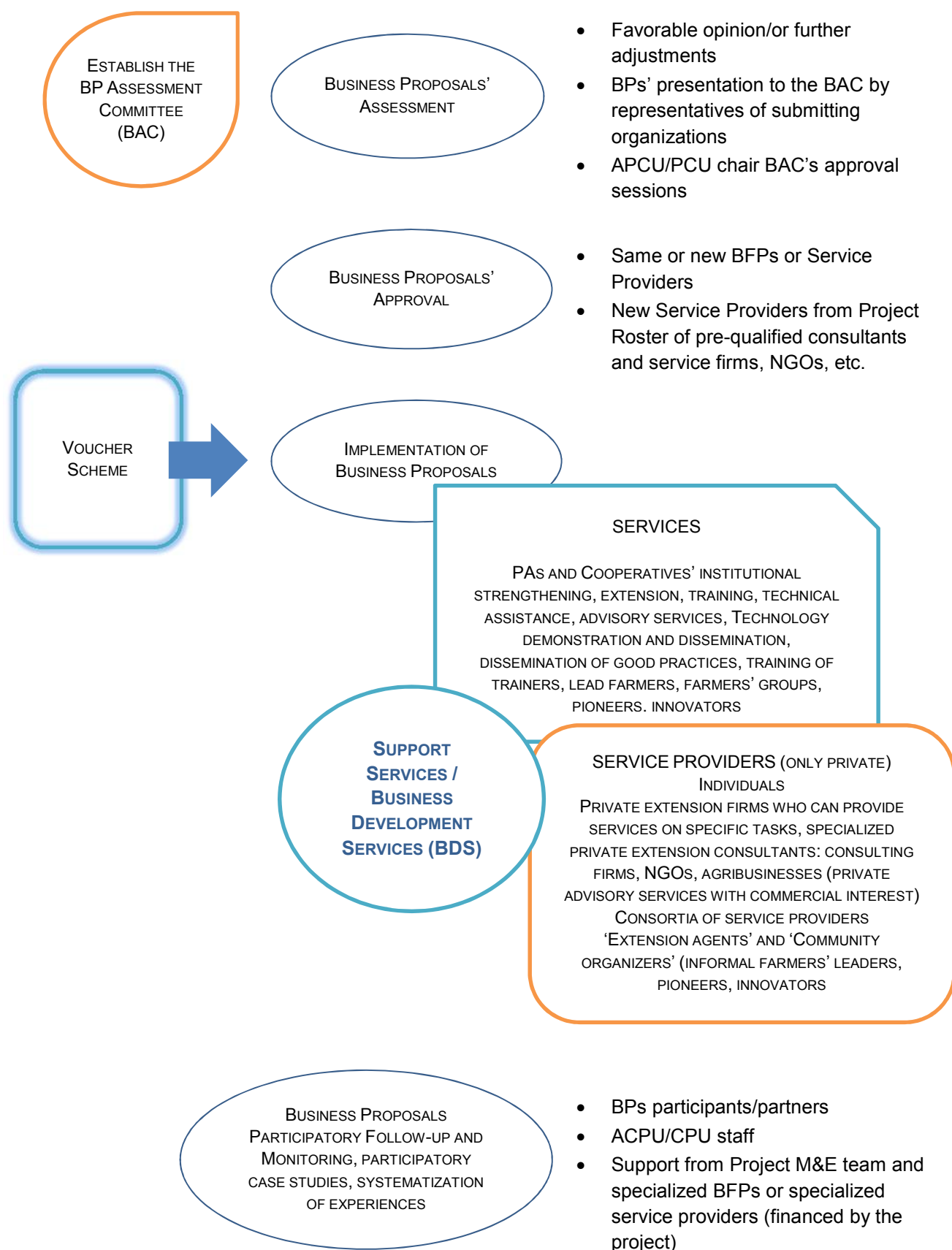


Component 2: Sequencing of Activities

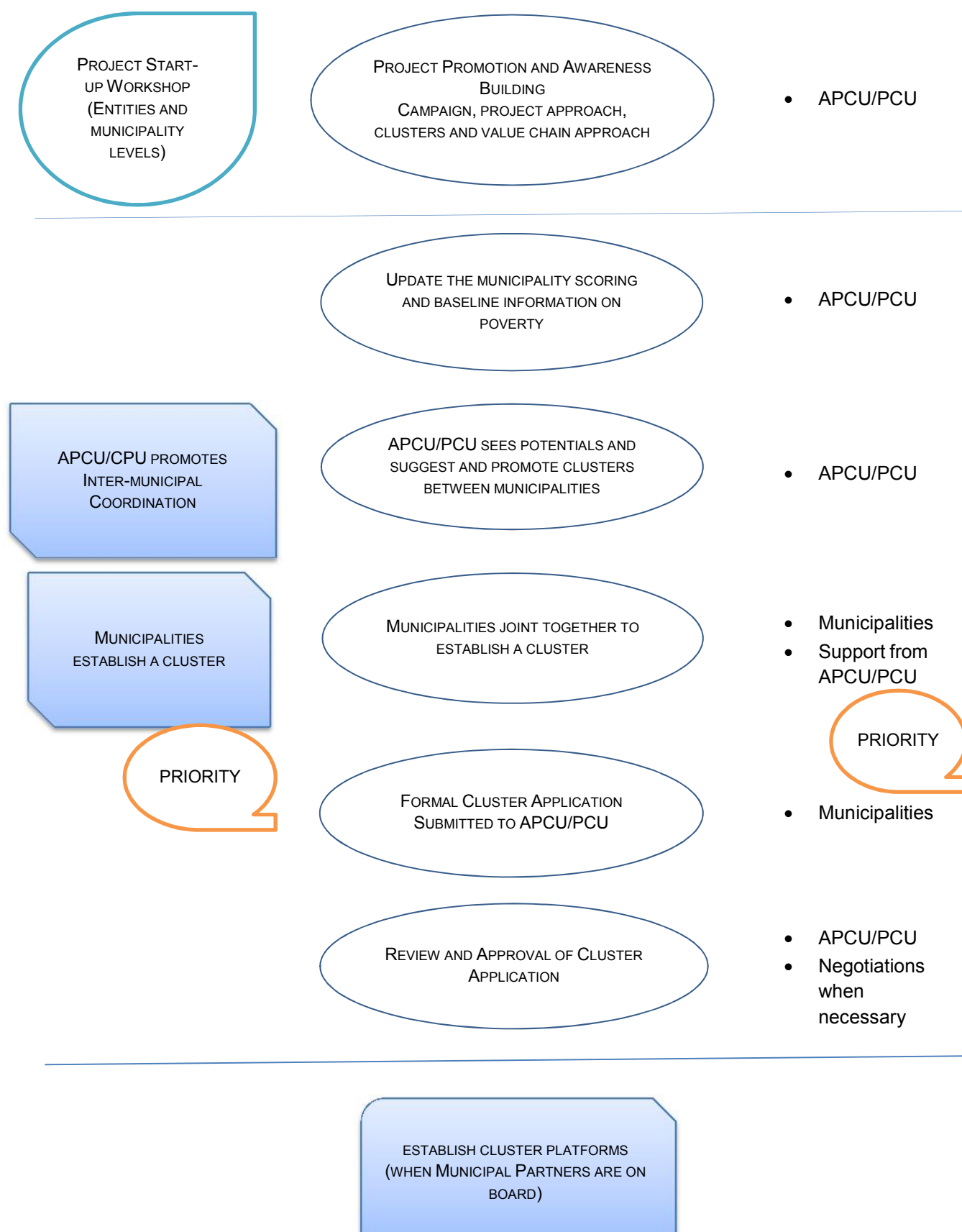


- APCU/PCU
- Update information on value chains and subsectors, identify opportunities and challenges
- Procurement of a qualified service provider (APCU/PCU)
- APCU/PCU
- Competitive Process: Procurement of qualified Service Providers firms and individuals (explore possibilities for consortia). Establishment of a Roster
- One for each subsector, 3 for each Entity
- ACPU/PCU





CLUSTER DEVELOPMENT SEQUENCING

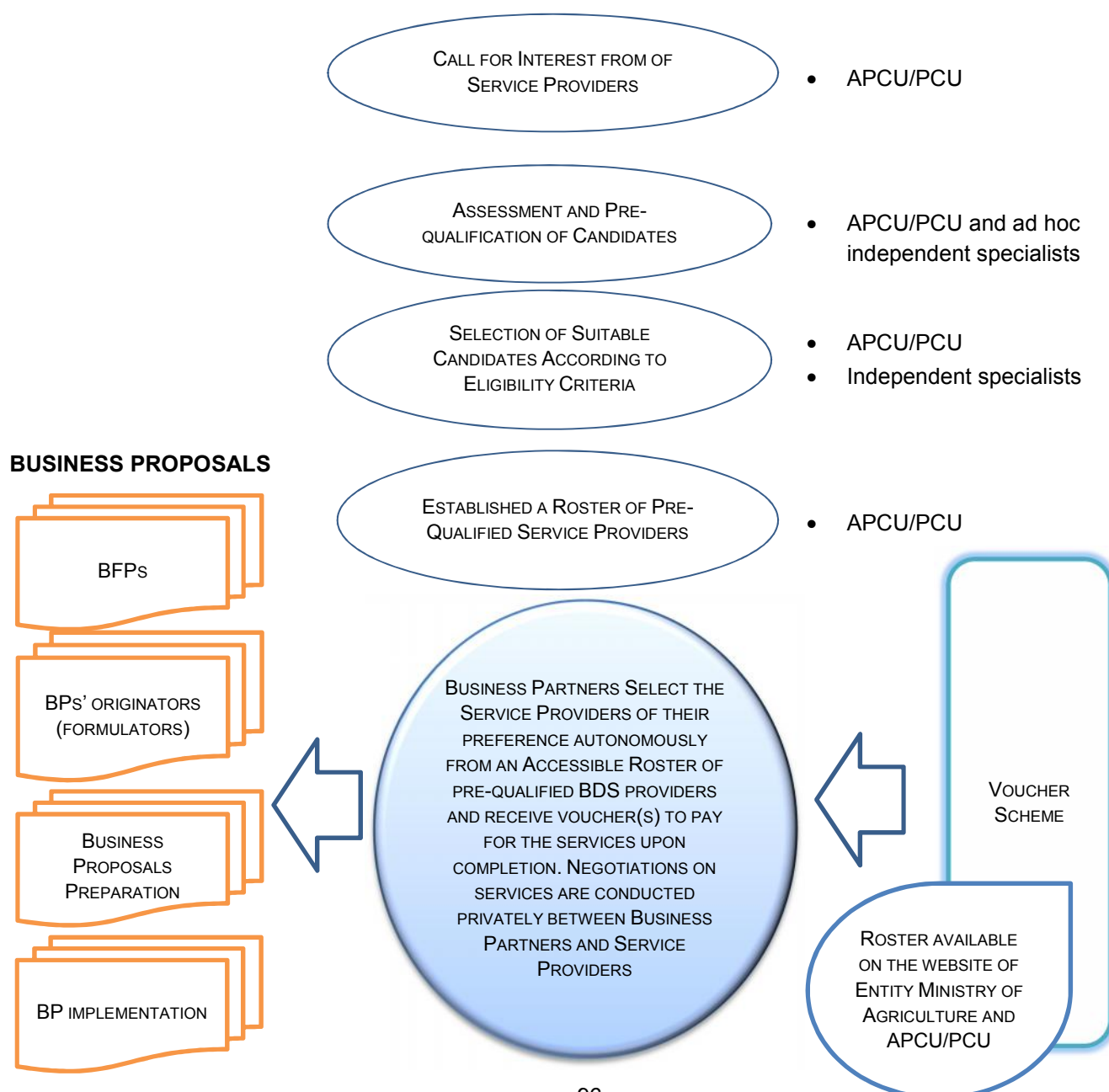


SERVICE PROVIDERS

PREPARATORY PHASE AT APCU/PCU LEVEL

- Preparation of the bidding documents for the call for interest for the pre-selection of qualified private service providers (individuals, individual firms, consortia, NGOs and others)
- Select criteria for assessment and pre-qualification of service providers and invite ad hoc independent specialists
- Define how the roster will operate, will be administered and evaluated and how it will be made fully available and accessible to PAs, cooperatives and agribusinesses, how it will be updated and debugged from time to time
- Bidding process (call for interest)
- Set up the methodology for following-up, monitoring and verifying quality, effectiveness and efficiency of services providers, and voucher scheme's follows-up.

Implementation Phase



Annex IV: Overall BiH Subsector Analysis

From the Subsector approach to Value Chain selection

1. The strategic vision of RCDP is to use a subsector approach in order to support core areas¹⁰⁸ necessary for sustainable structural changes and leading to the expected economic and social benefits. A subsector approach thus allows for a broader scope approach than a restrictive VC approach, in the sense that RCDP interventions will not be limited to the direct actors of the VC but will also take consideration of the meso and macro levels of the VC environment. *RCDP will focus initially on the subsectors of fruits, vegetables and non-timber forest products (NTFP)*, which offer good opportunities to contribute to rural poverty reduction, domestic economic growth and exports in the medium and long term.
2. The post-war context has given an increasing importance to berries and gherkins production as well as to the “traditional” gathering of berries, MAPS and mushrooms, shifting for many rural families (see below) from a secondary monetary resource to the main way of putting bread and butter on their tables. Farmers starting berries or gherkins production, mainly on former pastures, have to adopt a brand new production system, to which they must be prepared. On the other hand, the local post-harvest/collection stages, to prepare and bring the products to the importer groups have been taken in charge by “newcomers”, at first mainly local people with business acumen and enterprising mind, and more recently by bigger Bosnian firms established in related sectors and seeking a way to realize a profitable investment in a growing sector.

Common characteristics of selected VCs

“New” Value Chains and new actors

3. **“Big buyers” and Export market.** The selected VCs are characterized by the importance of the international demand on the said produces. The consumer trends and the structural changes (e.g.; EU accession) for some of the former main Eastern-Europe countries producers have opened a space for new producing countries, and big agro-food groups¹⁰⁹ are presently boosting the local production by offering stimulating prices for these products.
4. The post-war context has given an increasing importance to berries and gherkins production as well as to the “traditional” gathering of berries, MAPS and mushrooms, shifting for many rural families (see below) from a secondary monetary resource to the main way of putting bread and butter on their tables. Farmers starting berries or gherkins production, mainly on former pastures, have to adopt a brand new production system, to which they must be prepared.
5. On the other hand, the local post-harvest/collection stages, to prepare and bring the products to the importer groups have been taken in charge by “newcomers”, at first mainly local people with business acumen and enterprising mind, and more recently by bigger Bosnian firms established in related sectors and seeking a way to realize a profitable investment in a growing sector.
6. **Transformation/processing is limited:** apart from deep freezing or drying, the buyers from the export market limit the local processing of the produces to the minimum for their good preservation during transport. All grades of the exported products are not to be sold as they are to the final consumers, and some will go through a further processing, towards the B to B market, for other agro-food actors, and some of these products might be processed locally.

¹⁰⁸ (a) an enabling policy framework from State to Municipality level, (b) mobilisation of the required financial support, (c) strengthening relevant institutions and capacities of service providers in the subsector in order to ensure an adequate supply of specialized services for sustainable development, (d) Subsector governance by private stakeholders and their professional organizations, and involved ministries and municipalities through consultations and joint strategic planning of interventions and (e) Subsector performance monitoring and accountability.

¹⁰⁹ such as the Austrian Agrana, or the Swedish Nordic Food Group, through their branches

Relations between actors and global strategies

7. Apart from climate hazards that may deeply affect the whole VCs, the main risk for processors is supply shortage, which induces the common response of **contract-farming systems** and **vertical integration models** to tackle it. The contract can be concluded either directly between the processor and the individual farmer, or between the processor and a “collector”¹¹⁰ who may in turn contract with individual farmers. The “integrator” provides to farmers (i) technical assistance, through an extension team “driving” the farmers to produce as required and (ii) an in-kind credit system¹¹¹ for input supply, that can include repayment arrangements for new plantations or in case of climatic disorders.

8. **Poor farmers**, prone to feel redeemable to those offering to buy their products and to manage their production, seem to have developed a “tradition” of over-reliance on “downstream” actors: they appear to be generally loyal to their contractual commitment. On the contrary, mutual trust between farmers has to be rebuilt, maybe as a consequence of the war and the maiming of the social fabric, and broad membership based organisations (FA or Cooperatives) hardly emerge.

9. **Contract and contractors versus 'cooperants'**. So called Cooperants (cooperators) are not always cooperative members and some cooperatives act as a “protective level” for processors in which they are embedded: they take the collection risks, and have to manage the relations with farmers. But this type of “imperfect” cooperatives might contain the seeds for a co-management of the VC, as a debating space for private company and farmers on quality, quantity and prices issues.

10. **Working capital requirement** is another key asset in a context where operating loan is not easily available: availability of capital (to pay the suppliers) and ability to lend some in cash or kind is an efficient way to create strong links between actors and to mark one's dominance.

11. Despite the unsatisfied demand of market, relations between processors do not seem to be an intense competition for products. When bargaining with farmers, processors and collectors refer to a reference price settled by foreign buyers at the start of the harvest campaign. This cannot be treated as a cartel-like organisation and in the meantime, there does not seem to be a “collection-zone fixing”, as it has been noted that several buyers' supply zones can overlap.

12. Public authorities tend to see processors as private social “peace-keepers”, because they generate a flow of money and jobs on their territories. This situation allows processors to get good investments conditions (land, co-financing or subsidies) from Municipalities, which seem not always to be met for cooperatives wishing to develop their activities¹¹². Nevertheless, the absence of intermediary bodies -such as Farmers Organisations- jeopardize the long term social stability in local communities and in the country, and Municipality awareness should be raised on these issues, to foster their contribution in supporting Cooperatives and FAs growth.

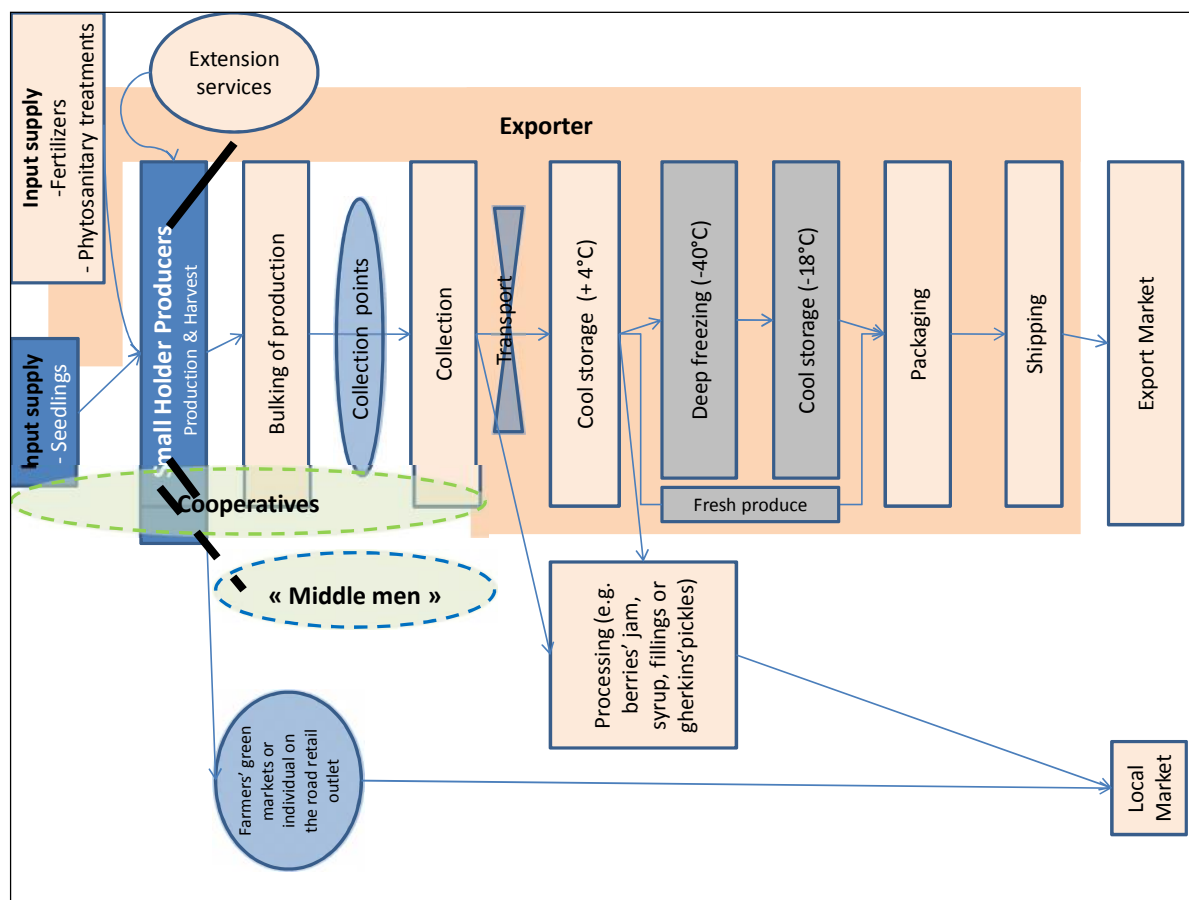
¹¹⁰ Which can be a private agent or an Agricultural Cooperative

¹¹¹ As regular operating loan from financial institutions (working capital for crop year inputs funding and/or investments for seedlings installation in new plantations) are scarcely available to farmers, due to their lack of collaterals, this financing system

¹¹² Oral communication, VIP Krajina Vegetable Cooperative, RS, November 2014.

Main actors of VC

Figure 1: Main technical functions and actors of the selected VC



13. This Figure fits particularly the berries VC, which are mainly oriented towards exportation of deep-frozen products, whereas gherkins VC export exclusively fresh products. In mushrooms VC, drying processes stages often replace deep-freezing stages, but are not the majority for these produces, which can also be exported as fresh produces.

Production

14. **Farmers:** Today, BiH agricultural production is assured by 515,000 privately owned smallholder farms, mostly small and fragmented¹¹³. Consequence of the war and also of a “rural exodus” of younger people not finding enough perspectives in rural sector, the working-age population in rural areas¹¹⁴ is ageing. Thus a lot of the present farmers have been permeated with the pre-war, interventionist organisation of former Yugoslavia, either as agricultural cooperants under socialist cooperative strong guidance, or as part-time farmers working in local factories which were destroyed during the war or closed by post-war restructuring plans. These farmers have “inherited” a vision of their activity mainly reduced to producing, with low control on input and output markets, as long as the price from their products cover their family needs.

15. Consequently, with this low level of organisation and limited expectancy in terms of professional control of their activity, an important part of BiH farmers seems to view as a suitable opportunity the vertical integration model proposed in the considered VCs. Although satisfactory for both sides in a

¹¹³ In Dimitrievski, D. Agriculture in the process of adjustment to the common agricultural policy, Monograph, Skopje, 2010. The study also states an average of 0.59 ha of agricultural land per capita, of which 0.36 ha are fields and gardens

¹¹⁴ Source World Bank Group–Bosnia and Herzegovina Partnership: Country Program Snapshot, October 2014, pp7-9, <http://www.worldbank.org/content/dam/Worldbank/document/eca/BH-Snapshot.pdf>

short-term perspective, this contract-farming system is replacing the pre-war dependence on State cooperatives and subsidies system by a dependence on “integrators”. Progress towards farmer's empowerment is slight, which jeopardize the subsector's ability to respond to changes in trends and opportunities.

16. **Land availability: a paradoxical situation.** Beside the abundance of available agricultural land in BiH (around 50 % of agriculture land is said to be uncultivated), its land status is insecure for a small farmer willing to set up or extend their land and youth's land access is even more complicated by social organisation¹¹⁵. Nevertheless, the land market transparency may not be optimal, at all levels of the country, as some big actors manage to “grab” big plantations.

17. Access to conventional bank credit (see below) is limited for smallholders, and this situation reinforce the attractiveness of the integration model, when proposing in-kind credit system.

18. Apart from funding problems, producers face two opposite categories of climate risks: draught and flooding. Water supply is problematic in many parts of the hilly landscape of BiH, mainly constituted by a dry limestone plateau, and establishing plantations along the narrow banks of the rivers is a risky solution to make irrigation cheaper, as rivers are prone to overflow¹¹⁶.

Input supply

19. Input supply, cost and availability of fertilizers and plant-protection products, is an important concern for farmers, leading farmers to enter vertical integration systems. There are very few examples of organized farmers taking in charge bulking of commands for input supply. It should be stressed that (a) development of organic production and notably the use of locally produced organic fertilizers could reduce these costs and enhance input local availability, (b) resort to local varieties, particularly for berries production¹¹⁷, more adapted to local soil and climate conditions, and presenting a greater hardiness towards diseases, could also allow for a less intensive use of inputs, and thus reduce farmer's need of external funding.

20. **Input suppliers** are of three main types: (1) berries nurseries and seedlings providers are essential, to meet the buyer's demand of specific varieties. H&H Fruit, a private actor from Bugojno, has risen to a quasi-monopole in primary production of imported varieties' seedlings and is supplying the whole country. Seedling multiplication can be undertaken by private companies or in some case by (buyer-driven) cooperatives, within the in-kind credit system described above, (2) chemicals - fertilizers and soil conditioners, and phytosanitary treatments - are provided by private companies, (3) development of organic fertilizers production could be a source of both local value-added and employment. This latter issue should be seriously considered as the alternative of organic production could be durably lost if a widespread use of chemicals is made in the selected VC.

Post-harvest/gathering operations

21. **Collectors** buy the produces from the farmers or gatherers and bulk them for delivery to processors. Generally tied to a specific area, they may organize collection points and even transport to the processing unit. They can be (i) registered private buyers or (ii) cooperatives with whom the processor may conclude a supply contract, and who will also contract with its suppliers, or (iii) they may be “illegal”¹¹⁸, thus not paying taxes and being able to offer higher prices to their suppliers with a disrupting effect on the VC. Private buyers take a fixed margin per kg, which is a problem for **processors** when the product's market price falls.

¹¹⁵ “Tradition” prevents the younger generations to possess their own land if their parents are still alive.

¹¹⁶ Nevertheless, irrigation facilities solutions have been tested, notably with IFAD's Renewable Energy Technologies grant funding that could be affordable for organised farmers.

¹¹⁷ BiH host many endogenous endemic varieties of berries, particularly raspberries, which are kept in the University of Sarajevo's collections, by the Balkans expert for berries, Dr Adnan Malicevic. Currently he lacks funding to develop systematic testing of these varieties for their compliance with processors requirements and DNA sequencing to make them available as “open source”.

¹¹⁸ Notably in the “traditional” -not selected- fruits & vegetables VC.

22. **Processors** are the “local” link between producers/gatherers and the export market. These key players take in charge all the stages in the VC from the collection point to the shipping to export markets. They manage deep-freezing and cool storage processes or the drying processes in case of mushrooms and MAPs. They are local job creators on a permanent basis but also provide seasonal jobs at the peak period of collection, to take delivery of supplies and to process them. Through contract farming and sometimes a vertical integration system, they secure the farmers’ revenues and are regarded as “social peace”-keepers in the unemployment context of BiH. Most of the time, they are not specialized in a given VC.

23. Two types of processors: Historically, the local SMEs processing these VC produces have often started and gained their first business experience with mushrooms and MAPs (fresh or dried products) before “catching” the berries train (and sometimes the donors’ funding), and shifting to deep freezing technology. These historic players now have to face the rise of new processors, related to biggest national or international actors¹¹⁹, and this trend seems to be promoted, as investments opportunities are open in BiH for “big” integrators¹²⁰.

24. Downgraded and lost products seems to be quite substantial, particularly during the processing of berries, as 20-30% of the total stock being lost/downgraded seems to be a common figure among processors met during the mission. Reducing these losses could allow for higher prices for farmers, and could be an issue for VC actor’s win-win collaboration.

25. The level of investment is quite high for the different facilities that processors have to use, and their operating costs often have to include also the cost of the services¹²¹ they make available to farmers. Nevertheless, most of the processors met were able to reinvest just through their benefits, notably to increase capacity of their processing/storage facilities. Complement funding from bank loans or donor and NGOs projects is generally available for these actors.

26. The limiting factors vary according to the situation: (i) there is generally a competition for produces, which keeps the market price for producers at a relatively high level, but (ii) it can also be the storage capacity in more landlocked and less competitive areas, and (iii) availability of working capital¹²² for payment of suppliers is also a concern for all these actors. Processors’ strategies secure their supplies through a pool of contractors or through processors’ directly-owned and managed large plantations, which also reduce the overall operating costs.

27. **Export market buyers** are the fuel of the demand and of all the VCs dynamics. According to the processors, they are the ones who make the campaign price for all products¹²³, looking for the best prices on several European supply markets. They have presently invested little in the country, with the exception of Nordic Food Group¹²⁴. It seems that in some case they can bring some limited working capital loan to their suppliers.

VC Environment: a quick view on VC meso and macro levels

Meso level

28. **Farmers’ Organisations (FOs) as a whole** are very little developed with regard to their geographical availability to farmers (no more than 50 active FOs in the sectors of intervention of the RCDP project). They are often supported by donors’ projects, some of them inclining towards

¹¹⁹ Three such big groups have been met /identified during the November 2014 mission: (i) Poljo-sementi Group, originally dealing with input supply and transport, which started integration through these two entry points (ii) KLAS JSC, initially dealing with the bakery VC at national level, with pre-war connection to berries production and (iii) Nordic Food Group, an international that opened a Bosnian branch, Bos Agro Food in Sarajevo, and is presently extending its reach with new deep-freezing and cool-storage facilities in the Zepce area.

¹²⁰ From [Bosnia and Herzegovina Investment Opportunities Document, FIPA, Sarajevo 2013](#), page 35.

¹²¹ In-kind loan of input, extension advisors, transport and post-harvest packaging

¹²² For which there does not seem to be any credit product available (such as stored product warranting) from banks or MFIs.

¹²³ Although it is unclear whether this is a “Balkans’ price” or the price from the commodity market in Chicago

¹²⁴ Through its Bos Agro Food subsidiary, which is present in Srebrenica, and has directly invested in a deep-freezing/cool storage unit in the Gorazde region

promotion of vertical integration models for the F&Vs and NTFPs sectors. Remarkably, our interlocutors from FOs were in almost all cases “recruited” officers (Director, etc.) but scarcely “elected” officers (Board members) and meeting of “simple” farmer-members has been almost impossible during the mission. An important issue is the farmers’ “project management” capacity of their own organisation, and the RCDP should look for all means to develop this capacity from base to summit, for fear of simply extending downwards a “top-down” approach, through technician-driven FOs and taking the risk to go without the ideas of the producers, for evolving into an unsettled national and international environment.

29. **Cooperatives** are a legacy of the agricultural system of the socialist era, part of the country’s tradition, but a new legal framework for cooperatives has been established by The General (state) Law on Cooperatives, approved in 2003, which strives to instil the principles of voluntarism, democracy, freedom and transparency, and regulates all aspects of cooperative operations. Nevertheless, this law is not specific to agricultural cooperatives and presently, only 550 agricultural cooperatives stand among the 800 cooperatives present on the whole BiH territory¹²⁵. Only 150 cooperatives are estimated to be active in the whole BiH.

30. “New cooperatives” operate notably in the selected value chains, and are mostly involved in input supply and marketing, behaving as aggregators of smallholders’ production. To a large extent these “new cooperatives” are, in reality, limited liability share companies formed as cooperatives for a variety of reasons, with a minimal membership base. These cooperatives serve members as well as non-members, who are only suppliers of produce to the cooperative. The members benefit from the profit the cooperative makes by serving as an aggregator of produce while cooperants benefit only from the access to market provided by the cooperative, quite far from the operating rules of EU cooperatives. In a number of cases¹²⁶, the cooperatives are closely linked to a processor, which may even be founder of the “Farmers” Organization.

31. **Producers’ Associations** operate under the general State Law on Associations and Foundations adopted in 2001. Statutorily undistinguishable amongst the estimated more than 8,000 Civil Society Organizations (CSO) operating in Bosnia and Herzegovina, Producers’ Associations¹²⁷, most often operating at Municipality level, are hardly identified even by Municipality authorities, except when they are put in the light through the support of a donor. Some fruits and/or vegetables producers’ association have been recently established, with the support of important donors/projects such as IFAD, FARMA, UNDP, Caritas or Oxfam, which also operate mainly at Municipality level. In those cases, the Farmers’ Association appears to be a first step of organization and may lead to the establishment of a Cooperative¹²⁸.

32. PAs are at some liberty for entering many activities to bring VC support functions to their members and a few farmers’ associations are, in particular, developing extension services or advices, thus getting experience in providing training and marketing services, while their members develop individually a “membership spirit”, a technic-economical vision of their productive activities and mutual trust. The RCDP’s 10-years implementation period should be an advantage to support this maturing process, and help the emergence of sustainable FOs.

33. **Support services: for farmers:** mainly extension services provided through a variety of channels, with different levels of proficiencies but a similar approach, they were present in all visited areas (if not available to all). The level of proficiency in regard of service provided is variable¹²⁹ but the

¹²⁵ In 2008 Republic of Srpska issued a specific Law on Agriculture Cooperatives, largely in harmony with the BiH Cooperative Law of 2003.

¹²⁶ For example, Udruzenje Vocara “Drina” created with Herbos Nature d.o.o. in the Goradze zone, or AgroDAR in Cazin which is more or less part of the Poljo-sementi Group.

¹²⁷ They could be around 200 in FBiH and around 70 in RS, mainly dedicated to the dairy sector or bee-keeping, as a result of post-war donors’ and administration’s efforts on these sectors.

¹²⁸ In the area of Konjic, several FA covering various sectors have founded the Cooperative of Agricultural Associations. The Cooperative serves as the umbrella for 700 members, 80 of which are women. Near Goradze, a Cooperative has been established by three FAs (and the local processor, Herbos Nature).

¹²⁹ See also WP on VCs (WP N°- Appendix)

mainstream approach is a (i) technical, (ii) top-down and (iii) individual approach of support services, which proved suitable for a quick increase of production to set up a core production capacity, on which processors have been able to base their development. However, this approach has two main drawbacks: efficiency and sustainability, as it allows only a reduced number of effectively trained and monitored farmers per extension advisor, which implies fairly high individual training costs, unaffordable for the poorest. This reduces the reach of the knowledge diffusion and only marginally fosters farmers' management capacities needed for a sustainable development of the VCs, and for a start, for an appropriate choice of introduction of new activities related to these VCs in poor farmers' livelihood systems.

34. The present situation may then allow now for an evolving approach, building on trained and experimented farmers to expand the reach of extension services, in order to foster a horizontal diffusion training approach. Key role would be devoted to support services providers willing to shift towards a "development group" approach. In turn, this "development group" approach could be widened from technical extension issues to more technic-economical "farm management and consulting services" supporting the farmers' promotion as valid decision-takers.

35. **Support services: for processors**, are available for example to start in the business as well as legal and technical advisors. Projects, Municipalities and banks can also be providers of support services, through training and conferences. Private advisors, sometimes also operating as extension officers, can provide training for export certifications and expand the training to farmers when required. The growth of family managed companies should be accompanied by appropriate management and accounting capacities building, to avoid growing pains.

36. **Financial institutions:** Banks' loan policies are not directed towards farmers' financing needs issues and apart from MFIs, loans seems to be mostly available to processors. The main limitations for farmers' access to credit relate to collaterals availability, value and farmer's willingness to risk them, followed by the high cost of credit. Some MFIs value the backing of a "recognized" FO (e.g. Cooperative) in assessing the creditworthiness of farmers. Credit lines opened through projects have sometimes proved to be effective and to have allowed some testing of methods, but remain highly questioned. PAs or Cooperatives willing to engage in commercial operations will need "collection credit" and the warranting of stored products should contribute to tackle the working capital concern. The promotion of such a new product would require intervention of high-level professional in this banking sector.

37. **Farmers' commercial operations** can be conducted in three ways: (i) farmers' green markets or individual on-the-road retail outlet for local short value chains (ii) collection points in a contractual organization¹³⁰ in longer export value chains, but (iii) many farmers use the services of registered (including Cooperatives) or un-registered (black market) collectors that take the produce at the gate of the farm. **No local commodity exchanges**¹³¹ are organized, and the local fairs, which are presently interestingly developing with the help of donors, are mainly exposition meetings, aiming at establishing links between actors for subsequent commercial contracts.

38. **Municipalities and "clusters" institutional dynamics** are presently not yet clearly at work: only some individual Municipalities have adopted a pro-active approach towards rural development and a cluster approach is being tested in a few places¹³². Operating steering body and effective pooling of projects and human resources seem to be key issues for its success. **Local Economic Development Agency (LEDAs)** at Municipality and Regional levels¹³³, can offer information and training facilities for the various VC actors in the region. **Law enforcement** is also a concern, as VC are disrupted by "black market" players, who nevertheless manage to deliver their produces to supermarkets and greenmarkets or processors.

¹³⁰ Or even the food processor's gate, if the commodities are close to the farm.

¹³¹ Organized trading points for farmers, in particular for NTFPs and mushrooms, some kind of "open outcry markets".

¹³² For example in various IFAD's RLDP zones, notably with Oxfam support, but also in UNPD's Srebrenica's projects

¹³³ During the mission, the Zepce Municipality, as well as Regional REDAH (Mostar) and SERDA (Sarajevo) Development Agency were met.

Macro level: entity and state level

39. **The institutional complexity** is a challenge in B&H due to the variety of key administration bodies involved in the agricultural administration. The respect of the subsidiarity principle and a good coordination between the two entities are required to make this system effective.

40. **Research Institute and Certification services:** quality and sustainability at stake along with a sense of sovereignty. Qualified professors and their team can be found in the Agriculture Universities but their operating funds rely heavily on donors, inducing some biases in research themes¹³⁴. On another hand, it has not been possible to identify a clear chain of certification to guarantee to farmers to buy virus-free seedlings, nor the procedures to get such a certification.

41. **Unions of FO:** umbrella organisations for FOs are not yet developed, as FOs themselves are only emerging. In some cases, with the help of projects or LEDAs, seedlings of an umbrella organisation might be fostered around the project of an agricultural fair.

42. **Apex Cooperative Organizations** exist at the three levels of BiH. Cooperative Union of Bosnia Herzegovina (BHCU) is the state level apex cooperative organization: they have a limited representativeness as they regroup around 20% (less than 100 coops) of the 550 BiH Agricultural Cooperatives¹³⁵, this figure is however more significant compared to the estimated 150 active Cooperatives. They have the delegated responsibility of auditing cooperatives, and the two entity cooperative unions claim the same objectives and functions of advocacy and lobbying for their members at their respective entity level, together with education, information and capacity building trainings, although the extent to which they fulfil them is not evident. As an apex organization, BHCU has the authority to work with the national government to pass laws that regulate cooperative practices and to set standards for auditing cooperatives. It also represents cooperatives abroad and collaborates with international organizations.

43. **Chambers of Commerce:** organised in two distinct bodies, respectively for local and international commerce, their role encompass facilitating economic information circulation, and they should be information network headends, but their capacities have to be clearly assessed.

44. The **legal framework** should be adapted to fit the evolution of the rural sector in several, non-limitative, issues: (i) cooperatives working in accordance with the international (and notably EU) standards of cooperation should be supported by a specific legal status, but the other agricultural trade association-like structures should keep a specific status when managed by farmers, (ii) contract farming¹³⁶ should be paid a specific attention, as mutual commitments, in terms of duration, price, grading and quality payment, may not always be clear, or fair, and (iii) land status to promote the access of the young and the poorest to land property (the establishment of "Rural Land-Use Planning Corporations"¹³⁷ could be one of the solution).

¹³⁴ For example, in the berries VCs, the Butmir Centre near Sarajevo has implemented its research programs mainly through USAID and SIDA-funded FARMA program, which mainly focused its work on new imported varieties, and has not exploited the collection of well adapted endemic varieties that they possess, and which might be of interest for economical and sustainability issues.

¹³⁵ The Republic of Srpska Cooperative Union (RSCU), which regroups 64 agricultural cooperatives, or the Federation of BiH Cooperative Union (FBIHCU), which regroups no more than 30 agricultural cooperatives, amongst 78 members.

¹³⁶ See WP N°, Appendix, for examples of the diversity of contract proposed to farmers.

¹³⁷ For example, Rural Land-Use Planning Corporations (or Safer- "Sociétés d'aménagement foncier et d'établissement rural") have been created in France by the 1960's agricultural guidance laws. They are organized in several ruling bodies facilitating dialogues between regional stakeholders (farmers' organisations, *local and regional authorities and State*), *with a State final validation*. Their initial objectives -"the reorganization of farms, as part of the establishment of more productive agriculture, and the setting-up of young farmers"- have developed to fully take into account present concerns of territorial development and of nature protection. In 2012, the 26-region based Safer were still buying about one third of accessible surfaces on the French land market, and redistributed the same amount of agricultural land. (<http://www.safer.fr/avec-safer-dans-but-interet-general.asp>)

Annex V: Analysis of the Vegetable Subsector in RS and BiH

1. On the basis of the request to further assess the viability of the vegetable subsector, and especially RS specificities, a more detailed analysis of the vegetable subsector in the RS was undertaken.

The potential of the vegetable sector for pro-poor inclusion

Production of vegetables in RS and BiH

2. Vegetable production in BiH is a quite modest. Vegetable crops in BiH covers 75 000 ha what is around 14 % of total sown area. Annual production of vegetables in BiH from 2011-2014 is between 676 109 t in 2011 up to 507 365 tons in 2014. Republika Srpska contributes to BiH overall production of vegetables with around 45 %. The most important crop in BiH is potato with share of 59.2 % of total vegetable production.

Table 20: Comparison of Vegetable Production in BiH and RS (in Tn.)

	BiH	RS	BiH	RS	BiH	RS	BiH	RS	% of RS in BiH
	2011	2011	2012	2012	2013	2013	2014	2014	2014
Potato	412696	175033	299935	124133	371141	146735	300408	134797	44.87
Carrot	20693	4065	13698	2854	23141	3515	19985	4557	22.80
Onion	39909	11749	32890	10262	39739	9652	33346	7906	23.71
Garlic	5649	2488	4849	2311	6649	2439	5115	1936	37.85
Bean	11873	4819	9395	4335	12643	6053	9435	4549	48.21
Peas	3305	2254	3035	2182	4369	3400	3352	2392	71.36
Cabbage	72391	26924	62079	29379	69622	37580	59972	27915	46.54
Tomatoes	45942	18734	44021	23709	56.03	24533	29307	12580	42.92
Green paper	37071	24118	35384	23543	38524	25801	28638	17908	62.53
Cucumber and gherkins	26580	12233	23201	12856	27876	15201	17807	8940	50.20
Total	676109	282417	528487	235564	593760	274909	507365	223480	44.05

Figure 2: Production of vegetables in BiH and contribution of RS 2011-2014

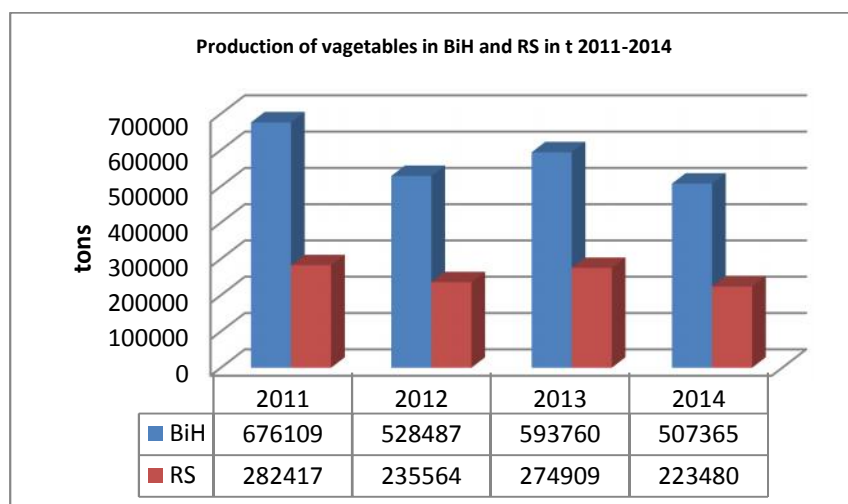
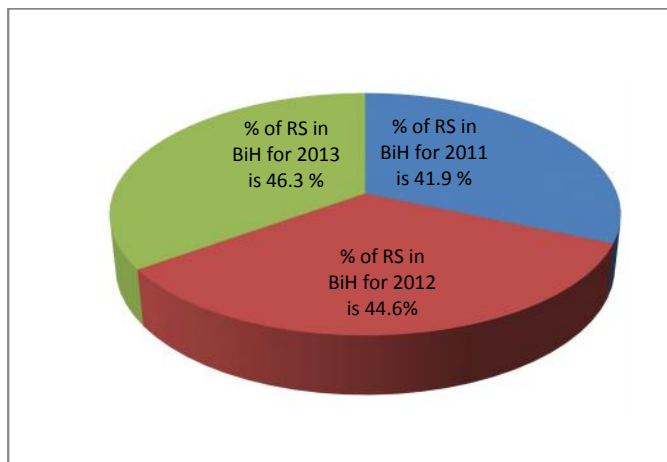


Figure 3: Share of RS in overall production of vegetable in BiH 2011-2013



3. In RS vegetable crops covers around 31 000 ha what is around 10 % of total sown area¹³⁸. Most important vegetable production in BiH and RS is situated in the valley of river Vrbas (region Lijevece field) and Sava River, Semberija region. These two regions have excellent soil conditions and plenty of unpolluted water for intensive vegetable production, both on open field as well as in greenhouses. In these regions production of vegetables in the open field is traditional activity.
4. In other regions of RS and BiH open field vegetable production is not so well developed due to lack of: (i) high quality soil; (ii) water for irrigation; and (iii) knowledge and marketing channels. However, in these regions development of vegetable production in greenhouses is pretty obvious; many small scale farmers or part time growers started vegetable production in greenhouses to generate additional income.
5. Lijevece area, with its municipalities Gradiska, Laktasi, Srbac and Semberija region, together with Bijeljina, are the most important vegetable production region in RS and BiH. Beside these two regions, Capljina and Stolac municipalities, in Hercegovina are the most important vegetable growing areas in FBiH. In Herzegovina region majority of vegetable production is concentrated in greenhouses.
6. Gradiska, Laktasi and Bijeljina municipalities contribute with 41% of total vegetable production in RS.

¹³⁸ There is no updated statistical data available on vegetable production in greenhouses.

Figure 4: Map of vegetable regions in Republika Srpska

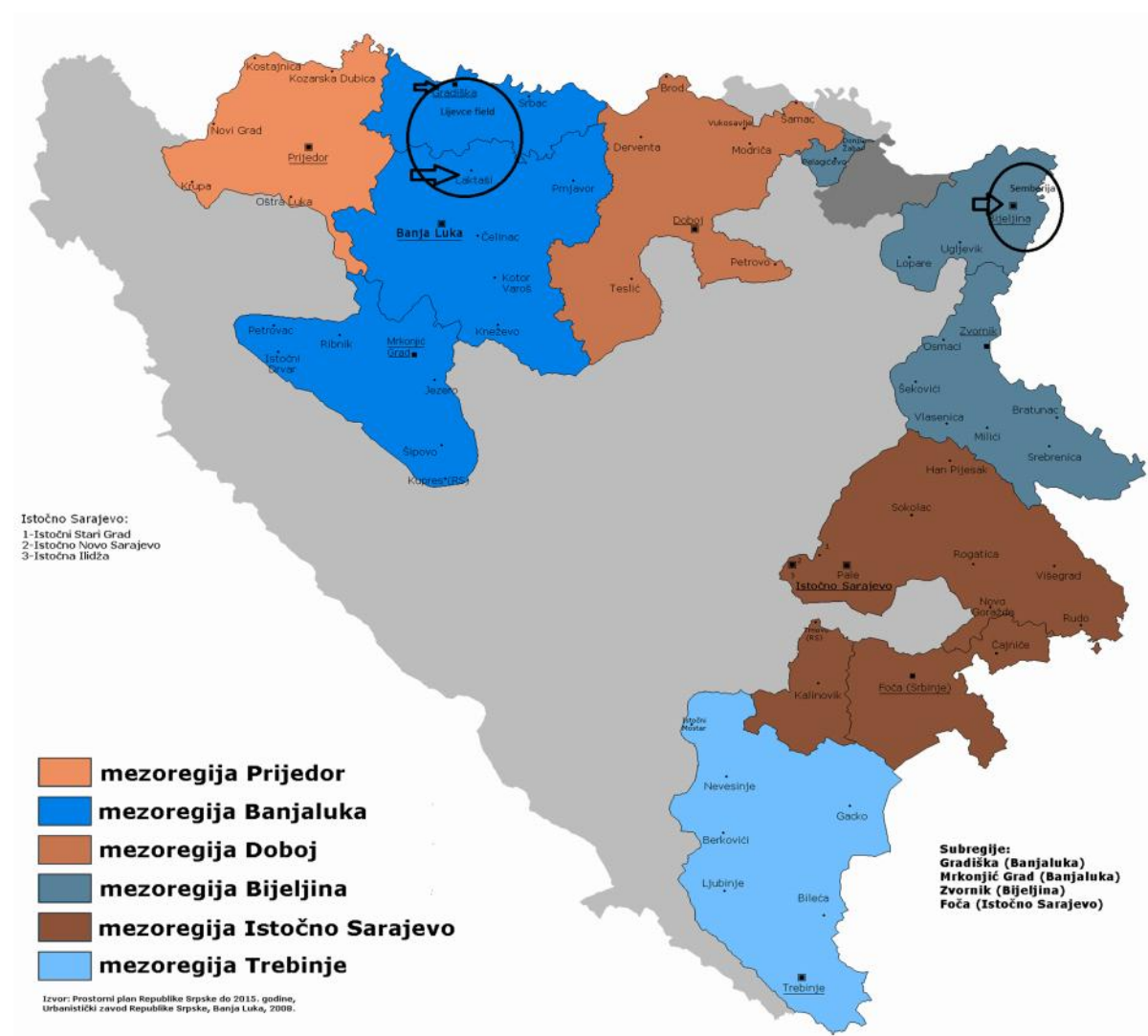
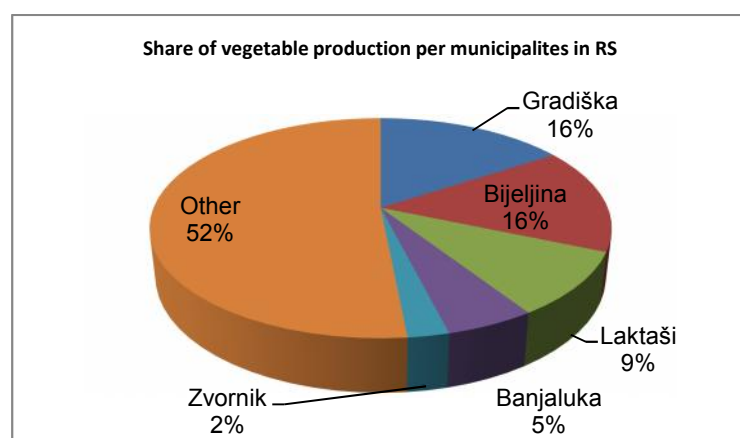


Figure 5: Share of vegetable production per municipality in RS



7. The most common vegetable crops in the Lijevce field are: potatoes, onion, cabbage, tomato, watermelons, melons and cucumbers. In the Semberija region the most common crops in the open

field vegetable production are: cabbage, watermelons and melons, paprika, potatoes, cucumber and tomato.

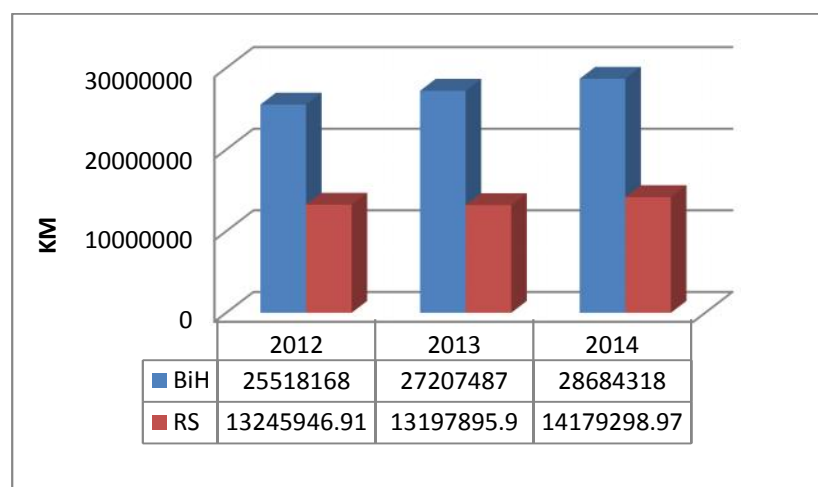
Export–Import of Vegetables

8. Balance supply calculation shows that BiH import only 10% of total consumption of vegetables but in the reality we import much more. This is due to fact that 59 % of vegetable production is potatoes. According to Ministry¹³⁹ of Foreign Trade of BiH only self-sufficient production is production of potatoes and cabbage. BiH is net importer of vegetables both for processing and fresh consumption.

Table 21: Supply of vegetables, 2011-2014

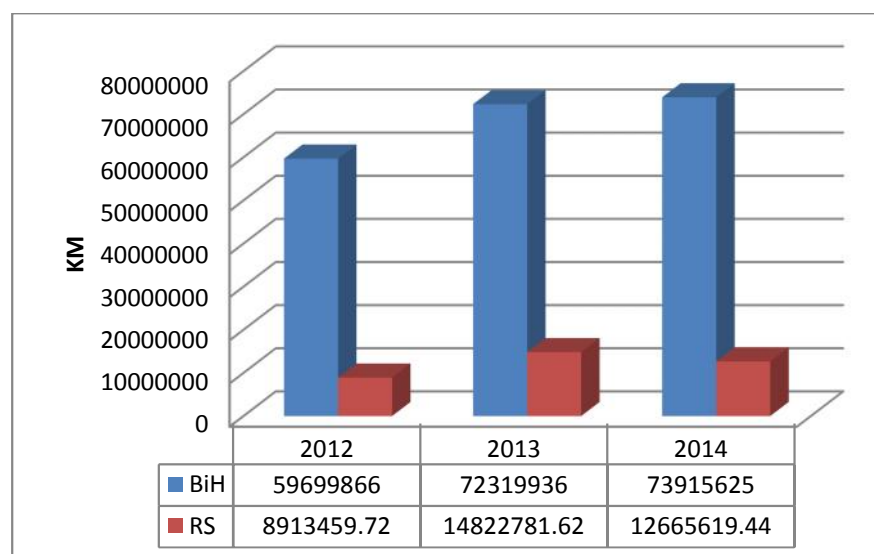
BiH	2011	2012	2013	2014
Production in t	676.109	528.487	593.760	507.365
Import in t	69.539	69.926	67.695	81.914
Export in t	53.125	13.258	13.861	10.432
Supply	692.523	585.155	647.594	578.847
Export/Import	76.41	18.96	20.47	12.74
Export/Production	7.86	2.51	2.34	2.06
Production/Supply	97.63	90.35	91.69	87.65
Import/Supply	10.04	11.95	10.45	14.15

Figure 6: Total export of vegetables from BiH and RS in KM 201-2014



¹³⁹ Annual Agricultural Report

Figure 7: Total import of vegetables from BiH and RS, 2012-2014 (in KM)



9. Export-import data of peppers/paprika, onion, cucumber, tomato and salad show that all these crops are mainly imported, with the exception of salad, representing 33,5 % of total vegetables imported in 2013/2014. These are crops that can be grown in open field during season and greenhouses year round.

Figure 8: Export-import of certain vegetable crops in BiH, 2013 (in KM)

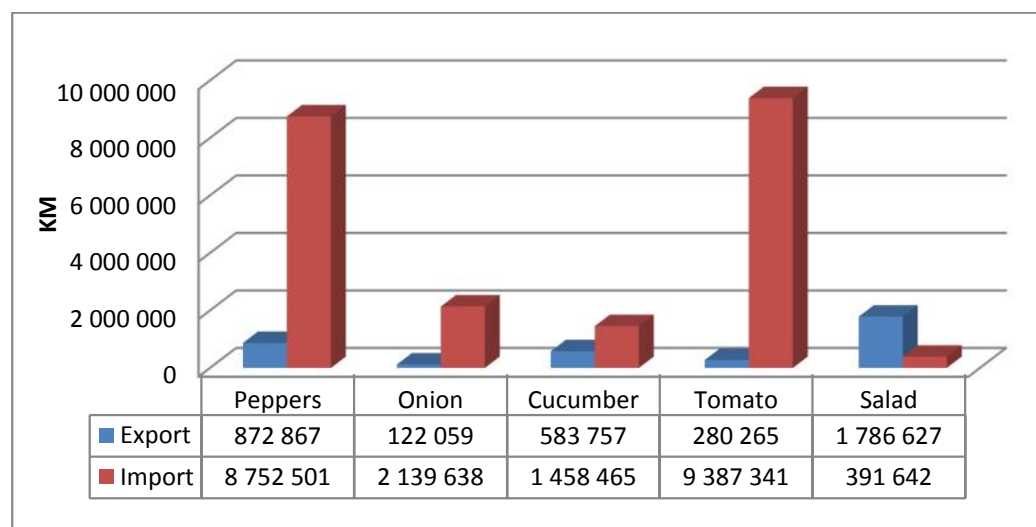


Figure 9: Export-import of certain vegetable crops in KM, BiH 2014

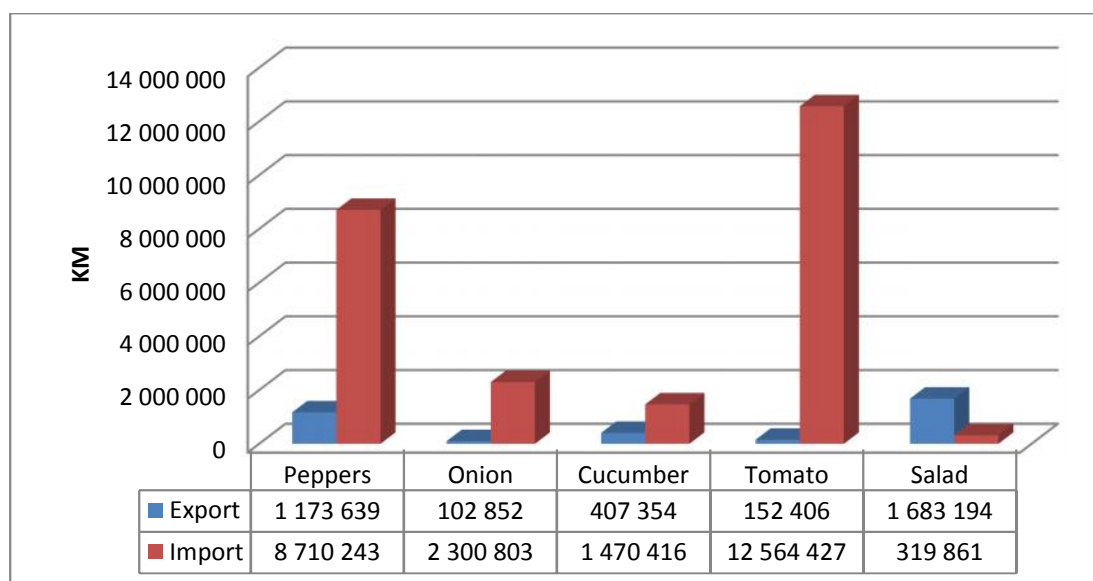


Figure 10: Export – import of certain vegetables in in KM, RS 2014

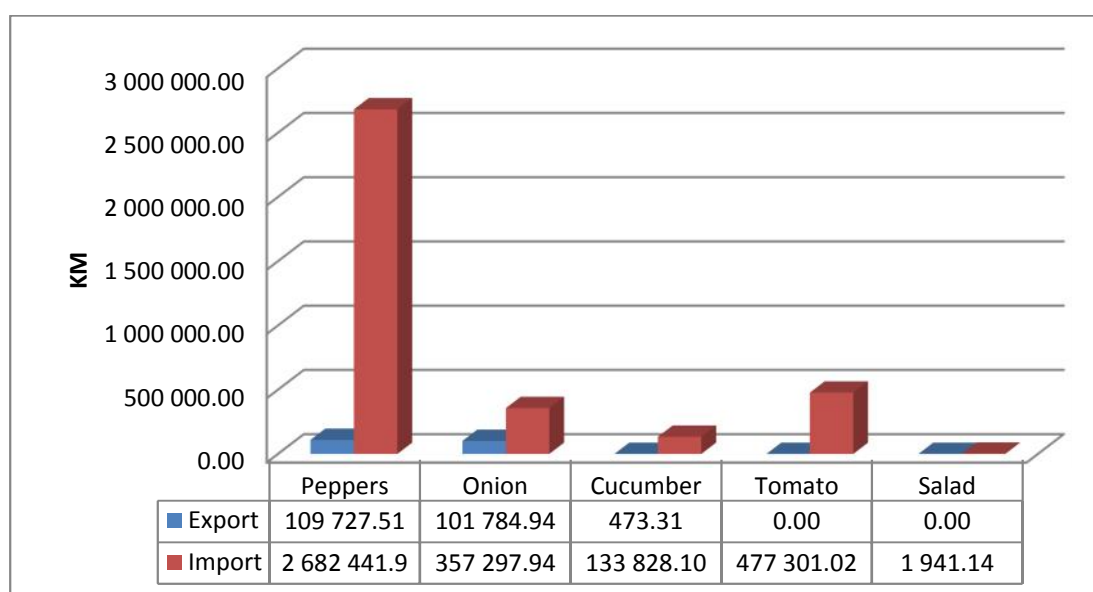


Table 22: Vegetables export–import, BiH 2012-2014 and share of RS in total export-import 2012-2014 (KM)

Year	BiH export	RS export	% of RS export/ BiH export	BiH import	RS import	% of RS import in BiH import
2012	25.518.168	13.245.947	51.91	59.699.866	8.913.460	14.93
2013	27.207.487	13.197.896	48.51	72.319.936	14.822.782	20.50
2014	28.684.318	14.179.299	49.43	73.915.625	12.665.619	17.14

10. According to the official statistics, the RS's share in exports is about 50% of the total vegetables exported by the BiH, while RS's share in import is about 20 % of BiH's total imports.

Typical farming systems among small-scale farmers.

11. In RS only registered farmers can receive subsidies and incentives from the Ministry and municipalities. According to official data from the Ministry of Agriculture of RS, there are 5 769

registered vegetable growers in Republic Srpska. Among them, there are 4 022 non-commercial farmers and 1 747 commercial farmers. In total 501 registered vegetable farms has more than 1 ha of land, which is less than 10 % of all farms in RS. Only 191 commercial farmers has farm size >1 ha. Therefore, 90 % of registered farms belong to the small-scale farmers.

12. Due to climate change, the weather has become increasingly unpredictable and more extreme. Because of extreme¹⁴⁰ weather conditions in the last decade, many professional vegetable growers have shifted production from open fields to greenhouses. It has become too risky to produce some crops like tomato, paprika and cucumber on open fields. Furthermore, production in greenhouse requires less land and it can generate higher income than traditional open field production.

13. In principle, there are two main farming systems in vegetable subsector of RS:

- i) A more traditional farming system that is common in traditional agricultural areas, mainly in Lijevce polje and Semberija. In these areas most farmers produce vegetable on the open field at the farms size from 2-15 ha. Farmers mainly produce crops such as potatoes, cabbage and onion, which they can store on the farm, in basic storage facilities. These crops are main crops in more traditional farming systems, but the farmers also produce in lesser extent cucumber, tomato, paprika, watermelons, melons, eggplants and other crops, produced in smaller plots (up to 1 ha), except watermelons. These are the farmers that have more recently incorporated vegetable production in greenhouse between 500 m² up to 10 000 m² in size. In most cases, farmers market their products directly in local green markets or to wholesalers and exporters. In few special cases, farmers also supply supermarkets or final consumers. This farming system requires important investments in agriculture machinery, irrigation system and land;
- ii) Farmers grow vegetables on small mix farms (0.5-2 ha) for their own needs. This farming system can be found in other rural areas of RS and BiH. This is common to almost every rural household. Recently some of these mixed-production farmers incorporated greenhouse for vegetable production in order to generate additional income. Greenhouses are usually 300 m² up to 1 000 m² in size. There are two patterns of vegetable production in greenhouses: (i) growing a single crop, mainly tomato or paprika from February/March until October/November; and (ii) growing three crops during a single season: early cucumber for salad, then continues with late tomato or paprika, and then with onion, spinach and lettuce over the winter.

14. Which one of these two farming systems predominate depends on different factors like market, possibilities for greenhouse heating, climate conditions, farmer's skill, and so on.

Most competitive vegetable crops and varieties

15. It is apparent that extreme weather conditions, lack of large surface of high quality land and big investments in agriculture machinery, irrigation system, storage capacities etc. play a role in the farming system used by farmers. It is clear that production of certain vegetable crops at greenhouse is a viable alternative for a small-scale farmer. This system has advantages; it doesn't require large investments and working capital; it can be established in a small plot of land within small-scale farms; it doesn't requires expensive and complex machinery; it generates significant additional income for small-farmers; it is labor intensive production therefore it is an opportunity for using family labour more efficiently and increase employment in the rural areas; it minimize the risk; is more environmentally friendly as it makes a more efficient use of water, pesticides and fertilisers.

16. In line with RCDP's approach, the challenge is to integrate these smallholder farmers in the value chains and link them to the market. Greenhouses and the crops planted by smallholder farmers increase competitiveness, which needs to be accompanied by better and more efficient production techniques. A proved alternative is integrate farmers to cooperatives organisations and agribusiness, increasing access to market and allowing them access to wholesale and retail markets and to inputs

¹⁴⁰ Floods in 2014, extreme high air temperature and dry season in 2003, 2007, 2012 and 2013, hail 2014, early frost 2012.

pre-financed by those actors. There are some cooperatives the likes of PZ ViP Krajina, ZZ Srbac, ZZ Agrojapra, and private companies like Ital voce, Mamex, Agrofucturs) that connect farmers with market of fresh vegetables. There is also the alternative to link poor farmers to processing companies like Sava-Bijeljina or Vitamnika – Banjaluka through cooperatives and PAs.

17. As shown by export-import figures, import of certain crops, such as paprika, tomato, cucumber for salad is very high, therefore production of these crops in greenhouses can be organized for local market to substitute imported vegetables.

18. There some trends that can be projected according to available data and expert's opinions. It is clear that production of vegetables in greenhouse has a certain advantage in relation to the open field production, but the selection of the most competitive vegetable crops for production in greenhouses is key question to answer by farmers, who had to make their own decisions. Technicians usually recommend in these cases to prioritise hybrids instead of varieties. Although hybrids seed are more expensive than varieties, yields is 50 to 70 % higher that production from varieties. Therefore, high quality production of hybrids and varieties of tomato, paprika and cucumbers for salad is also an option. The general rule "early is always better" is always true, though late production is becoming an interesting option. If farmers have heating systems in greenhouse then production of three crops during the year can be organized. Beside paprika and tomato, a second and third crop could be lettuce, onions, spinach and mangold.

Market actors, including cooperatives, PAs and the private sector

19. **Farmers' commercial operations** can be conducted in three ways: (i) farmers' green markets or individual on-the-road retail outlet for local short value chains (ii) collection points in a contractual organization¹⁴¹ in longer export value chains, but (iii) many farmers use the services of registered (including Cooperatives) or un-registered (black market) collectors that take the produce at the gate of the farm. **No local commodity exchanges**¹⁴² are organized, and the local fairs, which are presently interestingly developing with the help of donors, are mainly exposition meetings, aiming at establishing

20. **Farmers.** According to available data there are around 5 769 vegetable growers. Around 90% of all farmers have less than 1 ha of arable land. In general, vegetable growers in RS belong to the group of small-scale farmers. Farmers mainly produce vegetables for fresh market, but some of them are producing for processing industry especially in areas of Semberija and Lijevce polje. The lack of knowledge in modern production technics, lack of investment and working capital and weak integration into markets are seen as a major obstacles in further development of vegetable production in RS.

21. **Input suppliers.** This group is very well organized and market oriented. While farmers in RS have many different agricultural inputs available from the suppliers (pesticides, fertilizer, machinery, irrigation systems, etc.), one of the major obstacles is the very restrictive regulation in place for the import of seeds. Authorities at BiH level have setup a list of varieties that importers can import. Only certain hybrids or varieties that are in the list can be imported.

22. Input supply, cost and availability of fertilizers and plant-protection products, is an important concern for farmers, leading farmers to enter vertical integration systems. There are very few examples of organized farmers taking in charge bulking of commands for input supply. It should be stressed that (a) development of organic production and notably the use of locally produced organic fertilizers could reduce these costs and enhance input local availability, (b) resort to local varieties, particularly for berries production¹⁴³, more adapted to local soil and climate conditions, and presenting

¹⁴¹ Or even the food processor's gate, if the commodities are close to the farm.

¹⁴² Organized trading points for farmers, in particular for NTFPs and mushrooms, some kind of "open outcry markets".

¹⁴³ BiH host many endogenous endemic varieties of berries, particularly raspberries, which are kept in the University of Sarajevo's collections, by the Balkans expert for berries, Dr Adnan Malicevic. Currently he lacks funding to develop systematic testing of these varieties for their compliance with processors requirements and DNA sequencing to make them available as "open source".

a greater hardiness towards diseases, could also allow for a less intensive use of inputs, and thus reduce farmer's need of external funding. **Input suppliers** are of three main types: (1) berries nurseries and seedlings providers are essential, to meet the buyer's demand of specific varieties. H&H Fruit, a private actor from Bugojno, has risen to a quasi-monopole in primary production of imported varieties' seedlings and is supplying the whole country. Seedling multiplication can be undertaken by private companies or in some case by (buyer-driven) cooperatives, within the in-kind credit system described above, (2) chemicals - fertilizers and soil conditioners, and phytosanitary treatments - are provided by private companies, (3) development of organic fertilizers production could be a source of both local value-added and employment. This latter issue should be seriously considered as the alternative of organic production could be durably lost if a widespread use of chemicals is made in the selected VC.

23. **Service providers.** Service providers in RS are public (the Agricultural Advisory Service and the Agriculture Institute), private (Freelance consultants or agronomist who are working for pesticide and fertilizer distributors companies) and semi-private (the Chamber of Commerce and Associations of Cooperatives), which are partly financed by membership fee and somehow by government. In general, overall support of service providers is not very well organized and structured and so farmers do not receive regular trainings and technical assistance. It has also been questioned how often advisers and agronomists update their own knowledge. Two curricula should be developed if quality services are expected from service providers: (i) training of trainers organized and improved; and (ii) specific training of farmers. Knowledge and expertise do exist in the country to implement these activities.

24. **Farmers Associations.** In RS there exists an umbrella organization of vegetable growers, located in Laktasi with the main function of lobbying for the interest of its growers. Besides, Entity association and few local and regional associations exist in Bijeljina. Lack of management capacities and reduced interest of farmers to associate are seen as the bigger obstacles for further development of this kind of associations.

25. **Cooperatives.** According to data from the association of cooperatives, in RS are around 320 cooperatives, though only 120 of them are currently active and only some of them are active in the vegetable sector. The most important of them are: Agrojapara, Novi Grad, ZZ Sr bac, Sr bac, PZ ViP Krajina, Gradiska, OPZ, Agro-Una, Novi Grad, ZZ Vocar, Zvornik, ZZ Brka-Brcko, OPZ Tarevci, Modrica, PZ Povrtlar - Bijeljina. Main function of these cooperatives is to link farmers with markets, supply agricultural inputs and provide advice to their members. Cooperatives like PZ ViP Krajina exports potato, cabbage and other vegetables to neighboring countries, ZZ Sr bac supplies local market with fresh vegetables, ZZ Vocar organizes production and export of gherkins and ZZ Brka and PZ Povrtlar organises purchase of vegetables from growers and supply processors. Lack of management and marketing skills, weak market orientation, reduced interest of farmers to join cooperatives, are seen as biggest obstacles in further development of cooperatives.

26. **Wholesale market and wholesalers.** Main wholesale market players are located in Arizona, Brcko, Sarajevo, Banjaluka and Capljina. Arizona wholesale market is the main wholesale market in BiH, where the most important importers and wholesalers can be found. Importers and wholesalers have booths on these markets and supply local retail market. Farmers also sell their vegetable produce on these markets but they not always have the booths in good locations within the markets. These wholesale markets are very important outlets for farmers and they are at the moment the most important marketing channel for them. In general, all these wholesale markets have very deficient infrastructure (in cooling house facilities, water supply, roads etc.). Sometimes, it is very expensive for farmers to enter the markets as high fees or lack of time to spend in the market.

27. **Processors.** Processors are very important actors in the universe of vegetable sector actors as they are the ones purchasing huge volumes of produce and are not so demanding in terms of quality. Most important processors in RS are: Vitaminka in Banjaluka, Sava in Bijeljina, Tanasic in Bijeljina, Spektar drink in Bijeljina, Mladeks pak in Prnjavor, Fructa trejd in Derventa, Eko-bel in Banjaluka, and Balatunka in Bijeljina. Each of them process between 1 000 -5 000 tons of vegetables annually.

28. Processors are always complaining they cannot get enough vegetables on local market. But they are not willing to work with large number of small farmers so they are trying to deal with reliable cooperatives and private companies that can supply them volume and quality of vegetables. Lack of enough quantities of vegetables and appropriate business partners (suppliers) on local market are seen by local processors as the biggest obstacles for expansion.

29. **Retail markets.** The importance of traditional small shops/outlets and fresh green markets in the food retail sector is decreasing. Supermarket chains are slowly taking over the place of main suppliers in food retail markets. It is estimated that market share of supermarkets chains is around 45 to 60 %, with the rest going to small shops and fresh green market. Supermarkets are constantly looking for reliable suppliers and this is an option for small farmers but they have to adapt their operations to the requests of main market actors. The most important retailers in RS are: Konzum, with around 25 % of market share, Tropic & Moj Market, with 10-15 % of market share, Bingo, with around 10 % of market share, Robot, with 5 % of market share. Cort, AS market and Duric are regional supermarkets. A lack of local reliable suppliers is seen as the biggest constraint for the continuous supply of local vegetables to supermarkets.

30. **Consumers.** Most of the vegetables in RS can be found on market shelves all year round, but consumers are strongly season-oriented when it comes to consumption of fresh and processed vegetables. Furthermore during winter time, consumers prefer processed vegetables. Many families are still doing home processing of certain quantities of vegetables for home consumption during winter time. For the consumers in RS, the most important feature is price, looking usually for the cheapest product in the market. There are also certain preferences for locally produced vegetables like “Hercegovacki tomato”, “Glamocki krompir”, “Vitaminka ajvar” etc. BiH consumers also prefer large size vegetables. A weak sense of local consumers to buy locally produced vegetables and the poor visibility local vegetables have in store shelves are to important constraints for improving consumption of local products.

31. The **Ministry of Agriculture, Forestry and Water Management RS.** Besides policy, regulatory and law making role, the Ministry directly provides public advisory service, subsidies to farmers and incentives etc. In any further development of vegetable production the Ministry should play key role.

32. **Financial institutions:** Banks’ loan policies are not directed towards farmers’ financing needs issues and apart from MFIs, loans seems to be mostly available to processors. The main limitations for farmers’ access to credit relate to collaterals availability, value and farmer’s willingness to risk them, followed by the high cost of credit. Some MFIs value the backing of a “recognized” FO (e.g. Cooperative) in assessing the creditworthiness of farmers. Credit lines opened through projects have sometimes proved to be effective and to have allowed some testing of methods, but remain highly questioned. PAs or Cooperatives willing to engage in commercial operations will need “collection credit” and the warranting of stored products should contribute to tackle the working capital concern. The promotion of such a new product would require intervention of high-level professional in this banking sector.

33. Access to conventional bank credit (see below) is limited for smallholders, and this situation reinforce the attractiveness of the integration model, when proposing in-kind credit system.

34. **Education.** There are two agriculture faculties in RS, one located in Banja Luka and the second one in East Sarajevo. Both faculties have curricula for vegetable growing but the education programs in both Faculties should be more practical and market oriented.

35. **Natural resources.** Apart from funding problems, producers face two opposite categories of climate risks: draught and flooding. Water supply is problematic in many parts of the hilly landscape of BiH, mainly constituted by a dry limestone plateau, and establishing plantations along the narrow banks of the rivers is a risky solution to make irrigation cheaper, as rivers are prone to overflow¹⁴⁴.

¹⁴⁴ Nevertheless, irrigation facilities solutions have been tested, notably with IFAD’s Renewable Energy Technologies grant funding that could be affordable for organised farmers.

Relations between actors and global strategies

36. **Working capital requirement** is another key asset in a context where operating loan is not easily available: availability of capital (to pay the suppliers) and ability to lend some in cash or kind is an efficient way to create strong links between actors and to mark one's dominance. Despite the unsatisfied demand of market, relations between processors do not seem to be an intense competition for products. When bargaining with farmers, processors and collectors refer to a reference price settled by foreign buyers at the start of the harvest campaign. This cannot be treated as a cartel-like organisation and in the meantime, there does not seem to be a "collection-zone fixing", as it has been noted that several buyers' supply zones can overlap.

37. Public authorities tend to see processors as private social "peace-keepers", because they generate a flow of money and jobs on their territories. This situation allows processors to get good investments conditions (land, co-financing or subsidies) from Municipalities, which seem not always to be met for cooperatives wishing to develop their activities¹⁴⁵. Nevertheless, the absence of intermediary bodies -such as Farmers Organisations- jeopardize the long term social stability in local communities and in the country, and Municipality awareness should be raised on these issues, to foster their contribution in supporting Cooperatives and FAs growth.

Macro level: Entity and State level

38. A thorough study of the macro level of the subsectors VC will not be made here, but some interest points for the RCDP will be raised when necessary. **The institutional complexity** is a challenge in BiH due to the variety of key administration bodies involved in the agricultural administration. The respect of the subsidiarity principle and a good coordination between the two entities are required to make this system effective.

39. **Research Institute and Certification services:** quality and sustainability at stake along with a sense of sovereignty. Qualified professors and their team can be found in the Agriculture Universities but their operating funds rely heavily on donors, inducing some biases in research themes¹⁴⁶. On another hand, it has not been possible to identify a clear chain of certification to guarantee to farmers to buy virus-free seedlings, nor the procedures to get such a certification.

40. **Unions of FO:** umbrella organisations for FOs are not yet developed, as FOs themselves are only emerging. In some cases, with the help of projects or LEDAs, seedlings of an umbrella organisation might be fostered around the project of an agricultural fair. **Apex Cooperative Organizations** exist at the three levels of BiH. Cooperative Union of Bosnia Herzegovina (BHCUCU) is the state level apex cooperative organization: they have a limited representativeness as they regroup around 20% (less than 100 coops) of the 550 BiH Agricultural Cooperatives¹⁴⁷, this figure is however more significant compared to the estimated 150 active Cooperatives. They have the delegated responsibility of auditing cooperatives, and the two entity cooperative unions claim the same objectives and functions of advocacy and lobbying for their members at their respective entity level, together with education, information and capacity building trainings, although the extent to which they fulfil them is not evident. As an apex organization, BHCUCU has the authority to work with the national government to pass laws that regulate cooperative practices and to set standards for auditing cooperatives. It also represents cooperatives abroad and collaborates with international organizations.

Infrastructure

41. Farmers have more opportunities to successfully access to the market are bigger when their products are supplied out-of-season, supplying early production and late production, when prices are

¹⁴⁵ Oral communication, VIP Krajina Vegetable Cooperative, RS, November 2014.

¹⁴⁶ For example, in the berries VCs, the Butmir Centre near Sarajevo has implemented its research programs mainly through USAID and SIDA-funded FARMA program, which mainly focused its work on new imported varieties, and has not exploited the collection of well adapted endemic varieties that they possess, and which might be of interest for economical and sustainability issues.

¹⁴⁷ The Republic of Srpska Cooperative Union (RSCU), which regroups 64 agricultural cooperatives, or the Federation of BiH Cooperative Union (FBIHCU), which regroups no more than 30 agricultural cooperatives, amongst 78 members.

higher. So any actions supported to help farmers to access to out-of-season markets should be promoted. Farmers of vegetables that produce in greenhouses without heating can also supply out-of-season markets, but heating facilities could help them to supply the markets even earlier, about 10 to 15 days earlier. With heating they can also extend production for 15 to 20 days so they can supply the market later than usual. Greenhouses with heating do not abound in the area as they demand large investments but access to heating facilities allows farmers to move to more specialised productions, like seedlings. Usually, common investments in heating system cost around 1 000 to 2 000 USD for a 500 m² greenhouse. To get early harvest in greenhouses without heating facilities, farmers are using different techniques like double folia, covering crops with folia etc. all of which are available in the market.

42. Drip irrigation systems in greenhouses are a must. Water pump on electricity, efficient water supply from wellspring is necessary for farmers to have successful vegetable productions. Cost of irrigation system are around 1 000 USD for 500 m² size greenhouse.

43. During early harvest, farmers go directly to the market; there is no need to keep tomato, paprika or cucumber in storages. Farmers deliver products to clients or on wholesale market already ideally packed: tomato is packed in wooden boxes (10-15 kg), paprika to carton boxes (10 kg) and cucumber in nets (10 kg).

44. In the peak of the season, during hottest summer days, it is necessary to keep vegetables in cold storages, but unfortunately farmers and cooperatives do not have appropriate cold storage facilities. Wholesale markets do not offer cold storage facilities either. This is one of the reasons post-harvest losses are quite high (up to 20 % in several cases). It would be an ideal situation if farmers could store vegetables in cold storages for a few days, during season peak until a buyer is found. Investments in cold storage capacities for around 25 tons production is up to 15 000 USD. It is for that these investments are more appropriate for cooperatives.

45. Some clients, especially at the export markets, request uniform quality in size, color, variety, shape etc. therefore grading and sorting equipment is necessary. Most of the vegetable farmers and cooperatives do not have equipment for grading and sorting equipment. Very simple equipment costs around 1 500 - 2 500 USD. Usually, processing companies like Vitaminka, in Banjaluka, Sava, in Bijeljina, Tanasic, in Bijeljina, Spektar drink- Bijeljina, Mladeks pak in Prnjavor, Fructa trejd in Derventa, Eko-bel in Banjaluka, Balatunka, in Bijeljina have all the necessary equipment. However these companies have reported that in some cases they do not have enough working capital for a timely payment of vegetables to farmers. Furthermore processing companies do not have enough working capital to pre-finance vegetable production to farmers either. There are group of farmers interested to produce vegetables for processing companies but they do not have enough money to invest in production. Investments in 1 ha of open field production of paprika or tomato for processing industry is around 5 000 USD.

46. Harvesting cost of tomato is a major constraint of tomato for the processing industry. The price of 1 kg of tomato for the industry is 0.18 KM, while harvesting cost is almost the same.

47. Most of supermarket chains have small cooling facilities to keep vegetables for a few days, although vegetable manipulation is still a bottleneck to ensure quality, with workers not handling vegetables properly and causes damages. Supermarkets try to write-off damage products to suppliers which leading to different conflicts among them.

48. Marketing standards for fresh fruit and vegetable do not exist in BiH, like in the EU countries. Farmers, wholesalers, retailers very often do not have common understanding of high quality vegetables. Farmers pack vegetables by themselves following common practices that do not take into account market standards, creating lots of misunderstandings and conflicts among sellers and buyers. In B2B, market reliability is at the core of the business. Delivering products on time, with appropriate quality and in quantity is a must for professional buyers. Many farmers are not able to fulfill these requirements due to their lack of marketing skills.

Entity/municipal subsidies and eligibility criteria for the vegetable sector.

49. In RS farmers can get incentives and subsidies from the Ministry of Agriculture and municipalities but only if they are officially registered. Every registered farmers get certificate and an identification number. The database of registered farmers is administered and updated by the Agency API. Each registered farmer has the status of commercial or non-commercial farmer. The Ministry of Agriculture has issued official guideline and criteria which define commercial and non-commercial farmers. Basically, commercial farmers have to pay health and social insurance; non-commercial farmers have to pay health and social insurance as well, but the rate is lower.

50. Commercial farmers collect higher incentives and subsidy from the Ministry, up to 30 % in average, while non-commercial percentage is up to 10-20 % in average. Specifically, the Ministry of Agriculture RS provides incentives for the purchase of agriculture machinery, construction of greenhouses and cooling facilities, sorting and grading equipment, irrigation systems, etc. To purchase this equipment, vegetable growers can get subsidies up to 30 % of their price. The Ministry also provides subsidies to produce potatoes, cucumbers, peppers, tomatoes, onions, carrots and beets.

51. Municipalities also provide certain subsidies and incentives for vegetable production, but this varies between municipalities. In most cases, poor municipalities like Bratunac or Milici do not provide any subsidies. Municipalities like Kotor Varos or Celinac provide limited subsidies, while municipalities like Banjaluka, Prijedor, Gradiska, Bijeljina, Laktasi, provide different subsidies to support vegetable growers. In general, most of municipalities subsidies construction of green houses with 0,5-1 KM per m², agriculture machinery and irrigation systems (Municipalities subsidies to purchase this equipment amount to 30 %-40 % of their costs). Finally, the municipality Bijeljina also provides subsidies for tomato with 0.03 KM per kg sold to processing industry.

Annex VI: Analysis of the Berries Subsector in BiH

Overview of the berry sector in BiH

1. Various plant species are classified as part of the berries sector, including strawberry, blackberry, raspberry, blueberry, forest strawberry, cranberry, aronia (black chokeberry), currants, gooseberry, and other wild varieties.
2. While this document in general speaks about the berries, the situation in the field is such that the raspberry production is strongly leading the sector. Strawberries are the second largest product in terms of production, and blackberries are the second major exporting product. However, quantity wise, raspberries are by far the most significant crop in the field and will be given focus throughout this document.

Production and demand at international level

3. A constant and ever increasing demand for berries (especially raspberries) exists amongst the more developed countries in the world, and particularly within Europe. This is because berries (esp. raspberries) are among the most deficient fruits in the world market. The current untapped demand exists simultaneously for high-quality fresh and processed berries. In brief, an overall high demand is met only partially by a limited supply.
52. Only within the EU, among the lead world importers, it has been estimated that around 250,000 tons of raspberries are imported on an annual basis. When considering that the EU is presently importing large quantities from Chile and China, the implicit transaction costs currently paid by EU consumers are high when accounting for cost of transportation, or even the carbon footprints. The rationale for long-term investments in the subsector is thus potentially justified to – among others – enable smallholders to meet the untapped market demand.
4. In terms of annual production, in 2013 Poland was the biggest producer and BiH was ranked as the 10th world raspberry producer.

Production in BiH

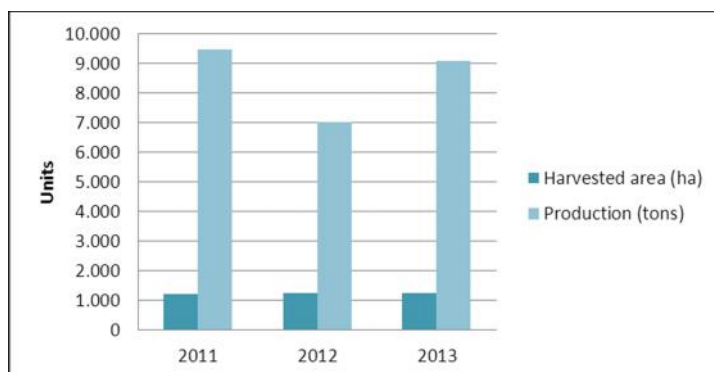
5. BiH offers generally favorable agro-ecological conditions for the production and expansion of berries, including the quality of land, climatic conditions, and water resources. Production statistics for the raspberries are provided below (Table 1), and graphically displayed in Figure 11. As can be seen by the table and graph below, while the harvested area has gradually increased over the last three years, yields have fluctuated with a steep decrease in 2012 (-35% from 2011 levels), and an increase back in 2013 (+29% compared to the 2012 levels). This fluctuation is mainly attributable to weather and climatic variations occurred.

Table 23: Raspberry production in BiH (2011-2013)

Fruit	2011		2012		2013		Index of production (t) 2013/2012
	Harvested area (ha)	Production (t)	Harvested area (ha)	Production (t)	Harvested area (ha)	Production (t)	
Raspberry	1,220	9,459	1,242	7,016	1,261	9,075	129.4

Source: Agency for statistics of BiH

Figure 11: 2011-2013 Raspberry production in BiH



6. Based on primary data collected from the field (and specifically from the locality of Željezno Polje), the average yield of raspberries per dunum amounts to 1,200 kg. Varieties usually comprise Willamette, Meeker and minor quantities of Polka. The average farm-gate price is at KM 3 to 3.20/kg (though it can be higher if the Polka variety is sold to through the fresh market channel). The opportunity identified through this analysis is for diversified variety production, which offers both a means to diversify the market channels (thus minimizing the risks of e.g. unsold produce) as well as to prolong the growing/harvest window. In the latter case, in fact, it should be noted that if the three different varieties are grown (even on a very small plot of land) the harvesting season is extended from mid-June to late September/early October. The profit computation conducted demonstrates that growing the three different varieties on 0.3 ha of land guarantees the equivalent of an average annual salary to any given farmer.

Demand at domestic level

7. Similarly to the untapped market demand dominating the international markets (the case has been made above for the EU), a growth in demand has recently been registered also within the domestic market. **Local markets and urban retailers indicate the recent increase in demand;** yet, a rapid survey was undertaken among Sarajevo supermarkets and the results showed that most processed berry products are currently being imported from neighboring countries. This, further aggravating the food import/export deficit in the country, and despite the richness in natural resources (and berries) characterizing the country. As a result of the participatory value chain analysis undertaken, one of the current players in the target municipalities has expressed the need for additional 60 tons of berries (Polka raspberry variety); this is just a small example of the currently unfulfilled demand that represents an untapped market opportunity for cooperatives as well as for new raspberry producers.

Trade-related data

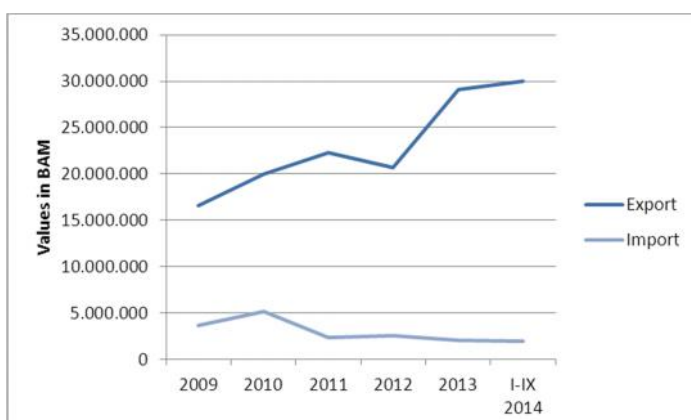
8. An analysis of the berries trade trends is here given, based on data by the BiH Foreign Trade Chamber (see Table 24 and Figure 12 below). A gradual increase in exports of berries has been experienced over the last six years, with only a slight decrease between 2011 and 2012. The increase between 2013 and 2014 was still experienced, though the percentage increase was inferior to that between 2012 and 2013, as a consequence of the severe floods and prolonged rains during the year. Imports, on the other hand, have steadily been decreasing over the past four years.

Table 24: Berries trade in BiH (2009-2014)

	2009	2010	2011	2012	2013	2014 (as of Sep)
Export (BAM)	16,553,086	19,946,142	22,268,666	20,730,449	29,054,093	29,974,426
Import (BAM)	3,652,354	5,099,757	2,341,527	2,538,150	2,049,063	1,915,674

Source: BiH Foreign Trade Chamber, USAID/Sida FARMA

Figure 12: Berries trade in BiH (2009-2014)



9. An ulterior analysis is made to assess which berry fruits are mostly exported, and how fresh and frozen compare with regards to total share in exports. Based on Table 25 below, it is evident that in 2013, most berries exported were frozen raspberries (69% of total value of exports), followed by frozen blackberries (13%), fresh raspberries and frozen blueberries (5% respectively), frozen strawberries (3%) and others.

10. When analyzing the fresh product channels, and also in this case based on export amounts in 2013, the highest ranking commodities are fresh raspberries (60% of total fresh export value), followed by fresh blueberries (25%), and fresh strawberries (15%).

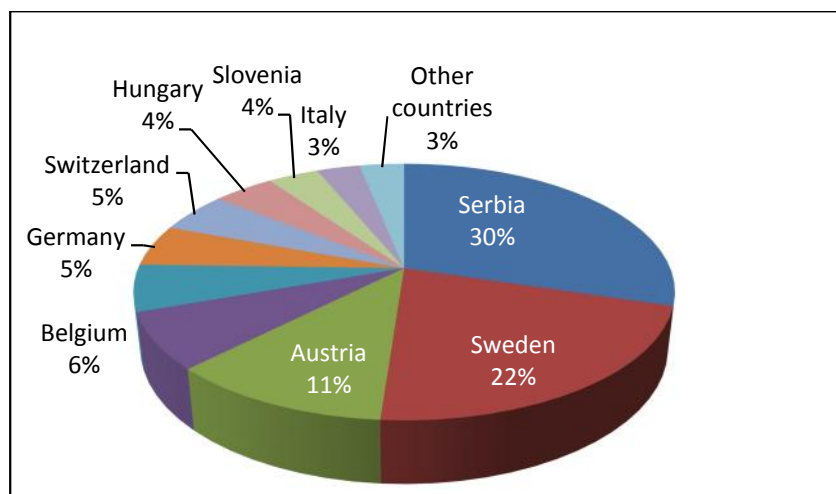
Table 25: Export of berries (sorted by export value as of 2013, in BAM)

Products	2009	2010	2011	2012	2013	I-IX 2014
Frozen raspberries	12,182,421	13,086,530	13,237,140	14,117,098	20,051,422	23,961,282
Frozen blackberries	965,866	1,580,635	2,452,472	4,083,684	3,672,340	1,184,734
Fresh raspberries	43,183	112,207	177,611	745,265	1,358,142	535,055
Frozen blueberries	1,085,990	4,240,141	4,408,961	487,156	1,334,049	1,689,825
Frozen strawberries	1,049,812	535,362	1,088,279	307,335	911,676	1,738,236
Fresh blueberries	202,938	270,986	573,492	288,012	572,470	157,610
Frozen red currants				382,058	457,448	401,289
Fresh strawberries	192,129	28,238	122,631	205,460	333,957	62,250
Frozen berries, other	733,281	31,486	39,863	6,516	261,905	208,756
Fresh blackberries			2,932	2,637	3,721	11,383
Other berries	97,466	60,557	165,285	105,228	96,963	24,006
Total	16,553,086	19,946,142	22,268,666	20,730,449	29,054,093	29,974,426

11. When it comes to analyzing the prices, fresh raspberries receive a much higher (export) price than frozen ones. Analysis from the field also reveals that with regards to cultivated berry varieties, the forest strawberries (*fragaria vesca*) are among the most profitable to farmers, an indication of the fact that expanding cultivation of these plants could help generate profits for smallholders currently engaged in other productions.

12. With regards to main trade (export) partners, Serbia was the largest exporter in 2013 (30% of total berries), followed by Sweden (22%), Austria (11%), Croatia (7%) and others. The figures are given in Figure 13 below.

Figure 13: BiH Berries - trade partners (2013)



Individual Quick Freezing (IQF)

13. Today's available processing technologies, especially grading, sorting and packaging facilities, have been set up by export companies as part of Foreign Direct Investments (FDI). Generally, with small and medium freezing facilities decentralized to be logistically closer to production areas, fresh berry chains remain to-date still uncoordinated compared to the IQF products.

Organic market

14. With a growing demand for organic products, supply of organic production remains to-date unstable and unreliable. In the words of exporters met, the frequency of non-organic chemical residues still remains high due to smallholders' limited agro-chemical management practices. Similarly to other market segments, the organic one offers high opportunities for further growth in the near future given the untapped market demand. Currently, companies have to rely on their own limited productions, clearly only marginally satisfying the demand available at domestic and international level.

FDI and longer-term contractual arrangements with berry producers

15. The analysis here undertaken, and evidence for the FDI in the berries sectors that has taken place in the recent years in BiH, attests for the fact that support to this sector, and to local producers, is likely to result in long-lasting solutions for the development of smallholders' producers. This given foreign companies' estimated investment cycles of 12 years. Potential scope for encouraging contractual arrangements between private companies and smallholder farmers needs to be explored, as well as an investigation for areas at policy level to facilitate the ease of doing business (and enabling environment) for private companies.

Price volatility

16. Price volatility is related to both production shocks and supply chain inefficiencies. However, in general, appropriate production and commercial strategies can help reduce prices variability and capture value for smallholders during different stages of the harvest.

Risk perception: an area requiring intervention

17. Supply chain inefficiencies derive from a less-than-optimal warehousing capacity, and low value addition capacity to capture value out of the berries with grades that are not sufficient for IQF industry. Many of the producers are first generation, and while this might increase the likelihood of adopting innovations, it is an indicator of uneven and often low agronomical capacities. One of the main bottlenecks is the perceived high risk of the primary production. The mindset shift from industrial employees to 45 years old smallholders is evidently not an easy one. Many farmers refer to their crops saying: "Agriculture is a lottery". The reduction of their risk perception will necessarily need

to go through an **increased technical education and training** and the support to make informed choices on their future position in the chain.

Zooming into FBiH

18. The information provided above depicts the situation at country level (vis-à-vis BiH's export partners), whereas this section takes a closer look at the situation specific to the entity of FBiH, to further complement the main findings from the analysis of the sector undertaken. With an ever increasing growth in processed berries exports, FBiH is succeeding particularly with regards to raspberries and strawberries¹⁴⁸. The main competitors at international level remain Serbia and Romania. Three main determinants for competitiveness are deemed to be the following: (i) rapid innovation adoption from first generation farmer, compared with lower adoption rates from competitors in the region, (ii) relatively small supply where opportunities for value addition and diversification can still harvest important economies of scale and scope, (iii) the relatively low presence of health hazards in exported berries compared to the issues recently experienced from Serbia, Poland and Romania (norovirus and Hep-A).

SWOT Analysis

19. This section derives some of the main conclusions reached from the analysis undertaken in FBiH on the raspberries sector (based on the "Strategy for increasing competitiveness and attracting investments in dairy and fruit and vegetables value chains in FBiH", July 2014).

¹⁴⁸ At country level, recent statistics place BiH 10th and 35th world producer for raspberries and strawberries respectively.

Table 26: SWOT Analysis – Raspberries sector in FBiH

STRENGTHS

- ✓ Good agricultural and ecological conditions
- ✓ Stability of yields and increased demand for locally grown fresh food
- ✓ Prevalence and increased demand for locally grown fresh food
- ✓ Availability of good quality seedlings
- ✓ Expenses are not too high (small farms do not use lots of chemical treatments)
- ✓ Possibility of moving to organic production (plant extracts with insecticide effects can be used)
- ✓ Cheap labor force
- ✓ Authorities are resolved to support the production and introduction of new technologies (irrigation systems, anti - hail nets) – Competent ministry supports strengthening of the production

OPPORTUNITIES

- ✓ Opportunity to use fruit in the production of sweets, juices and jam
- ✓ Production of traditional products
- ✓ Production with geographic origin
- ✓ Combining traditional raspberry products with opportunities in tourism
- ✓ Introducing modern technologies
- ✓ Possibility to engage young people during the picking season
- ✓ Availability of traditional varieties and genetic pool
- ✓ Current methods of production with limited inputs quite simply provide satisfying standards for having ecologically acceptable and organic production.

WEAKNESSES

- ✓ Small farmers are not eagerly forming/joining cooperatives and clusters
- ✓ Production for unknown buyers and low level of mechanization
- ✓ Fragmented farms (small volume of farm production)
- ✓ Range of products is not adjusted to industrial processing (deep freezing)
- ✓ Lack of certification and standards of good practice in agriculture which would guarantee safety to human health
- ✓ Nonexistence of a stable market and too much relying on seasonal sales on markets
- ✓ Lack of capacities for deep freezing
- ✓ Failure to comply with the long term strategy for agricultural development

THREATS

- ✓ Decline of prices in the area
- ✓ Seasonal fruit has short “life” unless it is processed
- ✓ Climatic conditions (issues with fallouts in the picking season-rotten fruit)
- ✓ Insufficient usage of modern technologies in production process (irrigation system, anti-hail nets)

Appendix 5: Institutional aspects and implementation arrangements

A. Project implementation

1. The implementation of RCDP foresees a re-orientation in the modus operandi of both PCU and APCU. Effectively, entrusted with the coordination of the intervention; A/PCU will have to demonstrate its preparedness to work, in line with the objectives and strategic approach defined in the IFAD RB-COSOP (2013-2018), towards achieving effective inclusion of non-commercial farmers in rewarding value chains which in turn implies changes in A/PCU staffing and implementation approaches. This represents a shift from previous projects financed by IFAD in BiH and it will therefore be critical, that this new generation of Project will be matched with responsive coordination and strengthened management capacity. Most notably, the intensive planning, facilitation and coordination activities envisaged by the Project will not only require substantial field presence but also strong capabilities in facilitation, follow-up and impact monitoring. This will require, among others, a detailed description of roles and responsibilities of implementing partners and service providers, reflected in agreements and terms of reference, and related contractual arrangements.

2. The number of stakeholders and required partnerships facilitated and/ or supported by the project calls for a considerable increase in the number and types of implementation arrangements (with service providers, implementation partners, etc.).

3. **Implementation of the targeting approach.** RCDP will select smallholders, organized in PAs and cooperatives, within the targeted value chain clusters, following clear criteria to ensure transparency in selection and mitigate the risk of elite capture. Key actors in the targeting process are local authorities at municipal level (extension workers, social service centres, employment bureau, heads of the local communities, and others), as they manage the list of people that benefit from social security, and are hence able to determine who belongs to the three target groups (very poor, poor and borderline poor). The local authorities are also responsible for managing the entity-level Farm registers, which are a source of information that can provide a valuable starting point for the project intervention. For the implementation of the targeting approach, questionnaires will be used.

4. The targeting process will include extensive communication with PAs and cooperatives, which will be, jointly with agribusinesses, the main partners for the inclusion of smallholders. In that process, PAs and cooperatives will promote the inclusion of new smallholders from selected local communities, knowledgeable of the criteria under which these are eligible for inclusion in the value chain. Once the interest from the (eligible) farmers has been expressed, PAs and cooperatives will be responsible for preparing lists of interested farmers, collecting the field questionnaires and organizing these into the database for further analysis¹⁴⁹. Eventually, PAs and cooperatives should be the ones to make the final selection of the farmers that fulfil the targeting criteria, based on their knowledge of individual farmers involved in production of relevant agricultural commodities. This list will be verified by the Business Facilitation Partners (BFPs) and/or the local facilitators (such as the local development agency).

5. Local authorities will be partnering with LED/RED¹⁵⁰/consultancy firm/NGO that will be hired to work on cluster development as BFPs. Facilitators from the BFPs will support local authorities in: (i) conducting training and awareness raising on the targeting approach and principles; (ii) capacity support to municipalities /cluster stakeholders' platforms to identify criteria and set up and implement a transparent and fair targeting approach; (iii) support the selection of beneficiaries, so as to avoid

¹⁴⁹ Sample questionnaires have been prepared by Oxfam Italia during the implementation of the Pilot project. They include questions on household (HH) assets and revenues, which are the basis for classifying the HHs into poverty categories.

¹⁵⁰ LED Local Economic Development Agency, RED Regional Economic Development agency

exclusionary practices and elite capture; and (iv) follow up and monitoring of targeting implementation and activities delivery.

6. **Selection of PAs and Cooperatives.** RCDP will work with PAs and Cooperatives that are active in the selected clusters. The vision of the Project is to facilitate emergence and growth of cooperatives through technical and organizational support and co-financing of BPs. Minimal eligibility criteria for PAs and cooperatives as project partners will be the following: (i) compliance with current legislation of cooperative and governance principles; these conditions are different for PAs and Cooperatives; (ii) at least one formal market channel established; (iii) number of members and their categorization in poverty groups based on the landholding size; (iv) type of membership so as to give preference to organizations with a favourable proportion of women and youth among their members; (v) proven experience in developing concrete measures to include women among their members, favouring their participation; (vi) track record of their willingness to expand membership, in particular reach out to smallholder farmers and rural poor; (vii) capacity to improve provision of services and guaranteeing access to production factors by all members; and (viii) work towards social and sustainable use of natural resources.

7. Representatives of target groups and PAs and cooperatives, women and youth will participate as active members in cluster stakeholder platforms to be established at cluster level. It will ensure they can monitor progress in terms of local VC development, voice their concerns on VC issues, participate in decisions taken in CSPs, interact with other partners in the cluster and VCs, etc.

8. Specific activities will be undertaken to ensure the organizational strengthening of PAs and cooperatives as well as to ensure inclusiveness and empowerment of rural poor, women and youth through their organisations. Activities will include: (i) organizational strengthening of PAs and cooperatives; (ii) information and mobilisation campaigns; (iii) business counselling for members of PAs; (iii) matching grants to leverage investments; (iv) support to ensure active participation of women and youth in PAs and cooperatives' decision-making process; and (v) information campaign on rural labour conditions, food safety, enforcement of regulations in agriculture and agribusinesses.

9. **Agribusinesses.** The involvement of exporters, wholesalers and enterprises is crucial to ensure effective access of smallholders to productive assets, finance, services and markets. Eligible agribusiness companies will have to comply with the following criteria: (i) proven know-how and technical expertise in the subsector; (ii) company's willingness to use environmental friendly production practices and compliance with social, labour and gender standards; (iii) company's strategy is focused on long-term presence and viable business relationships with producers; and (iv) proven experience in or formal commitment to establishing business with small producers. With regards to the inclusion of women and youth, the Project will ensure that these target groups effectively take on an active role in the value chain coordination mechanisms, and directly benefit from the BPs and from tailored support extended by the Project. RCDP will prepare guidelines on proper governance and management, checks and balances and monitor the process to ensure that PAs and cooperatives will be able to engage with agribusiness companies on the basis of fair deals.

10. It is expected that the bulk of the institutional strengthening activities will be provided by specialized service providers. Currently, public extension services are available only in RS and need to be strengthened. It is important to respect the fact that when it comes to organizational strengthening no blueprint approach is effective. Each organizational strengthening should be considered as a process, requiring an initial diagnostic and needs assessment.

11. With respect to the Business Proposals (BPs), these will be approved by the APCU/PCU upon assessment by a technical committee of three independent experts based on a set of criteria: e.g. the formal buy-in and commitment of the business parties involved in the BP, the financial viability and sustainability of the proposed business; the number of new small producers/collectors reached, especially the number of women and rural poor, win-win (pro-poor) features of the proposed business model (including no transfer of land rights from the farmers to the private company), percentage of the

total cost of the BP covered by the agribusiness company or farmers organizations with their own funds or through a complementary loan from a financial institution.

12. The project will ensure a close monitoring of the actual implementation of BPs to ensure that each 'BP-party' is actually delivering as planned and poor small-scale producers and collectors are effectively benefitting. In addition, the project will produce a number of knowledge products (guidelines, manuals, case studies and lessons learnt) to identify good practices and document the experience in order to provide guidance to the Government and other stakeholders to replicate and scale-up the approach.

13. Overall, the APCU/PCU will have the main responsibility to contract service providers through a competitive process. Three modalities of service providers can be selected, according to the specific services required: (i) individual; (ii) single private or public service provider (consulting companies, regional development agencies, NGOs, Universities); or (iii) a consortia of service providers, the latter being needed because the broad range of training needs (organizational development, technical and business-related aspects), or a wide geographical coverage may require different service providers.

14. In addition, implementation arrangements put in place under RCDP will facilitate the process of identification of farmers' leaders, pioneers, and innovators within the selected value chains, who – may also, among others – play roles of extension agents and community organizers, as may be required to deliver quality services to the target group.

Approach

15. The Project will work in 12 VC clusters starting their establishment from PY1, after the baseline poverty information will be updated and the municipality scoring exercise will be repeated, in order to reflect the changes in the clusters pre-identified since project design. The exercise should confirm the clusters pre-identified. After their establishment at a municipal level, the clusters will be developed with the support of the BFPs.

16. The vision of the Project is to take advantage of existing value chain dynamics in BiH. The agribusiness sector is already engaging with smallholders in establishing contractual relationships and for example using in-kind credit for product pre-financing and provision of extension and technical assistance to farmers ('cooperants'). Benefiting from these processes, RCDP main contribution would be to consolidate the perspectives for sustainable subsector development by: (i) expanding the number of small farmers benefitting from the opportunities offered in the selected subsector (ii) maximising the inclusion and participation of poor smallholders in profitable value chains, including women and youth; (iii) enhancing the capacity of small farmers to develop their business activities and to take decisions regarding the needed organisational structure (e.g. PAs and cooperatives) and marketing strategies (including value adding). The ultimate objective is to help improve the livelihood of small scale farmers through sustainable and profitable farming and consolidate their organisations and their capabilities to identify and seize forthcoming business opportunities (markets, marketing channels, products etc.), develop their business, play an active role in the cluster coordination platforms while benefitting in the long run from the sustainable development of the subsector.

Organizational framework

Overall responsibility and orientation

17. The State Ministry of Finance and Treasury (MOFT) will have overall responsibility of RCDP and will coordinate with the Entity Ministries of Finance which are responsible for externally-funded projects. An 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. The PSC would meet once or twice per annum. Each PSC will ensure that (i) project activities are in compliance with the Government and IFAD strategies and policies and goals and objectives defined at project design; (ii) endorse strategic orientations taken up by the project (iii) review project Entity level Annual Work Plans and Budgets (AWPB); (iv) oversee the transparent

selection of service providers and partner institutions; (v) ensure that Project interventions are coordinated with other development programmes and projects and (vi) ensure adherence to the highest standards of financial management and audit. As expected, the PSC should invite representatives from the private, PAs and cooperative sectors to join the Committee. A yearly inter-entity meeting (workshop) will assess the 'state of play' of the programme in particular as regards sustainable subsector development, performance and governance. The meeting will be co-chaired by the state-level Ministry of Foreign Trade and Economic Relations and state-level Ministry of Finance and Treasury.

Project coordination

18. In each Entity, project coordination as well as fiduciary management will be entrusted to the existing APCU and PCU. These units will demonstrate a clear orientation towards and renewed emphasis on targeting and social inclusiveness in line with the IFAD RB-COSOP (2013-2018).

19. Given the scope of RCDP, both Units will be required to develop new partnerships with state and non-state service providers and facilitators while building up their management capacity in several areas. Among others, the intensive planning, facilitation and coordination activities envisaged by the Project will not only require substantial field presence but also strong capabilities in facilitation, follow-up and impact monitoring. The number of stakeholders and potential partnerships that will be facilitated and/or supported by the Project anticipates a considerable increase in the number and types of implementation arrangements and agreements with service providers, implementation partners, etc., that may have to be adopted by the Project. Effectively, the operating modalities of the proposed RCDP will likely represent a shift from previous projects; it will be critical therefore, that this new generation of Project will be matched with responsive coordination and strengthened management capacity.

20. The APCU and PCU are already established and are implementing other IFAD funded projects in the country. Both APCU and PCU are headed by Directors appointed by the respective entity Minister of Agriculture and their appointment has been acceptable to IFAD. Salaries of the staff of both Units are already financed by other IFAD funded project and will be for the next four years; only supplementary staff specifically hired to carry out specialized functions for RCDP will be funded by this project. The APCU and PCU Director report to the respective entity Minister of Agriculture. The additional staff to be hired by the APCU and PCU will include: Business Development Officers, and M&E/Targeting Gender Officer.

21. APCU and PCU will be responsible for coordination and liaison with municipalities, clusters and implementing partners, overall project management and monitoring, organizing start-up and annual workshops, preparation of AWPBs, fiduciary management. The APCU and PCU will recruit through a competitive process BFPs, technical advisory services, business development services and organizational development services and will establish a roster of service providers which will be made available to all BPs partners through a public Website or equivalent platform. BPs' partners will be selected and enter into agreements with service providers of their choice. Complementary, the APCU and PCU will establish the voucher scheme, which will be an instrument to pay for the services rendered by the service providers to the BPs' partners. While the voucher scheme will be administered by APCU and PCU, it will be basically an empowerment instrument for business partners to ensure they select and negotiate service contents and price with the service providers of their choice, evaluate their performance and deliver the voucher for the providers to cash according to the administrative arrangements made by APCU and PCU to cash the vouchers.

22. They will also be responsible for providing logistical and administrative support to IFAD and Entity joint supervision missions, mid-term review and project completion missions. Detailed responsibilities are described in Appendixes 5, 6 and 7. The APCU and PCU will be responsible for ensuring the systematic collection of baseline data, monitoring and evaluation, policy facilitation, progress reporting and liaison with the Government.

Implementation partners

23. Actors in the implementation of the project will comprise the following: Government (Entity-level); Ministry of Agriculture (Lead Implementation Agency), Project Coordination Unit (PCU) in the Federation and Agricultural Project Coordination Unit (APCU) in RS, are mandated by the government for day-to-day coordination of the project; primary target group project beneficiaries (including smallholder farmers, PAs, Cooperatives); identified service providers (specialized individuals, companies and consortia) and implementing partners (including local development agencies, NGOs, other development partners); agribusinesses; local government (Municipalities, Cantons); Project Steering Committee (PSC) and others. APCU and PCU

24. Moreover, the project will support the establishment of Cluster Stakeholder Platforms (CSP) and Subsector Stakeholders Platform (SSP). The cluster serves as a stakeholder platform for participatory planning and monitoring progress of value chains, clusters and subsector development, targeting and inclusiveness. CSP will eventually feed into the country level (SSP) planning and monitoring process.

25. **Responsibilities of Municipalities.** The Municipalities will: (i) facilitate inclusive targeting of vulnerable groups and youth; (ii) provide funding and logistics to their relevant departments and development associations to implement their core mandate as far as facilitating VC cluster development processes and agribusiness development are concerned; (iii) give access to their facilities for meetings; (iv) provide incentives and enabling measures for agribusinesses development and investments of smallholders; (v) for commercial infrastructure and facilities, provide the land and contribute to investments, organize procurement and implementation; and (vi) facilitate programming and implementation.

26. **Partnerships.** RCDP will build on the positive experiences of USAID's FARMA and LAMP projects and the work of the SIDA, SDC, GIZ, CARITAS, OXFAM, etc. and RED/LED agencies, Czech Development Agency, Swedish International Development Agency (SIDA) and the Swiss Development Cooperation (SDC). In addition, EU, World Bank and IFC's investments in technical capacity building regarding Food Safety Standards in the country will be utilized for the benefit of smallholders by IFAD projects. RCDP will also build on its lessons from the grant provided to Oxfam Italy to pilot territorial marketing and explore the potential for branding products. The modalities and partnerships proposed by the project, are based on existing modalities and dynamics, though with some adaptation where appropriate to enhance feasibility.

Implementation of Component 1

27. **Establishment of local Cluster Stakeholder Platforms.** At the initial steps, it is expected that the Business Facilitation Partner (BFP), hired by the APCU/PCU through a competitive process, will scout for relevant and eligible stakeholders from producers' organizations (PAs and cooperatives) and agribusinesses in quality of local 'VC champions'. Subsequently, the BFP will sound out the interests of all stakeholders and the Municipalities in particular, LEDs where they exist, local service providers, NGOs and donor-supported projects active in the cluster, local branches of banks and MFIs and the initial meeting will be convened. It is expected that the BFP will serve as the secretariat of the CSP but always with a role as a facilitator, supporting stakeholders take the necessary steps to promote cluster development.

28. **Establishment of country-wide Subsector Stakeholder Platforms.** In the initial steps, APCU/PCU will be responsible for identifying relevant stakeholders starting from those involved in the approved BPs in each cluster. Subsequently, the APCU/PCU will solicit the Lead Implementation Agency (Ministry of Agriculture) to invite relevant stakeholders and convene the initial meeting to establish the SSPs. After the establishment of the platform, APCU/PCU will continue supporting the SSP, acting as secretariat, with responsibilities for convene platform's members, organize and coordinate meeting, agenda, minutes and their dissemination among members. Ideally, the APCU and PCU will work together in this endeavour although initially, each SSP has been considered specific for each Entity. Alternately, each Project Coordination Unit could carry out the secretariat function on

rotation basis. Meetings could be held on quarterly basis or more frequently according to the emerging issues and the agreement reached among its members.

29. **Policy dialogue/engagement.** At national or subnational level subsector stakeholder platforms, involving all key stakeholders, will oversee and coordinate activities in the respective subsectors, as well as work on all relevant policy issues, including regional trade issues and opportunities, regulatory frameworks, and core project risks. The APCU and PCU will contact professional organizations in the subsectors in order to provide logistic and financial support to facilitate meetings and the functioning of the platforms, in close collaboration with other development partners, as several initiatives are ongoing. At local level, cluster stakeholders' platforms will be established with the support of RCDP and BFPs in collaboration with public and private stakeholders. Municipalities, LED agencies will provide logistical support to this process and will be members of them. The CSP will function at local-level and be involved in participatory evaluation of project activities and progress.

30. **Effective monitoring of VC and (sub) sectors' performance** .Sector and subsector monitoring will be coordinated by the PCU/APCU, but should be assisted primarily by external BDS providers. Data collection will be actively assisted by local authorities (municipality level), local NGOs, rural organizations and others. This support from existing local stakeholders will foster greater ownership and learning as a desired side-effect. Substantial insider knowledge about the VC and subsector performance will be made available and will be an input for RCDP's own monitoring and reporting. The emphasis on subsector development in conjunction with the long-term project perspective provides the necessary space for initiating change and effectively monitoring project outcomes and impact.

Implementation of Component 2

31. Business Proposals (BPs), allowing business partners (producers and agribusiness) to plan coordinate and carry out mutually benefiting investments, will be the main project instrument under Component 2 of BP partners¹⁵¹ for the sustainable development of their joint businesses in the selected sub-sectors and value chains.

32. **Project promotion and awareness campaign, confirmation of preselected VCs and clusters.** After the start-up workshop, the ACPU/CPU will contract a specialized consultancy services to update the baseline poverty information and repeat the exercise conducted during the design to pre-identify and pre-select promising clusters, which included a scoring of municipalities with potential to integrate clusters. This exercise will help confirming the proposed clusters or otherwise inform the selection of new clusters. Based on the information obtained from the exercise, ACPU/CPU will promote inter-municipal coordination in regions where opportunities exist to establish a cluster. This is considered a key step in the cluster identification and development process to ensure municipalities have a better understanding of the potential for cluster formulation in their regions. Municipalities will submit their application to ACPU/CPU for the approval of their clusters. As a final step of this process, the APCU/PCU will review the applications, negotiate with cluster applicants to make sure all project criteria are met and makes the final selection of clusters. In this process, APCU/PCU may initiate the revision of the cluster participants, if necessary.

33. **Cluster Development Facilitation.** The facilitation role will be played by BFPs from a LED, RED, NGO or a consortium of development actors to be contracted by RCDP, through a competitive process. BFPs will work closely with municipalities at cluster level and will reporting to Municipalities and the project. The consultancy firm or NGO will put an individual or a team of facilitators who would carry out its services on full-time or part-time bases according to the size of the cluster and requirement for services. Probably, the BFPs or consortium will cover more than one municipality and cluster what would increase coverage and make more efficient and effective the delivery of services.

¹⁵¹ . Small-scale producers and collectors and their organisations, agribusiness companies).

34. **Identification and planning of activities.** Activities of component 2 will be implemented on the basis of Business Proposals (BPs), with the facilitation of BFPs. Each BP will determine the volume of activities, the contributions of municipalities, cooperatives and agribusiness, as well as the volume of subsidies to be accorded by the Project.

35. **Marketing facilities** will be identified and prioritized at cluster level. Procurement will be organized at local level or by the APCU/PCU. Given the small scale of the interventions, no significant negative environmental impacts are expected from the investments in rural infrastructure. However, all approved designs should meet requirements of the environmental legislation of the FBiH and the RS. Submission of required documents and expenses for Environmental Assessment as per the existing legislation will be the responsibility of participating municipalities or local private stakeholders.

36. BFPs will be chosen according to a proven track record in facilitating contract farming arrangements for pro-poor value chain development. Although the design mission is attaching some suggested TORs for BFPs, they will be updated and finalised at a very early stage of project implementation. BFPs will be one of the first categories of services to be hired, through a competitive process, by APCU/PCU. As in every TOR and BFPs' TOR are not the exception, a special place on them will be reserved for the specific support required from the BFPs to ensure the implementation of inclusive targeting and following up on its implementation. A BFP could continue working with the same cluster and BP based on its performance, but it can also happen that a new service provider could provide the support and facilitation to the implementation of the BP.

The planning process

37. **AWPB.** The AWPB represents the key planning document for the Project and its implementation. The AWPB is driven by a participatory process particularly from the second year on, with feedback provided by the clusters, and thus encouraging the demand-driven nature of the project and bottom-up prioritisation.

38. Based on inputs from the stakeholder, the APCU/PCU will prepare spate Annual Work Plan and Budget (AWPB) in a format acceptable to IFAD and submit it to the Project steering committee (PSC) for approval and to IFAD for its non-objection at least two months before the beginning of the relevant fiscal year. The AWPB will represent the key planning document for the Project. The AWPB process will be based on proposals from stakeholder platforms at cluster level and will be initiated in September each year and will be prepared in participation with all stakeholders and finalized with the approval of the PSC. If required, the PCUs may propose adjustments in the AWPB during the relevant Project Year, which shall become effective upon approval by the respective PSC and IFAD. The PIM provides the overall format of the AWPB.

39. Considering that the AWPB has to be review and approved by the Entity-level PSC (review and validation) and IFAD (review and approval) before the beginning of the fiscal year (30 to 60 days prior the commencement of the fiscal year), the elaboration of the AWPB should formally initiate few months earlier. As expected, the work of the Business Facilitation Partners (BFPs) and the CSPs at cluster levels will facilitate the identification, prioritisation and planning of BPs and complementary activities that will be part of the AWPB. During the implementation year, flexibility to proactively respond to realities of implementation will be considered, and proposed adjustments to the AWPB can be made and informed to IFAD and Entity-level PSCs. The final Project Implementation Manual (PIM) will outline further guidelines and details for the overall format of the AWPB, and more importantly, on the process for its elaboration.

40. **Cluster level.** A concentration of activities implicating the key cluster stakeholders will be initiated with the purpose of establishing the planning and implementation process at cluster level, namely undertaking diagnostic mapping of the subsector and value chains, identifying M&E responsibilities and setting-up the M&E system, etc. contributing to establishing the baseline situation. The process will ensure that the project is carried out to respond to bottom-up and demand driven needs. This strategic planning phase is a critical stage, in which the Cluster Development Plan (CDP)

will be elaborated, and first BPs will be identified, initiated, formulated and submitted to the BAC for approval.

41. During PY1, most of the preparatory actions will be implemented and several of the key mechanisms and systems for project implementation will be set up, so ACPU/PCU will have a central role in the planning process at the initial steps of RCDP. From the second year on, CSPs' partners at cluster level should take the lead in the planning process as most of the activities to be implemented will be identified and prioritised at that level and counterpart funds for co-financing BPs will be agreed at cluster level. As expected, the Cluster Development Plans should serve as inputs to integrate demands from clusters and for APCU/PCU to aggregate all demands under a single Entity-level AWPB. At **national level** planning consolidation of local-level needs, progress and realities of project implementation (including challenges and constraints faced) are expected to take place, resulting in the process of elaboration of the AWPB. It is at this stage that the PCU, APCU and Government will have the overall oversight and leadership responsibilities to ensure the relevancy and articulation of the AWPB. In the subsequent project implementation years, operationalization of CDPs will be closely monitored at the cluster level; the project's performance, and output level and results monitoring will be discussed twice-yearly, or quarterly as the need arises, and will inform the following year's planning for the cluster.

Annex I: Eligibility criteria, roles and responsibilities of key project partners and platforms

Selection of PAs and Cooperatives

1. RCDP will work with PAs and Cooperatives that are active in the selected clusters. The vision of the Project is to facilitate emergence and growth of cooperatives through technical and organizational support and funds to cofinance BPs. Essentially, RCDP will:

- Support the transition from Producers Associations to commercial entities, namely farmers' cooperatives and farmer owned companies to become more business oriented and ensure sustainability over time;
- Support the gradual consolidation of producers' organizations into apex organizations; and
- Strengthen the capacities of producers' organizations (farmers' cooperatives and agribusinesses) to submit and implement BPs with the support of the BFPs.

2. Minimal eligibility criteria for PAs and cooperatives as project partners will be the following:

- Compliance with current legislation of cooperative and governance principles; these conditions are different for PAs and Cooperatives;
- At least one formal market channel established;
- Number of members and their categorization in poverty groups based on the landholding size;
- Type of membership so as to give preference to organizations with a favourable proportion of women and youth among their members;
- Proven experience in developing concrete measures to include women among their members, favouring their participation;
- Be open and willing to expand membership and to reach out to new smallholder farmers and rural poor, in particular women and young men and women;
- Capacity to improve provision of services and guaranteeing access to production factors by all members;
- Work towards social and sustainable use of natural resources;
- Be in line with the legislation and internationally agreed cooperative principles;
- Be able to provide evidence of past consistent sales to a national or export market and/or market opportunity identified; profile of their membership; and
- Be open and willing to improve their services and access to production factors.

Agribusinesses

3. The involvement of exporters, wholesalers and enterprises is crucial to ensure effective access of smallholders to productive assets, finance, services and markets. Eligible agribusiness companies should comply with the following criteria:

- Proven know-how and technical expertise in the subsector;
- Company's willingness to use environmental friendly production practices and compliance with social, labour and gender standards;
- Company's strategy is focused on long-term presence and viable business relationships with producers;
- Proven experience in or formal commitment to establishing business with small producers.
- Business practices that are environmentally friendly;
- Comply with social standards (labour, gender); and
- Business strategies based on long-term investments and viable business relationship with suppliers (producers, collectors, PAs and cooperatives).

Establishment of Stakeholders Platforms

4. While it is expected that each CSP at local level will focus on issues related to the enhancement of the competitiveness of each cluster, the SSPs will involve institutional actors grouped by the common interest to promote the subsector as a whole, and bring relevant policy issues to the attention of policy makers.

Establishment of Cluster Stakeholders Platforms (CSPs)

5. For each of the clusters envisaged under RCDP during Cycle 1 a Cluster Stakeholders' Platforms (CSP) will be established with the aim at supporting the development of clusters and selected value chains in their territories and enhance cluster competitiveness. At local level, issues related to cluster development would be discussed and analysed with the objective of identifying key priorities to be brought to the attention of municipal and canton authorities. The CSPs will:

- Validate and agree on key priority action for cluster development;
- Identify and aggregate buyers' demands for agricultural produce, producers' demands for inputs, extension and BDS services;
- Identify financial gaps and sources of funds;
- Promote horizontal and vertical integration among value chain actors;
- Coordinate service delivery;
- Ensure inclusiveness of poor farmers, women and youth and enhance the pro-poor content in business proposals (BPs); and
- Monitor progress achieved in each cluster and its impact on poverty reduction; and (viii) identify constraints to the development of clusters and local issues for policy dialogue/engagement.

6. Representatives of target groups and PAs and cooperatives, women and youth will participate as full members in cluster stakeholder platforms to be established at cluster level. It will ensure they can monitor progress in terms of local VC development, voice their concerns on VC issues, participate in decisions taken in CSPs, interact with other partners in the cluster and VCs, etc.

Establishment of country-wide Subsector Stakeholder Platforms

7. For each of the three selected subsectors a SSP will be established with the aim to improve sub-sector governance and enhance sub-sector competitiveness. Overall the SSPs will:

- Identify key priority actions required to improve the competitiveness of each subsector, including investments required in public goods (marketing infrastructure) and public services (e.g. research and development of new varieties, policy development);
- Identifying policy and regulatory issues regarding the legal framework, public resources and fiscal incentives;
- Formulating medium- and long-term strategies for sub-sector development;
- Contracting sector specific studies and market research for domestic and international markets, when appropriate
- Advocating sustainable subsector development and providing advice to policy makers; and
- Enhancing pro-poor sub-sectors' linkages and impact.

8. The establishment of the SSPs may follow the establishment of the CSPs when new platforms need to be established (not the case of berries).

PAs and Cooperatives' Organisational Strengthening

9. Specific activities to be undertaken to ensure the organizational strengthening of PAs and cooperatives as well as to ensure inclusiveness and empowerment of rural poor, women and youth through their organisations will include:

- Organizational strengthening of PAs and cooperatives;
- Information and mobilisation campaigns;
- Business counselling for members of PAs;
- Matching grants to leverage investments;
- Support to ensure active participation of women and youth in PAs and cooperatives' decision-making process; and
- Information campaign on rural labour conditions, food safety, enforcement of regulations in agriculture and agribusinesses.

10. The bulk of the organizational strengthening will be supplied by service providers contracted through competitive process and will be broad in scope, going beyond the specific activities implemented by the project to develop capacity and institutions that will be available at local level.

Business Facilitation Partner (BFP)

11. In the selection of BFPs, through a competitive process, APCU/PCU will take into account:

- How candidates are planning to operate;
- Their experience in facilitating win-win public-private partnerships and pro-poor and inclusive approaches, particularly inclusive business relationships between poor small-scale farmers and buyers;
- Commitment to gender equality and engagement with youth;
- Knowledge of sub-sectors and value chains; and.
- Expertise in providing business development support services to small scale producers' organizations and facilitating participatory business development processes.

12. Additional selection criteria will take into account the geographic presence, particular knowledge of a specific territory, technical expertise offered by the candidate organization or consortia, experience working with one or more of the pre-selected sub-sectors, implementation capacity to cover one or more value chain, clusters and sub-sector.

13. The Business Facilitation Partner (BFP) will:

- Scout for relevant and eligible stakeholders from producers' organizations (PAs and cooperatives) and agribusinesses in quality of local 'VC champions'.
- Sound out the interests of all stakeholders and the Municipalities in particular; LEDs where they exist, local service providers, NGOs and donor-supported projects active in the cluster, local branches of banks and MFIs;
- Serve as the secretariat of the CSP but always with a role as a facilitator, supporting stakeholders take the necessary steps to promote cluster development;
- Support local authorities in conducting training and awareness raising on targeting principles; capacity support to municipalities /stakeholders' platform in setting up transparent and fair targeting criteria; and
- Carry out beneficiaries' selection process, so as to avoid exclusionary practices and elite capture.

14. Individuals, firms or consortia of BFPs will be selected based on their expertise, knowledge and familiarity with value chains in the area to provide training, technical assistance and support to CSPs

on VC coordination and organization of the production, mobilization of private and public sector investments, inclusion of poor smallholders, etc.

BP implementation with the support of selected BFPs

15. Depending on the quality of the services provided by BFPs during the identification, preparation and approval of BPs, the same BFP could be hired to facilitate its implementation. If that is not the case, another BFP will be selected from a roster of service providers established by APCU/PCU through a competitive process, which will be available in the Website of the Ministry of Agriculture. The project will hire BFPs to support the implementation of BPs. Main functions of the BFP during this phase will be to:

- Monitor compliance with project targeting methodology and criteria to ensure project target group are effectively included, participate and benefit from the implementation of BPs;
- Monitor the effectiveness and efficiency of activities implemented (training, technical assistance and business development services provided, development support, quality of assets purchased etc.);
- Facilitate dialogue and conflict resolution between parties if necessary; and
- Facilitate clustering and bundling of BP activities in order to achieve economies of scale and reduce administrative costs.

BFPs induction workshop (induction training)

16. Soon after the BFPs selection process has been completed, an induction workshop will be held in each Entity to provide BFPs with background information on:

- The overall project proposal;
- Approach and strategies;
- Guidance on the facilitation role each BFP is expected to play at cluster level;
- The role of partners in clusters, value chains and BPs;
- How the process of identification, preparation and submission of BPs is expected to be implemented, and
- BPs' scope and minimal content. Particular attention will be given to:
 - The project targeting methodology and eligibility criteria for producers organisations and private companies;
 - How to maximise inclusiveness and pro-poor nature of BPs in order to gain the support by the project; and
 - BPs' funding strategies, which will necessarily require the combination of private and public financing, in addition to project funds.

17. A proper induction workshop of BFPs combined with close monitoring by the APCU/PCU during implementation should ensure consistent and coherent project implementation across the two entities and for the three pre-selected sectors.

BP Assessment Committee (BAC)

18. The project will establish a BP Assessment Committee (BAC) with the specific task of reviewing and assessing BPs. The Committee will be composed of three to four members: a representative of a development organisation with strong pro-poor orientation; a representative of a financial institution; and an agribusiness specialist hired to provide technical advice to the project and a VC specialist when necessary. The BAC will:

- review the viability and the pro-poor nature of each BP; and
- provide a written technical opinion to the APCU/PCU (positive, hence the BP is subsequently submitted for final approval, or partially positive in which case it will be sent to the BP applicants with specific recommendations for improvement).

19. Main criteria for assessment will include:

- Formal buy-in and commitment of the parties involved in the BP supported by a formal agreement (e.g. contract agreements);
- Financial viability and sustainability of the proposed business;
- Number of new small producers/collectors reached and incorporated in the BP, with particular emphasis on number of women and youth;
- Expected increase in the volume of production purchased from small producers;
- Win-win (pro-poor) features of the proposed business (i.e. duration, existence of a transparent price setting mechanism, suitable payment terms, risk mitigation measures, amount of value-added shifter closer to the farm-gate);
- Grievance mechanism foreseen to settle potential disputes among parties;
- Share of total cost of (investments, working capital and technical assistance requirements covered by the agribusiness company or farmers organizations from their own funds; and
- When necessary, review any specific evidence of the availability of funds to finance working capital and/or investments.

20. BFPs, BP originators and the BCP will ensure that there will not be any transfer of land rights from farmers to private companies envisaged in the BP.

BP approval

21. Following the assessment of BPs, BP originators and their business partners will be formally invited to present their BPs to the BAC committee. The BAC approval process will be chaired by APCU/PCU.

Annex II: APCU/PCU main roles and responsibilities

1. The APCU and PCU are already established in both Entities and are implementing other IFAD funded projects in the country. In addition to regular roles and responsibilities carried out by the APCU/PCU to manage, administer and implement the project (see this Appendix 5 for more details), the Units will carry out specific activities that are at the core of the project approach, strategies and implementation modality:

- Contract, after the project start-up workshop, a specialized consultancy services to update the baseline poverty information and repeat the exercise conducted during the design to pre-identify and pre-select promising clusters to confirm the proposed clusters or otherwise inform the selection of new clusters;
- Hire through a competitive process a civil society organization or NGO with experience in poverty targeting and gender to develop tools and methodologies that enable BFPs to reach out to rural poor people, women and youth; support define and implement, mechanisms and activities to enable them to participate in the RCDP, support the build-up of capacity at APCU, PCU, municipalities, other cluster development stakeholders and implementing agents in the field of poverty targeting and gender; provide necessary backstopping on targeting and inclusiveness during implementation; and monitor inclusiveness and to support reporting on achievements and progress.
- Supervise through the gender officer and close collaboration with cluster and cluster development facilitators the service provider;
- Hold, during the initial stage of implementation, several workshops across the country, at least 5 in each Entity, to promote the project and explain its approach; guiding principles; target groups; pro-poor and inclusive approaches; strategies and implementation modality; value chains, clusters and subsector approaches; pre-identified municipalities and clusters of municipalities; public-private linkages, leverage points etc. (the events will follow the pre-identified clusters within each Entity and focus on value-chains that are specific to these clusters);
- Promote inter-municipal coordination in regions where opportunities exist to establish a cluster as a key step in the cluster identification and development process to ensure municipalities have a better understanding of the potential for cluster formulation in their regions.
- Promote the cluster approach, reviewing the proposals and open negotiations with municipalities prior to clusters selection and approval, after clusters have been established by municipalities and local stakeholders;
- Review the applications, negotiate with cluster applicants to make sure all project criteria are met, and make the final selection of clusters. APCU/PCU may initiate the revision of the cluster participants, if necessary.
- In each Entity select through a competitive process a qualified organisation or a consortium of organizations to perform the role of Business Facilitation Partner (BFP) at cluster level for each of the three pre-identified sub-sectors (fruits, vegetables and NTFPs) (a combination of subsectors should be explored and highly encouraged by APCU/PCU when a consortium has the experience and capability to serve more than a subsector);
- Establish a Business Proposal Assessment Committee (BAC) with the specific task of reviewing and assessing BPs and ensuring viability and pro-poor nature of each BP;
- Approve BPs upon a thorough assessment by a technical committee of three independent experts based on criteria set;
- Support BFPs, if and when necessary, to organize workshops for all stakeholders involved in local value chains and clusters to ensure inclusive targeting and monitoring, pro-poor and

inclusive approaches, the implementation of enabling measures for women and youth to actively participate in BPs and project activities;

- Setup the voucher scheme, define procedures and prepare guidelines on how the voucher scheme will be implemented, on how it will be administered (including control mechanism) and how its performance will be evaluated;
- Call for application targeted at interested service providers, individuals, firms and consortia interested in providing service to PAs, cooperatives and BP stakeholders;
- Pre-qualify suitable candidates with ad hoc independent specialized support. Support the short accreditation process handled by an ad hoc small commission of specialists;
- Setup a roster of pre-qualified candidates (eligible consultants under the voucher scheme), which will be made accessible to all BP stakeholders in the Website of the Ministry of Agriculture and also in the project Website;
- After it had received a copy of the contract/agreement signed between PAs or cooperatives and the service provider(s), deliver a voucher to the PAs and cooperatives in the agreed value and pay the vouchers to the consultants/firms/consortia once the services have been completed;
- Maintain the roster of pre-qualified consultants and firms based on performance evaluation of services and update the roster from time to time with a new call for interest to expand the supply of qualified service providers;
- Support BP partners, through M&E officer and/or consultants hired for that purpose, to follow-up and monitoring of services (a primary responsibility of BP partners);
- Solicit the Lead Implementation Agency (Ministry of Agriculture) to invite relevant stakeholders and convene the initial meeting to establish the Subsector Stakeholder Platform (SSP);
- After the establishment of the platform, APCU/PCU will continue supporting the SSP, acting as secretariat, with responsibilities for convene platform's members, organize and coordinate meeting, agenda, minutes and their dissemination among members;
- Coordinate sector and subsector monitoring, assisted primarily by external BDS providers;
- Contract through a competitive process the preparation of related studies on specific issues of VCs and subsectors which limit their development and which need to be addressed by policy-makers. These studies can be proposed by CSP, SSP, the APCU/PCU and even by Entity authorities, when relevant for decision-making;
- Contract through competitive process competent service providers to conduct project impact surveys;
- Prepare and submit overall semi-annual and annual financial and physical performance reports with information gathered through the process of progress monitoring;
- Prepare spate Annual Work Plan and Budget (AWPB) in a format acceptable to IFAD and submit it to the Project steering committee (PSC) for review and to IFAD for its non-objection at least two months before the beginning of the relevant fiscal year;
- Maintain its accounting records in accordance with IPSAS-cash basis of accounting;
- Ensure that adequate Internal Controls are maintained through the project implementation by all implementing entities and project partners;
- Provide IFAD with consolidated financial reports within agreed timeframes as follows: (a) semi-annual consolidated Interim Financial Reports (IFRs) as agreed with IFAD;
- Prepare the respective annual financial statements in a timely manner which will be audited by the selected auditor in accordance with International Standards on Auditing (ISA) (the terms of reference for the audit will be agreed with IFAD on annual basis)

- Submit to IFAD within six months of the end of fiscal year the consolidated audit report covering the whole project, together with the separate audit reports for APCU and PCU, including the management letters covering the audit observations on internal controls;
- Carry out the procurement under the project in accordance with IFAD procurement guidelines, IFAD procurement handbook and the provisions stipulated in the Financing Agreement. For each major contract to be financed by the IFAD financing, the different procurement methods, the need for prequalification, estimated costs, prior review requirements, and time frame will be agreed between the Borrower and IFAD project team in the Procurement Plan.
- Prepare an AWPB and a Procurement Plan in a format acceptable to IFAD for the first 18 months of project implementation (draft-procurement plan is included in Appendix 8 of this Design Report);
- Generated and submit to IFAD procurement progress reports, as part of the semi-annually and annual progress reports, and list all contracts in the Register of Contracts in a format agreed with IFAD and maintained by the APCU/PCU.

Monitoring and evaluation (M&E) system

2. The Monitoring and evaluation (M&E) system will be a key management tool for the Project and will serve the primary purpose of providing data and feedback to improve the effectiveness, efficiency, sustainability, relevance and impact of Project activities. The overall responsibility for the M&E activities will lie with APCU/PCU, which will be responsible for:

- Coordinate and follow up on the design and development of the project Information System and the centralized computerised database containing all relevant data (project inputs, outputs and outcomes) collected by project stakeholders and consolidated by the PCU and APCU. M&E Officer should ensure the system is customized for the project;
- Monitor service provider for inclusiveness and impact monitoring;
- Collecting and analysing the data gathered from all implementing partners and service providers;
- Organize impact evaluations;
- Ensuring consistency, accuracy and timeliness of all reporting undertaken under the Project;
- Hire specialised services to conduct evaluation studies, case studies, systematize good practices and experiences;
- Disseminate information of project activities and results;
- Update in a participatory manner the Logical Framework of RCDP;
- Coordinate knowledge management activities carried out by RCDP, project partners and beneficiaries.
- Coordinate the preparation of the Project Completion Report (PCR);

3. All M&E activities will be in line with the IFAD Guidelines for Project M&E and IFAD RIMS first and second level Indicators Handbook.

Appendix 6: Planning, M&E and learning and knowledge management

A. Overview

1. Results-based and performance management under the RCDP are cornerstones for effectively contributing to the strategic objectives outlined in the RB-COSOP for Bosnia and Herzegovina, and for the project development objective itself. Subsequently, the adoption of a disciplined structure for planning, M&E and knowledge management under the project is fundamental during the project life cycle, and which will also serve as a management tool for informed decision making and to guide the overall progress of the project. The M&E system proposed is compliant with IFAD guidelines and the Results and Impact Monitoring System (RIMS) handbook. An underlying principle behind the M&E system will be its participatory nature, with shared responsibility amongst project stakeholders for effective M&E across the project interventions, and with emphasis on outcome and impact-level monitoring for results.

2. The project is designed to encourage sustainable development of the identified subsector; on an operational level, the project adopts a cluster approach, which implies the interaction between multiple project stakeholders and value chain (VC) actors within a more production-concentrated geographical scope. The cluster approach therefore provides a basis for bringing stakeholders/VC actors together and creating a culture for regular dialogue and communication at the local level, and through which, key priorities and activities to be pursued under the project will be identified and validated.

3. **Partners in development.** Actors in the implementation of the project will comprise the following: Government (Entity-levels); Ministry of Agriculture (Lead Implementation Agency), Project Coordination Unit (PCU) in the Federation and Agricultural Project Coordination Unit (APCU) in RS, are mandated by the government for day-to-day coordination of the project; primary target group project beneficiaries (including smallholder farmers, PAs, Cooperatives); identified service providers (specialized individuals, companies and consortia) and implementing partners (including local development agencies, NGOs, other development partners); agribusinesses; local government (Municipalities, Cantons); Project Steering Committee (PSC) and others. APCU and PCU

4. Moreover, the project will support the establishment of Cluster Stakeholder Platforms (CSP) and Subsector Stakeholders Platform (SSP). The cluster serves as a stakeholder platform for participatory planning and monitoring progress of value chains, clusters and subsector development, targeting and inclusiveness. CSP will eventually feed into the country level (SSP) planning and monitoring process.

5. The emphasis on subsector development with the longer-term life cycle of the project provides the space for effectively initiating change and for monitoring project outcome and impact.

B. Planning

The planning process.

6. **AWPB.** The AWPB represents the key planning document for the Project and its implementation, and is driven by a participatory process particularly from the second year on, with feedback provided by the clusters, and thus encouraging the demand-driven nature of the project and bottom-up prioritisation. Considering that the AWPB has to be review and approved by the Entity-level PSCs (review and validation) and IFAD (review and approval) before the beginning of the fiscal year (30 to 60 days prior the commencement of the fiscal year), the elaboration of the AWPB should formally initiate few months earlier. As expected, the work of the Business Facilitation Partners (BFPs) and the CSPs at cluster levels will facilitate the identification, prioritisation and planning of BPs and complementary activities that will be part of the AWPB. During the implementation year, flexibility to

proactively respond to realities of implementation will be considered, and proposed adjustments to the AWPB can be made and informed to IFAD and Entity-level PSCs. The final Project Implementation Manual (PIM) will outline further guidelines and details for the overall format of the AWPB, and more importantly, on the process for its elaboration.

7. **Cluster level.** A concentration of activities implicating the key cluster stakeholders will be initiated with the purpose of establishing the planning and implementation process at cluster level, namely undertaking diagnostic mapping of the subsector and value chains, identifying M&E responsibilities and setting-up the M&E system, etc. contributing to establishing the baseline situation. The process will ensure that the project is carried out to respond to bottom-up and demand driven needs. This strategic planning phase is a critical stage, in which the Cluster Development Plan (CDP) will be elaborated, and first BPs will be identified, initiated, formulated and submitted to the BAC for approval.

8. During PY1, most of the preparatory actions will be implemented and several of the key mechanisms and systems for project implementation will be set up, so ACPU/PCU will have a central role in the planning process at the initial steps of RCDP. From the second year on, CSPs' partners at cluster level should take the lead in the planning process as most of the activities to be implemented will be identified and prioritised at that level and counterpart funds for co-financing BPs will be agreed at cluster level. As expected, the Cluster Development Plans should serve as inputs to integrate demands from clusters and for APCU/PCU to aggregate all demands under a single Entity-level AWPB. At **subsector level**, planning consolidation of local-level needs, progress and realities of project implementation (including challenges and constraints faced) are expected to take place, resulting in the process of elaboration of the AWPB. It is at this stage that the PCU, APCU and Government will have the overall oversight and leadership responsibilities to ensure the relevancy and articulation of the AWPB.

9. In the subsequent project implementation years, operationalization of CDPs will be closely monitored at the cluster level; the project's performance, and output level and results monitoring will be discussed twice-yearly, or quarterly as the need arises, and will inform the following year's planning for the cluster.

C. Monitoring and evaluation

10. The Monitoring and Evaluation (M&E) system will be a key management tool for the project and will serve the primary purpose of providing data and feedback to improve the effectiveness, efficiency, sustainability, relevance and impact of project activities. The overall responsibility for M&E activities will lie with the PCU and APCU, who will be responsible for collecting and analysing the data gathered from all stakeholders on the basis of an agreed reporting format and timing, and consolidating this information and reporting.

11. **Objectives and principles of the M&E system.** The Monitoring and Evaluation (M&E) system aims at providing accurate and reliable data to ensure the effectiveness of project management, the achievement of the project objectives and targets and the sustainability of benefits provided through project interventions and activities. The key functions of the M&E system are to ensure that the project activities: (i) are being implemented according to plan; (ii) have the intended impact on the beneficiaries; (iii) are being effective in delivering benefits and that the benefits are being sustainably managed and owned by communities; (iv) are relevant to the needs of, and prioritized by, the beneficiaries; and (v) are being monitored so as to identify problems and risks early and ensure the progress of the project is on track.

12. The M&E system will be customized to the needs of the project and aligned with its objectives and expected results. To ensure that the objectives, outcomes and results are achieved, project management will track results at the output level, and place repeated emphasis on the outcome level analysis and tracking. This would enable results-based management that makes use of this information and implements timely and adequate improvements or adjustments to project

components. In addition, the effectiveness and sustainability of the benefits of the project should be closely monitored, both at the local/ cluster level, and at the national subsector level, to measure subsector development and performance. The SPSC will have responsibility for M&E oversight on both the technical and policy-related progress and results which are critical for the development of the subsector.

13. The emphasis on bottom-up and joint/ shared responsibility for M&E will contribute to building a culture of real ownership, responsibility and accountability for delivering on results that are sustainable and will encourage continuity beyond project completion. Thus the identification of meaningful indicators, including performance indicators, to be validated through a participatory process, is a means to ensure relevancy of the project interventions (meeting the priority needs) and effective overall M&E. Finally, the M&E system needs to be cognizant of targeting-related issues. Large sections of the population are currently vulnerable including women and the youth, and need enhanced support to ensure their participation in agricultural and marketing activities.

14. **Types and levels of monitoring.** The M&E system will be built on three levels of monitoring:
- Output monitoring (RIMS first level). This refers to reporting on the transformation from inputs and activities into outputs of the project (typically products, goods and services resulting from interventions and that are tangible immediate results); it is expected that this will be measure at least *quarterly*;
 - Outcome monitoring (RIMS second level). This is related to how outputs are utilized and the direct benefits accruing from the project; the accessibility of products, goods and services to the target group (including for example, the application and uptake of technologies and practices) and results of these in terms of yields, productivity, gross margins, etc. should be considered; outcomes reflect the likely or achieved short-term and medium-term effects of project outputs, and should be measured at least on a *half-yearly basis*; and
 - Impact monitoring (RIMS third level). This relates to the project evaluation process, to measure achievement of the project goal and development objective; it may reflect on the strengths, weaknesses, direct and indirect long-term effect of the project's interventions.

15. On the above basis, the project will systematically adopt two types of monitoring: (i) progress monitoring (RIMS first and second level); and (ii) impact monitoring and evaluation (RIMS third level), which are elaborated below. The necessary tools, such as a results tracking sheet for reporting on identified indicators, and other complementary M&E tools adapted for use by different levels of actors/stakeholders, will also be developed. These M&E tools should be used at the field and cluster levels, to be aggregated and consolidated at the PCU and APCU level, led by the M&E Officers who will ensure consistency, accuracy and timeliness of all reporting undertaken under the project.

16. **Progress Monitoring** will concentrate on the financial and physical performance of the project. Implementing partners, service providers and the partnerships/ relationships formed by the project stakeholders in general will operate and be governed on a contractual basis, with performance reviews. The information gathered through the process of progress monitoring will feed into the overall annual and semi-annual progress reports. For contracted service providers and/ or implementing partners, M&E responsibilities and reporting deliverables will be clearly stated with agreed schedules for reporting.

17. **Impact Monitoring** will focus on the outcome and impact level indicators specified in the Project Logical Framework. Surveys will be undertaken in PY 1, 5 and 10. The impact surveys will be outsourced to competent service providers, though the contribution of the project stakeholders in feeding data and information is critical to these exercises.

18. Furthermore, the project makes a particular distinction for **participatory impact result monitoring as regards to the inclusiveness and pro-poor approaches developed by the intervention, knowledge management and promotion**. Monitoring of inclusiveness will be undertaken to look at impact of the interventions on the core target group. A civil society organization

or NGO with experience in poverty targeting and gender will be contracted by APCU/PCU: (a) to develop tools and methodologies that enable BFPs to reach out to rural poor people, women and youth; (b) to support define and implement, mechanisms and activities to enable them to participate in the RCDP; (c) to support the build-up of capacity at APCU, PCU, municipalities, other cluster development stakeholders and implementing agents in the field of poverty targeting and gender; (d) to provide necessary backstopping on targeting and inclusiveness during implementation; and (e) to monitor inclusiveness and to support reporting on achievements and progress; and (e) ensure that disaggregated information can feed the RCDP M&E system. The service provider will operate under the direct supervision of the gender officer and close cooperation with cluster development facilitators. The service provider will build on the knowledge developed by Oxfam Italy pilot activity in 2014.

19. Monitoring of inclusiveness will include: (a) definition of baseline for each selected cluster and at subsector level in terms of each category of beneficiaries (very poor, poor, borderline poor), gender focused analysis, (b) facilitators' training and mentoring to define monitoring tools in each Cluster development plan, (c) survey on inclusiveness at the end of each programme cycle and definition of recommendations. As part of the induction training (workshop), the project will ensure the training/awareness to key actors about the targeting criteria.

20. In sum, with respect to impact monitoring and evaluation, there is need for the PCU and APCU to establish the **baseline** situation as early as possible; given the longevity of the project, impact monitoring should be attempted at mid-term (PY 5) and at the end of the project (PY 10).

21. An **Inter-cycle Review Mission (IRM)** will be conducted during project year five, to assess the progress, achievements, constraints and emerging impact and likely sustainability of project activities and to provide detailed planning for the next cycle of five years. The IRM will be carried out jointly by the PCU, APCU and IFAD.

22. At the end of the project, a completion evaluation will be conducted, as an input into the **Project Completion Report (PCR)** through a formal survey preferably undertaken by a neutral agency with no previous involvement in project implementation; the PCR will have to be submitted to IFAD within 6 months of the completion date. IFAD itself may also undertake a formal Evaluation of the project through its Independent Office of Evaluation (OE).

23. **Performance indicators.** A defining feature of the project M&E system will be the ability to monitor and report on the indicators identified and linked to the outcome and expected results of the project (also articulated in the project logical framework); these are a combined mixture of both quantitative and qualitative indicators and include, though are not limited to: the RIMS indicators; indicators defined in the project logical framework; and other priority indicators that have been identified through the participatory discussions at cluster and subsector stakeholder platform levels. Not least, the emphasis on 'inclusiveness' will be mainstreamed accordingly.

24. **Particularities of the cluster and VC development approach.** As envisaged by the project, the support for, and strong linkages between producers and agribusinesses (encouraging improved and favourable marketing and commercialization) is a fundamental principle. Whilst seeking win-win partnerships and opportunities, ensuring the pro-poor dimension of the project interventions suggests that monitoring indicators to measure both quantitative and qualitative aspects such as outreach (from a targeting perspective) and willingness of VC actors to form working and favourable relationships, is needed.

25. Targets against the indicators will be set on an annual basis, and will be included in the AWPB; the AWPB will also include the annual M&E plan.

26. Finally, it should be noted that all indicators will be disaggregated according to gender, age and socio-economic status to the extent possible, so as to enable a proper assessment as to whether the Project is reaching its intended target groups.

27. **Management information system (MIS).** In order to promote the M&E system as a decision-making tool, M&E information must be easily accessible to government, PCU and APCU and other

project stakeholders, including beneficiaries. A **centralized computerized database** or MIS that contains all relevant data (project inputs, outputs and outcomes) collected by project stakeholders and consolidated by the PCU and APCU should be designed and developed, customized for the project. This MIS will be maintained by the respective M&E Officers in the PCU and APCU with assistance of all project team members and project implementation partners.

28. **Capacity building for M&E.** The capacities of project stakeholders responsible for M&E will be further assessed, and where needed, provision will be made to provide training and develop simple tools and mechanisms to facilitate more efficient and effective M&E.

D. IFAD supervision

29. The Project will also be monitored and evaluated externally by IFAD through supervision and other regular monitoring and evaluation measures, such as: (i) annual or bi-annual supervision missions; (ii) RIMS impact surveys (at baseline and completion; (iii) Mid Term Review (by IFAD in cooperation with the Government in year 5); (iv) Project Completion Report (IFAD would provide support to the preparation process); and (v) yearly audits conducting by independent consulting firms.

E. Learning and knowledge management

30. Given the innovative features of the RCDP, primarily in approach, the effectiveness of consolidating, analysing and disseminating project experiences and achievements will be important. Provision has also been made for specialised studies, preparation of case studies of successes and failures, and for communication. Effectively, a knowledge-sharing and learning culture will be promoted within the subsector and across stakeholders. Knowledge gained will be translated into messages, manuals, concepts and strategies, and disseminated to the various target groups and stakeholders, using appropriate means of communication.

31. Another important element of learning and knowledge management relates to the project's effort to harmonize the various support and interventions of other donors and development partners working in the subsector; best practices and lessons learned across partners will be important to capture and will result in improved performance monitoring of the subsector.

32. The SSP, as a higher-level platform with wide representation of stakeholders, is a means to leverage good results, information and knowledge for sustainability and continued development of the subsector. This will also be part and parcel to generate effective policy dialogue.

Appendix 7: Financial management and disbursement arrangements

A. Financial Management Assessment (FMA) of the Project

1. **Methodology.** In accordance with IFAD guidelines, a Financial Management Assessment (FMA) has been undertaken as part of project design. The objective of FMA is to provide assurances that the Project will be implemented in an environment with sufficiently strong financial management systems and controls in place to properly manage, control and report on programme finances. The FMA involves assessing: (1) the inherent risk at country level; and (2) the project specific risk.
2. **Country context and inherent risk.** The inherent risk of BiH is assessed as medium. The fiscal structure is highly decentralized as defined in the country's constitution. The government structure consists of four fairly autonomous units: BiH Institutions, Brčko District (DB), and the two Entities, **Federation** Bosnia and Herzegovina (FBiH) and Republika Srpska (RS). BiH Institutions are at the central government level (governed by the BiH Council of Ministers); and each Entity has its own government, extra-budgetary funds (EBFs), and local self-governance units. According to the Corruption Perception Index published by Transparency International, BiH has improved 3.2 (2011) to 4.2 in 2012 and 2013. But at the same time, World Banks' doing business ranking has slightly decreased from 104 in 2014 to 107 in 2015 with sub-indicators related to Starting a Business, Dealing with Construction Permits, Getting Electricity and Paying taxes have worsened. The first Public Expenditures and Financial Accountability (PEFA) assessment published in 2014 rate the Public Financial Management systems separately at the state and entity level. The report identified several areas that require improvement including: (i) Legislative scrutiny of external audit reports, (ii) Scope, nature and follow-up on external audit reports, (iii) effectiveness of internal audit, iv) Competition, value for money and controls in procurement and (v) performance audits performed by the Supreme Audit Institutions.
3. **Financing conditions for the IFAD loan.** The IFAD loan will be given on ordinary terms, and denominated in Euro. The currency of the designated account and repayment will be in euros. The IFAD reference rate applicable to loans on ordinary terms is based on an SDR weighted, EURIBOR (for euro **loans**) 6-month composite rate of the four currencies which constitute the SDR basket (United States Dollar, Japanese Yen, Euro and Great Britain Pound), available on first business day of January and first business day of July, plus a variable spread. The IFAD reference rate is published on the IFAD website.
4. **Implementation arrangements and project risk.** The State Ministry of Finance and Treasury will be the signatory to the loan agreement with the International Fund for Agriculture Development. The State Ministry will, in turn, sign Subsidiary Loan Agreements with the Entity Government of the Federation of Bosnia Herzegovina and Republika Srpska. The Federation's Ministry of Agriculture, Water Management and Forestry (MAWMF) will be responsible for the Project in the FBiH. The Ministry of Agriculture, Forestry and Water Management (MAFWM) in the Republika Srpska (RS) will be responsible for the Project in the RS. These Ministries will be through their respective Project Coordination Units (PCU and APCU respectively) will be responsible for the overall financial management of the Project including coordinating all financial reports from implementing partners.
5. **Project Coordination Units.** The proposed project will take advantage of the established Project coordination mechanisms in the FBiH and RS which are called the Project Coordination Unit (PCU) in the FBiH and the Agriculture Project Coordination Unit (APCU) in the RS IFAD. Both units have an established track record in accounting, managing, and reporting on IFAD financed Projects and the APCU is also managing projects financed by the World Bank, and other donors. In 2014 and again in the first months of 2015, the IFAD APCU/PCU showed satisfactory performance with regards to financial management and according to the risk assessment the APCU/PCU have been rated as

medium - low risk. The most recent project Audit reports (2013 fiscal year) have been received in a timely manner and have been unqualified.

6. **Anticorruption and Good Governance Framework.** The primary responsibility of detecting fraud and corruption lies with the borrower. However, it should be noted that IFAD's applies a zero-tolerance policy towards fraudulent, corrupt, collusive or coercive actions in projects financed through its loans and grants. 'Zero tolerance' means that IFAD will pursue all allegations falling under the scope of this policy and that appropriate sanctions will be applied where the allegations are substantiated. This policy applies to IFAD-funded activities whether supervised directly by IFAD or by a cooperating institution. IFAD shall take all possible actions to protect from reprisals individuals who help reveal corrupt practices in its project or grant activities and individuals or entities subject to unfair or malicious allegations.

7. Given IFAD's zero tolerance described in the above paragraph, it is important that the all project staff, project parties and stakeholders of the project are familiar with IFAD's as well as the national anticorruption policies and whistle blowing procedures. The IFAD anticorruption policy is available on the IFAD website at www.ifad.org/governance/anticorruption/index.htm). The website also provides instructions on how to report any alleged wrongdoing to the Office of Audit and Oversight (<http://www.ifad.org/governance/anticorruption/how.htm>). The national anticorruption policies and whistle blowing procedures are under the responsibility of the Agency for the Prevention of Corruption and Coordination of the Fight against Corruption.

8. **Taxation.** As per IFAD policy, none of the IFAD proceeds of its financing can be utilized for the payment of **taxes** during the course of project implementation

9. **Project specific Financial Management Assessment.** As required by IFAD Financial Management assessment guidelines, the summarised scoring at design is as shown in the table below.

Table 27: Risk assessment at design stage

Type of risk	Initial Risk Assessment	Proposed mitigation	Final Risk Assessment
Inherent Risk			
TI Index	4.2		Medium
RSP score			
Control Risks			
Organisation and staffing <ul style="list-style-type: none"> • Qualified FM staff in both APCU and PCU. However, the technical staffing arrangements may not be adequate for the proposed project. • APCU in RS overextended between different projects. • Role of the steering committee unclear. • Limited FM staff in the PCU/FBiH. 	M	<ul style="list-style-type: none"> • The overall staffing arrangements (staff, TORs and reporting lines of the APCU/PCU need to be reviewed and agreed on to ensure adequate technical skill set appropriate time allocation to meet the project needs. • Role and composition of the steering committee to be clarified and agreed on with IFAD. • A qualified accountant to be trained in the FM unit of the PCU to ensure continuity. 	L

Type of risk	Initial Risk Assessment	Proposed mitigation	Final Risk Assessment
Budgeting <ul style="list-style-type: none"> Budget prepared separately by APCU/RS and PCU/FBiH. Budget preparation and monitoring in APCU require more attention and responsiveness. Budget controls not in place in the accounting software (PCU/FBiH). 	M	<ul style="list-style-type: none"> IFAD to be consulted already in early stage of the AWPB preparation. The consolidated AWPBs to be submitted for IFAD non-objection 2 months before the beginning of the fiscal year in a format acceptable to IFAD. Proper budget controls to be ensured in the accounting software PCU/FBiH. 	L
Funds flow and disbursement arrangements <ul style="list-style-type: none"> Several financiers Complex financing structure due to the 2 separate entities. Project account not operational in RS. 	M	<ul style="list-style-type: none"> Schedule 2 to include separate expenditure categories for APCU/RS and PCU/FBiH. Separate designated and programme accounts to be opened for each financing source in a commercial bank acceptable to IFAD WAs duly authorized by double signature (APCU/PCU/& and authorized Representative of the borrower). Audit trail for each expenditure item to be properly disclosed in Withdrawal applications by modified forms. 	L
Internal controls <ul style="list-style-type: none"> No Formal Financial Procedures, or credit manual in place. 	M	<ul style="list-style-type: none"> The Financial procedures manual to be adopted by APCU and PCU. 	L
Accounting systems, policies and procedures <ul style="list-style-type: none"> Financial reporting not fully automated in the APCU. 	L	<ul style="list-style-type: none"> The accounting software to be customized to fit the project needs (financial reporting fully automated). 	L
Reporting and monitoring <ul style="list-style-type: none"> APCU and PCU will provide separate Financial Reports. 	L	<ul style="list-style-type: none"> Schedule 2 to include separate expenditure categories for APCU/RS and PCU/FBiH. Reporting templates to be established and the Accounting system to be customized to produce these reports automatically by the APCU/PCU APCU/PCU to produce quarterly/semi-annual Interim Financial Statements. 	L
Internal Audit <ul style="list-style-type: none"> The APCU(RS)/PCU(FBiH) not included in the IA exercise of the LPA. 	M/Not applicable	<ul style="list-style-type: none"> The APCU (RS) audited by the state auditor. 	M/Not applicable

Type of risk	Initial Risk Assessment	Proposed mitigation	Final Risk Assessment
<p>External audit</p> <ul style="list-style-type: none"> Past Audit reports have been unqualified and submitted on timely manner. 	L	<ul style="list-style-type: none"> MoF to provide separate and consolidated audit reports as per current practice. IFAD non objection required for the Audit TORs. This link to be strengthened between IFAD and the MOF contracting the auditors. The possibility to have the SAs at entity level conduct a technical/operational audit sometimes during the project lifecycle will be explored. 	L
Fiduciary risk at design stage	M-L	<ul style="list-style-type: none"> Mitigation action summary: The financial management arrangements of the Existing APCU/PCU are assessed as Medium-Low. The mitigation actions will need to be timely implemented to further reduce the Financial Management risk. 	L

NB: H/M/L = High, medium and low risk as per the Guideline Note on undertaking Financial Management Assessment at design

10. **Conclusion.** The financial management arrangements, and capacity of the existing APCU/PCU are adequate to meet IFAD's requirements and the initial risk rating is considered as medium-low. Given the proper implementation of the mitigation actions, the residual risk will be further decreased to low.

B. Proposed financial management arrangements

11. **Proposed financial management arrangements.** The proposed FM-arrangements including budgeting, accounting, internal controls, flow of funds, financial reporting, and audit arrangements will follow the FM **arrangements** already in place in the APCU/PCU with some adjustments. The proposed FM arrangement are described below and will be outlined in detail in the Project's Financial Procedures Manual which will be prepared before project start up and reviewed during first year of implementation.

12. **Staffing.** Experienced financial managers and accountants are already in place in the APCU/PCU. In order to ensure proper back-up and segregation of duties in the case of absences, an additional accountant should be hired or trained to support the financial manager in the PCU and ensure **continuity** in the future. As the APCU in RS is implementing several projects it is important to ensure that the staff allocate sufficient time for the proposed project to ensure timely and efficient implementation and fulfilment of the financing covenants as specified in the Financing Agreement.

13. **Budgeting and Budget control.** Based on inputs from the stakeholder the APCU/PCU will prepare spate Annual Work Plan and Budget (AWPB) in a format acceptable to IFAD and submit it to the project steering committee for approval and to IFAD for its comments and non-objection at least two months before the beginning of the relevant fiscal year. The format of the AWPB will indicate at least the **following**: expenditure items by activity, by component, by expenditure category, and by implementing entity, physical indicators by activity as well as funding requirements by financier on a quarterly basis. The AWPB must be in line with the project description and any incurred expenditures as part of the project will have to be part of the approved AWPB to be considered eligible for IFAD financing

14. **Accounting.** The APCU/PCU will maintain its accounting records in accordance with IPSAS-cash basis of accounting. The project transactions will be recorded in their respective accounting systems which are already in place and which have been assessed as adequate for IFAD needs including a budget module with proper budget controls, accounting module, financial reporting module, fixed **asset** register etc... The accounting systems will be further fine-tuned during the project start-up as necessary to fully automate the generation of reports required under the project.

15. **Internal Controls.** In order to ensure: (a) efficiency; (b) reliability of financial reports; and (c) compliance with applicable laws and regulations including the conditions set forth in the financing agreement, the APCU/PCU will ensure that adequate Internal Controls are established including:

- Adequate policies and procedures,
- Sufficient segregation of duties,
- Fixed asset maintenance including tagging of all assets,
- Periodic monitoring and review including comparison of physical and financial progress.
- Proper authorization and access levels are maintained through the project parties.
- All project sites for works clearly identified and mapped including addresses/GPS-coordinates (as appropriate) to facilitate supervision.
- All trainings duly documented including a list of participators.
- All delivered goods reconciled against procured goods.

16. **Payment authorization.** All payments are prepared by the Finance Manager, and approved by the **Project** Director (PD) and Deputy Minister of Agriculture APCU/RS and Finance manager and PD in PCU/FBiH.

17. **Flow of funds.** It is expected that separate bank accounts will be opened and maintained for each financing source and for each entity, FBiH and RS. Accordingly, there will be a two (one for each Entity) designated accounts for the IFAD loan (in EUR) and two (one for each Entity) designated **account** for the grant (in USD) and four (two for each Entity) operating accounts in BAM to receive financing from the respective designated accounts in a commercial bank acceptable to IFAD. In addition, there will be a separate counterpart account for the government contribution. The project bank accounts will be operated under the joint signature of the Project Director and the Financial Controller of the APCU/PCU.

18. **Counterpart and government contribution.** The Government contribution up to the amount detailed in project costs and financing (see Appendix 9 for details) will cover taxes and will be paid in cash to a separate account based on the approved AWPBs. The funds will be transferred by the state treasury to the project through withdrawal applications prepared by the APCU/PCU and approved by the MoF. The municipalities and other stakeholder partners in the BPs will agree on and make arrangements to determine how their contributions will be handled based on agreed financing percentages. The Counterpart and government contribution will be captured in project accounting and financial reports and included in the audit; municipalities and BP partners' contributions will be captured by M&E systems in both Entities and included in performance reported.

19. **Financial Reporting.** The APCU/PCU will further fine-tune its accounting software as necessary to automatically produce all financial reports on a quarterly/semi-annual basis in a format agreed with IFAD¹⁵². The financial reports will link each transaction to a financier and compare incurred expenditures with the planned amounts: actual vs. budget for a reporting period and cumulative vs. appraisal. The APCU/PCU will provide IFAD with financial reports within agreed timeframes as follows:

- Semi-annual interim financial reports (IFRs) as agreed with IFAD;

¹⁵² The financial reports will include at least the following reports: i) Balance sheet, ii) sources and uses of funds by financier ii) expenditures by component and financier (actual vs budgeted), iii) designated account reconciliation statement, iv) Statement of Expenditures - Withdrawal Application Statement, and v) a fixed asset register.

- Annual Financial Statements within four months after the end of the fiscal year prepared in compliance with International Accounting Standards (IPSAS cash) and IFAD requirements; and
- Annual consolidated audit report and a management letter within six months after the end of the borrower's fiscal year together with separate audit reports for the APCU and PCU.

20. **Internal auditor.** The respective lead project agency (MAWMF) in RS and FBiH respectively have an internal audit function in place however the APCU/PCU are not included in their audit exercise as these are externally audited.

21. **External audit.** All audits of externally financed projects implemented by the government in Bosnia and Herzegovina are covered by an umbrella agreement with one audit firm procured and contracted by the state Ministry of Finance. The audits for FY 2013 to 2016 had been/will be conducted by the audit firm Deloitte doo Sarajevo in accordance with International Standards on auditing (ISA) and the audit report have been submitted to IFAD in a timely manner. In addition, the project (RLDP) currently implemented by the PCU and APCU have received unmodified audit opinions and no material issues were noted in the Auditor's reports or management recommendations letters. RCDP will also be covered by the same audit arrangements. Accordingly, the APCU and PCU will prepare their respective annual financial statements in a timely manner which will be audited by the selected auditor in accordance with the procedures and criteria set forth in IFAD's Guidelines on Project Audits (for Borrower's Use). The auditors will be required to audit the consolidated financial statements of the entire Project for each fiscal year in accordance with International Standards on Auditing (ISA). The terms of reference for the audit will be agreed with IFAD on annual basis. The consolidated audit report covering the whole project, together with the separate audit reports for APCU/RS and PCU/FBiH including the management letters covering the audit observations on internal controls will be submitted to IFAD within six months of the end of the fiscal year.

22. In addition to the annual financial audits, the project will explore the possibility for the Entity level Supreme Audit Institutions (SAIs) to conduct a technical/operational audit at least once in the project life cycle focusing on the field level activities.

23. **Records management.** The APCU/PCU under the respective Ministries will maintain adequate filing and ensure proper back up of all project records. In accordance with IFAD General Conditions, the borrower has to maintain the original records for a minimum of 10 years after the project completion.

C. Proposed Sub-level FM arrangements

24. The project is foreseen to collaborate together with Municipalities, PAs and cooperatives, while PAs and cooperatives will hire service providers through a voucher scheme to provide technical organisational and business support. The tentative Financial Management and flow of funds arrangements for the different scenarios foreseen by the project are outlined below and will be further detailed in the project implementation manual and in the financial procedures manual. When selecting the partners, it is important to emphasize the importance of the IFAD and National anticorruption and whistle blowing procedures.

Technical Service Providers

25. The Technical service providers will be used to for conducting studies, baseline surveys and coordination activities requiring specialized expertise. The FM arrangements will be as follows:

- The APCU/PCU will send out a call of interest.
- All interested Service providers will submit a proposal to the APCU/PCU.
- Subject to IFAD non objection, the APCU/PCU will enter into a performance based contract with the selected Technical Service Provider.

- The performance milestones and criteria will be clearly specified in the contract these will function as disbursement triggers.
- All payments to the service providers will be made against an invoice and supporting documentation (technical and financial when necessary) as required in accordance with the disbursement schedule of the agreement. The Payment request will be reviewed by the technical officer in the APCU and PCU ensuring that the performance milestones have been reached. Subject to the technical officers clearance the payment is approved by the Project director and Finance Manager.
- Once the payment is approved the funds are transferred in to the technical service providers and duly recorded in the APCU/PCU accounting software.
- All contracts for the services financed by the IFAD financing will include a provision requiring bidders, suppliers, contractors, sub-contractors and consultants to permit IFAD to inspect their accounts (limited to the reach of the service rendered to the project only), records or other documents relating to the bid submission and contract performance and to have them audited by IFAD-appointed auditors and investigators, as appropriate.

Voucher scheme. Technical Assistance to Farmers, Technical Service Providers, Implementation of Business Proposals

26. The APCU/PCU will setup a voucher scheme to strengthen the capacity and outreach of both the required technical advisory and the BDS services at (sub) sector level. The voucher scheme is a mechanism in which BP partners will get an entitlement (a voucher) to hire services from a broad range of pre-qualified service providers (instead of money), with the voucher then to be redeemed for cash from the APCU/PCU.

27. The ultimate purpose of the voucher scheme is to empower PAs, cooperatives and BP partners to decide on how they wish to fulfil their business requirements (in terms of extension, of specialised technical advisory, of BDS); to negotiate services and to enter into agreement with service providers; to follow-up on and to assess the quality and efficiency of the rendered services. The scheme will also empower PAs and cooperatives in doing business procurement and thus stimulate entrepreneurship by giving them the equivalent of cash (the voucher). The voucher scheme will make services more affordable (but not free of charge) for smallholders.

28. The system will enable smallholders' organisations and stakeholders to choose the services they require from a repertory of service providers. The scheme will allow beneficiaries to choose the training, technical assistance and advisory services required to implement their BPs among the various private service providers across the country and hiring these BDS providers at a privately negotiated price. BP partners will select the service providers from a list (roster) of pre-qualified consultants, consultancy firms and consortia.

29. Operationally, the APCU/PCU will set up the scheme, define procedures and prepare guidelines on how the scheme will be implemented, on how it will be administered (including control mechanism) and how its performance will be evaluated. A contract or an agreement between BPs' partners and services providers will regulate the relationship between the parties.

30. The management arrangements will be the following:

- call for application targeted at interested service providers, individuals, firms and consortia interested in providing service to PAs, cooperatives and BP stakeholders (by APCU/PCU);
- pre-qualification of suitable candidates (by APCU/PCU with ad hoc independent specialized support). Applicants will undergo a short accreditation process handled by an ad hoc small commission of specialists. Eligibility criteria and the process of pre-selecting candidates should ensure that the roster includes a wide range of services so as to broaden the choice for the stakeholders;

- setup a roster of pre-qualified candidates (eligible consultants under the voucher scheme), which will be made accessible to all BP stakeholders in the Website of the Ministry of Agriculture and also in the project Website (by APCU/PCU)¹⁵³;
- PAs, cooperatives and other stakeholders that had submitted a successful application to APCU/PCU choose one or several consultants or consultancies from the official roster. Prices may or may not be indicated in the BP;
- PAs or cooperatives and the service provider(s) sign a contract/agreement describing the required services and expected results. A copy will be send to APCU/PCU. In return the PAs or cooperatives will receive a voucher in the agreed value from APCU/PCU;
- after the services are completed the consulting services, the PAs or cooperatives will hand over the voucher instead of cash to the consultants or consultancies; and
- the consultants or consultancies will go to the APCU/PCU and cash it in while submitting a short report about the services done.

31. The APCU/PCU will be in charge of maintaining and updating the roster of pre-qualified consultants and firms based on performance evaluation of services. The roster will be updated from time to time with a new call for interest to expand the supply of qualified service providers. Follow-up and monitoring of services will be a primary responsibility of BP partners, although a role for monitoring will be reserved for the APCU/PCU (M&E officer and/or consultants hired for that purpose), which should also involve in follow-up on the implementation of the services.

D. IFAD disbursement procedures

32. **IFAD disbursement procedures.** In accordance with the IFAD disbursement procedures between the date of entry into force of the Financing Agreement and the Financing Closing Date, the APCU/PCU may request withdrawals from the Loan Account and/or Grant Accounts of amounts paid or to be paid for eligible expenditures. Accordingly four standard disbursement procedures may be used for withdrawal of financing:

- Advance withdrawal;
- Direct payment;
- Special commitment;
- Reimbursement (Statement of Expenditures).

33. However, it is expected that the advance withdrawal/replenishment of the designated account and direct payment will be main methods used.

34. **Authorized allocation of the Designated Account.** The Designated Accounts for the IFAD financing will be in EURO and will be operated and replenished following the Imprest Account arrangements in accordance with IFAD disbursement procedures. After the IFAD financing has entered into force and the conditions for first disbursement have been duly complied with and upon request by the borrower, IFAD will make an initial deposit to the Designated Accounts equal to the requirements of six months implementation (Authorized Allocation).

35. **Conditions for first withdrawal.** As per standard IFAD practices, the following conditions related to financial management are to be met before the first withdrawal can be realized:

- IFAD has received from the Minister of Finance, a letter designating the name(s) of official(s) authorized to sign withdrawal applications, which includes their authenticated specimen signature(s);

¹⁵³ Based on previous experience with setting up a voucher system REDAH could support the project in setting up a small commission of experts who will examine the qualifications of the consultants. As 'selection' service provider REDAH could benefit from a fee for each tested candidate.

- IFAD has received documentation evidencing the opening of: (i) the bank account designated to receive IFAD Loan and in advance; and (ii) the project account (if applicable) in local currency with advice of the persons/titles authorized to operate these accounts;
- An updated Project Implementation Manual including the Financial procedures manual, procurement manual and credit manual have been approved by IFAD; and
- The IFAD no-objection on the first AWPB and procurement plan for the first 18 months of the project has been obtained.

36. **Start-up funds.** To ensure smooth implementation the programme will received start-up funds to cover expenditures related to start up activities after the date of entry into force and before the fulfilment of the conditions precedent to withdrawal. The start-up funds will be deposited in the Designated Account after IFAD has received from the Minister of Finance: (a) a letter designating the name(s) of official(s) authorized to sign withdrawal applications, which includes their authenticated specimen signature; (b) documentation evidencing the opening of the bank account designated to receive IFAD Loan in advance; and (c) a duly signed withdrawal application. The required amount for start-up activities will be calculated and determined during the final design mission.

37. **Withdrawal applications.** The APCU/PCU will compile and consolidate, on a timely basis, eligible project expenditures for activities. From these expenditures the APCU/PCU will prepare withdrawal applications (WAs) for eligible project expenditures for submission to IFAD for reimbursement or replenishment. All WAs will be signed by the authorized signatories as determined by the Borrower.

38. **Minimum withdrawal amounts.** In order to minimize transaction costs, the minimum withdrawal amounts are set as follows:

- Withdrawal Applications requesting replenishments of the Designated Account should at least cover a minimum amount of thirty per cent (30%) of the initial advance.
- Direct Payment method should only be used for payments of USD 100 000 and above while expenditures below USD 100 000 should be financed from the Designated Account if possible and claimed through the replenishment of the Designated Account.

39. **Statement of Expenditure (SOE).** The SOE thresholds shall be determined in the light of the associated risk for each expenditure category and will be duly documented in the Letter to the Borrower. The initial estimate is that the SOE threshold will be USD 200 000 for all contracts under all categories. The project will retain the relevant support documents and make them readily available for inspection and review by supervision missions and the auditors.

E. Supervision, Implementation Support and Implementation Readiness

40. **Programme supervision.** The project will be directly supervised by IFAD in accordance with IFAD guidelines and should be seen as an opportunity to assess achievements and lessons jointly, and to reflect on ways to improve implementation and impact. From a financial management perspective, a financial management specialist will participate in missions annually to supervise and provide implementation support to the project and follow up the fiduciary risk at various levels including the use of the SOE.

41. **Supervision and implementation support plan.** In light of the risk assessment residual (Low FM risk), in the first two years of implementation, the supervision plan of project will include annual visits to the APCU/PCU focusing on the following actions:

- At least two on-site visits that will involve visits to the, implementing partners (if any) and municipalities, co-operatives etc. conducting/updating the FM assessment;
- Detailed review of adequacy of the staffing arrangements at the FM unit of the, including the TOR's and performance of the financial staff and identification of training needs.

- Review of the flow of funds structure with special emphasis on the counterpart funds and project funds reaching the lower levels.
- Detailed review of the Project Financial Management and accounting systems and procedures in use.
- Detailed review of the accounting software and financial reports produced by the accounting software and the use of budget controls.
- Review of overall flow of funds (and resolving any bottlenecks) and a detailed review of the operation of the designated and project accounts (including monthly reconciliations).
- Detailed review of the fixed asset register and verification of a) inventory reports and b) assets through spot checks.
- Detailed review of records management, back up and the use of the Statement of Expenditure (SOE) procedure and the applicable SOE-thresholds (adequacy of supporting documentation).
- Follow-up on contracting the project (independent) external auditors;
- Follow-up on the identified mitigation actions identified in the project design.

42. The supervision process will be complemented by desk review of progress and financial reports, the programme's annual financial statements, internal audit reports, and annual audits.

A list of key tasks is summarized below:

Action	By Whom	When	Conditionality
Agree on the Start-up funds (if any)	IFAD and MOF	As part of design	Negotiations
Financial procedures manual, procurement manual and credit manual have been duly updated.	APCU/PCU	Start up	Start Up and disbursement condition.
Opening of Designated Account, and Project account	MoF	Start up	Disbursement condition
Format of the Quarterly/semi-annual Financial Reports and Annual Financial Statements to be agreed.	IFAD and APCU/PCU	Start up	N/A
Finalise project draft LTB	IFAD	As part of design	Negotiations
Prepare first AWPB & procurement plan.	APCU/PCU	By start-up	Disbursement condition
Appointment of auditor under ToR and conditions acceptable to IFAD using QCBS	MoF	Not later than 3 months after entry into force	Financing agreement schedule 3
Accounting software to be fine-tuned to fully automate financial reporting	APCU/PCU	Start up	N/A
Conduct a technical/ performance audit at the ground level.	SAI FBiH and RS, APCU/PCU and /IFAD	Once in a project cycle	N/A

Appendix 8: Procurement

A. Country context and IFAD procurement guidelines

1. **Country Assessment.** Bosnia and Herzegovina has established modern public financial management systems and a country-wide Law on Public Procurement (LPP) became operative in January 2005. This law is in line with EU requirements and, if implemented, has the potential to provide the basis for donors including IFAD and the World Bank to use the country's own procurement systems. However, it is not yet being consistently implemented at the State or Entity levels. The Supreme Audit Institution of the State has reported several instances of violation of the LPP in its audit reports¹⁵⁴. Furthermore, the first Public Expenditures and Financial Accountability (PEFA) identified Competition, value for money and controls in procurement as an area that requires improvement. Of the PEFA sub-indicators: (i) Transparency, comprehensiveness, and competition in the legal and regulatory framework and (ii) Existence of an independent administrative procurement complaints system were assessed as moderate (B) but (iii) Justification for use of less competitive procurement methods and (iv) Public access to complete, reliable, and timely procurement information were assessed to be weaker (D and C respectively). For these reasons, the LPP is not yet acceptable for use under IFAD financed projects and IFAD procurement guidelines will be adopted for the proposed project. However, improvements in implementation of the law are being supported by various donors. When properly implemented these will be adopted.
2. **IFAD Procurement Guidelines:** IFAD procurement guidelines take into consideration the following: (i) general procurement principles, standards and policies (ii) procurements shall be carried out in accordance with the provisions of the Borrower's procurement regulations, to the extent that these are consistent with the IFAD Procurement Guidelines, (iii) procurement methods will be identified in the approved procurement plans and prior review thresholds provided in the Letter to the Borrower (LTB) and any duly agreed amendments thereto; (iii) procurement will be conducted within the project implementation period, with the exception of winding up expenditures); (iv) cost of the procurement is not to exceed the availability of duly allocated funds as per Financing Agreement unless otherwise agreed in accordance with amendments to the Financing Agreement; (v) procurement will be consistent with the duly approved Annual Work Plan and Budget (AWPB) including an initial procurement plan for 18 months followed by successive 12-month plans synchronised with the annual AWPB cycle; and (vi) procurement should result in the best value for money.
3. **General Guidelines:** The following considerations generally guide IFAD's requirements for procurement: (i) the need for economy and efficiency in the implementation of the project, including the procurement of the goods and works involved and the recruitment of consultants; (ii) IFAD's interest in giving all qualified bidders from developed and developing countries the opportunity to compete in providing goods, works and consulting services financed by IFAD; (iii) IFAD's interest, as a development financing institution, in encouraging the development of domestic capacity to provide goods, works and consulting services; and giving appropriate preference to experts, technicians and suppliers from developing countries; (iv) the importance of fairness, integrity, transparency and good governance in the procurement process; and (v) the recognition that competition is the basis for efficient public procurement.
4. **Anticorruption and Good Governance Framework.** IFAD's applies a zero-tolerance policy towards fraudulent, corrupt, collusive or coercive actions in projects financed through its loans and grants. 'Zero tolerance' means that IFAD will pursue all allegations falling under the scope of this policy and that appropriate sanctions will be applied where the allegations are substantiated. IFAD shall take all possible actions to protect from reprisals individuals who help reveal corrupt practices in its project or grant activities and individuals or entities subject to unfair or malicious allegations. The IFAD anticorruption policy is available on the IFAD website at www.ifad.org/governance/anticorruption/index.htm). The website also provides instructions on how to report any alleged wrongdoing to the Office of Audit and Oversight (<http://www.ifad.org/governance/anticorruption/how.htm>).

¹⁵⁴ Country Partnership for Bosnia and Herzegovina 2008-2011. November 2007. World Bank.

B. Proposed Procurement Arrangements under the Project

5. **Implementation arrangement.** The APCU/PCU will be responsible for the procurement under the project in accordance with IFAD procurement guidelines, IFAD procurement handbook and the provisions stipulated in the Financing Agreement. For each contract to be financed by the IFAD financing, the different procurement methods, the need for prequalification, estimated costs, prior review requirements, and time frame will be agreed between the Borrower and IFAD project team in the Procurement Plan. The end-users will be included in developing the TORs to the extent possible. The project will also allow for procurement with community participation as outlined in IFAD guidelines. Accordingly procurement, supervision may also be undertaken by the end users e.g. producers associations, or co-operatives etc.
6. **Staffing.** The APCU/PCUs procurement officers, i.e. the procurement manager in the APCU and the Project director in the PCU have extensive experience with IFAD financed projects and IFAD procurement procedures. As a result no strengthening of procurement capacity is needed to meet project requirements.
7. **Bidding Documents.** All bidding documents for the procurement of goods, works and services would be prepared by the APCU/PCU. The technical specification will be prepared in consultation with the end-users. The bidding documents shall be based on the WB procurement sample documentation appropriated for IFAD's purposes.
8. **Performance based contracts.** The project envisages performance based contracts for both technical service providers and financial service providers. Thus during the procurement of these providers and renewal of contracts, the performance criteria will be clearly specified on the basis of which disbursements will be made. All bidding documents and contracts for the procurement of services financed by the IFAD loan and grant will include a provision requiring bidders, suppliers, contractors, sub-contractors and consultants to permit IFAD to inspect their accounts, records or other documents relating to the bid submission and contract performance and to have them audited by IFAD-appointed auditors and investigators, as appropriate.
9. **Procurement Plan:** The APCU/PCU, will prepare an AWPB and a Procurement Plan in a format acceptable to IFAD for the first 18 months of project implementation. The procurement plan will provide the basis for the procurement methods and prior/post review threshold. The Procurement Plan would be updated at least annually or as required to reflect the actual project implementation needs.
10. **Procurement progress report.** Procurement information would be recorded by the APCU/PCU and submitted to IFAD, as part of the semi-annually and annual progress reports.
11. **Register of contracts.** In addition, all contracts will be listed in the Register of Contracts in a format agreed with IFAD and maintained by the APCU/PCU. The register of contract will include information on contractor/supplier/service provider, contract amount, procurement method, contract signing, contract duration, date of IFAD non objection, prior/post review etc.
12. **Record keeping:** The APCU/PCU under the respective ministries will maintain complete procurement files which will be reviewed by IFAD supervision missions and backed up electronically. In accordance with IFAD General Conditions, the borrower has to maintain the original records for a minimum of 10 years after the project completion.

C. Procurement with community participation

13. **Procurement by communities.** In selected activities, the project will allow for procurement with community participation as outlined in the IFAD procurement guidelines. Accordingly, the selected communities or informal groups may be brought together to act as implementing agencies to undertake project procurement. Where this is the case, their role will include:
 - Competitive contracting using any of the agreed procurement methods; and
 - Supervision of a contracted provider of works, goods or services.
14. The exact criteria and procedures to be followed under procurement with community participation will be outlined in the implementation manual, and clearly defined in the approved procurement plan. In cases where the project's beneficiary community does not have adequate institutional capacity to receive and

account for funds or administer procurement reliably, it will be necessary to introduce intermediaries with adequate capacity to perform such duties to act on behalf of the community.

Classification of Procurement Items

15. The procurement items under the project will include the following:

- **Procurement of Works.** Works include (to be updated once we have the final cost tables).
- **Procurement of Goods.** Goods include (to be updated once we have the final cost tables).
- **Procurement for Consulting Services.** Training activities include (To be updated once we have the final cost tables). The Project will finance training programs, including training workshops, study tours and local training. Expenditures related to such training activities include:, and other training activities not included under goods and service providers' contracts, to be carried out under the Project, including fees, travel costs and per-diem allowances for the trainers and travel costs and per-diem allowances for the trainees, cost of training materials, space and equipment rental, and other related expenditures; all such expenditures shall be based on plans adopted by the APCU/PCU and satisfactory to IFAD, which shall include proposed budgets and terms of reference.

16. **Training plan.** As part of the AWPB, the APCU/PCU will prepare a training plan that will identify the agreed procedures to be used for procurement of various training services and share it with IFAD annually.

17. **Operating cost.** Operating cost mean reasonable expenditures incurred as part of the project implementation, management and monitoring, including vehicles and equipment and office operation, maintenance and repair, office supplies, publication of procurement notices, communication, translation and interpretation, travel and supervision costs (only project staff and cost involved with support to joint supervision missions), health and life insurance for staff, miscellaneous costs directly associated with the project, but excluding salaries of APCU/PCU staff.

18. **Procurement of project auditors.** All project audits in BiH are covered by an umbrella agreement with one audit firm. Therefore, the Procurement of the project auditor will be conducted by at state level by the Ministry of Finance for a period of 3 years based on TORs approved by IFAD annually.

Procurement Thresholds

19. While specific thresholds for procurement financed under the programme will be stipulated in the Letter to the Borrower, the general recommendation is the following:

- **Goods** estimated to cost more than USD 100,000 equivalent per contract may be procured through the International Competitive Bidding (ICB) method using the World Bank's applicable Standard Bidding Documents (SBDs). Goods estimated to cost less than US\$100,000 equivalent per contract may be procured through the National Competitive Bidding (NCB). Goods estimated to cost less than US\$20,000 equivalent per contract may be procured through National Shopping method.
- **Works** estimated to cost more than USD 500 000 equivalent may be procured through International Competitive Bidding (ICB) method using the World Bank's applicable SBDs. Works estimated between USD 25 000 and USD 500 000 may be procured through the NCB. While works estimated below USD 25 000 may be procured through National Shopping method. Direct contracting will have to be identified and approved by IFAD in advance for those cases which justify use of such method.
- **Consultancy services** generally estimated to cost more than USD 50 000 for firms and USD 20 000 for individuals will be on the basis of Quality and Cost based selection method. However, the specific nature of the assignment will finally determine the method of procurement to be followed.

Prior Review Thresholds

20. The prior review threshold will be initially communicate in the LtB and subsequently specified in the procurement plan. It is foreseen that the following will be subject to prior review by the Fund:

- Award of any contract for goods to cost USD 50 000 equivalent or more.
- Award of any contract for works estimated to cost USD 50 000 or more.

- Award to an enterprise of any contract for consulting services estimated to cost USD 50 000 or more.
- Award to an individual of any contract for consulting services estimated to cost USD 20 000 equivalent or more.
- Award of any contract through direct contracting.

21. Such thresholds could be modified by during the course of the Programme implementation.

Table 28: 18 months Procurement Plan

		UNIT	2016 (USD 000)	2017 (USD 000)	18 MONTHS (USD 000)	Financier	Proc Acc	Proc Method	Responsible Agency
COMPONENT 1: Enabling Environment for Inclusive Sub-sector Development_FBiH									
COMP.1.1.1	Training of Trainers TOT	Unit	1.22	2.47	2.46	IFAD_1_FB (100%)	TRAIN_PA	NCB_PM (100%)	PCU
COMP.1.1.2	Contracting of Lead Farmers	pers/month		7.07	3.53	IFAD_1_FB (100%)	NTA_PM	QCBS_PM (100%)	PCU
COMP.1.1.3	In country Study Tours	pers/day	7.31	7.42	11.03	IFAD_1_FB (100%)	TRAIN_PA	NCB_PM (100%)	PCU
COMP.1.1.4	Cluster Stakeholders' Platform Allocation	Amount		35.35	17.67	IFAD_1_FB (100%)	NTA_PM	QCBS_PM (100%)	PCU
COMP.1.1.5	Sub-Sector Stakeholder's Platform allocation	pers/day		8.84	4.42	IFAD_1_FB (100%)	NTA_PM	QCBS_PM (100%)	PCU
COMP.1.1.6	Case Studies & Learning and Policy Notes	Number		7.07	3.54	IFAD_1_FB (100%)	STU_PA	NCB_PM (100%)	PCU
COMP.1.1.7	Gender & youth diagnostic study and action plan	Lumpsum	24.38		24.38	IFAD_G(100%)	NTA_PM	QCBS_PM (100%)	PCU
COMP.1.1.8	Gender & youth capacity building for implementing partners	number		3.53	1.77	IFAD_G(100%)	NTA_PM	QCBS_PM (100%)	PCU
COMP.1.1.9	Capacity Building and Monitoring Inclusiveness of Component 2	Lumpsum	59.21	60.09	89.25	IFAD_G(100%)	NTA_PM	QCBS_PM (100%)	PCU
COMPONENT 1: Enabling Environment for Inclusive Sub-sector Development_RS									
COMP.1.2.1	Training of Trainers TOT	Unit	1.22	1.24	1.84	IFAD_1_RS (100%)	TRAIN_PA	NCB_PM (100%)	APCU
COMP.1.2.2	Contracting of Lead Farmers	pers/month		4.71	2.36	IFAD_1_RS (100%)	NTA_PM	QCBS_PM (100%)	APCU
COMP.1.2.3	In country Study Tours	pers/day	4.88	4.95	7.35	IFAD_1_RS (100%)	TRAIN_PA	NCB_PM (100%)	APCU
COMP.1.2.4	Cluster Stakeholders' Platform Allocation	Amount		35.35	17.67	IFAD_1_RS (100%)	NTA_PM	QCBS_PM (100%)	APCU
COMP.1.2.5	Sub-Sector Stakeholder's Platform allocation	pers/day		5.89	2.95	IFAD_1_RS (100%)	NTA_PM	QCBS_PM (100%)	APCU
COMP.1.2.6	Case Studies & Learning and Policy Notes	Number		4.71	2.36	IFAD_1_RS (100%)	STU_PA	NCB_PM (100%)	APCU
COMP.1.2.7	Gender & youth diagnostic study and action plan	Lumpsum	16.25	0.00	16.25	IFAD_G(100%)	NTA_PM	QCBS_PM (100%)	APCU
COMP.1.2.8	Gender & youth capacity building for implementing partners	number		7.07	3.53	IFAD_G(100%)	NTA_PM	QCBS_PM (100%)	APCU
COMP.1.2.9	Capacity Building and Monitoring Inclusiveness of Component 2	Lumpsum	39.47	40.06	59.50	IFAD_G(100%)	NTA_PM	QCBS_PM (100%)	APCU
COMPONENT 2: Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_FBiH									
COMP.2.1.1	Update Market Information	Lumpsum	20.43	-	20.43	IFAD_1_FB (100%)	NTA_PM	QCBS_PM (100%)	PCU
COMP.2.1.2	Induction Training for BFPs	Lumpsum	6.81	-	6.81	IFAD_1_FB (100%)	TRAIN_PA	NCB_PM (100%)	PCU
COMP.2.1.3	Public Technical Advisory Services	Lumpsum	14.51	14.73	21.88	IFAD_1_FB (100%)	NTA_PM	QCBS_PM (100%)	PCU
COMP.2.1.4	BPs Preparation	Number	33.81	57.20	62.41	IFAD_1_FB (100%)	NTA_PM	QCBS_PM (100%)	PCU
COMP.2.1.5	BPs Technical Review	BP	14.30	24.20	26.40	IFAD_1_FB (100%)	NTA_PM	QCBS_PM (100%)	PCU
COMP.2.1.6	BPs Monitoring	Number	-	17.16	8.58	IFAD_1_FB (100%)	NTA_PM	QCBS_PM (100%)	PCU
COMP.2.1.7	BPs Investment Funds	Number	2,180	3,655	4008	IFAD_1_FB (100%); RS (95%); Municipalities (5%)	BPS_PA	QCBS_PM (100%)	PCU
COMPONENT 2: Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_RS									
COMP.2.2.1	Update Market Information	Lumpsum	13.62	-	13.62	IFAD_1_RS (100%)	NTA_PM	QCBS_PM (100%)	APCU
COMP.2.2.2	Induction Training for BFPs	Lumpsum	4.54	-	4.54	IFAD_1_RS (100%)	TRAIN_PA	NCB_PM (100%)	APCU
COMP.2.2.3	Public Technical Advisory Services	Lumpsum	14.51	14.73	21.88	IFAD_1_RS (100%)	NTA_PM	QCBS_PM (100%)	APCU
COMP.2.2.4	BPs Preparation	Number	22.54	40.04	42.56	IFAD_1_RS (100%)	NTA_PM	QCBS_PM (100%)	APCU
COMP.2.2.5	BPs Technical Review	BP	9.54	16.94	18.00	IFAD_1_RS (100%)	NTA_PM	QCBS_PM (100%)	APCU
COMP.2.2.6	BPs Monitoring	Number	-	11.44	5.72	IFAD_1_RS (100%)	NTA_PM	QCBS_PM (100%)	APCU
COMP.2.1.7	BPs Investment Funds	Number	2,523	4,440	4,743	IFAD_1_RS (100%); RS (95%); Municipalities (5%)	BPS_PA	QCBS_PM (100%)	APCU

Table 29: 18 months Procurement Plan (cont.)

Project Management, Monitoring and EvaluationM Unit_FBiH									
COMP 3.1.1	Local Courses	Course	1.16	1.18	1.75	IFAD_1_FB (100%)	TRAIN_PA	NCB_PM (100%)	PCU
COMP 3.1.2	International Courses	Course	-	2.95	1.47	IFAD_1_FB (100%)	TRAIN_PA	NCB_PM (100%)	PCU
COMP 3.1.3	External audit	audit	5.80	5.89	8.75	IFAD_1_FB (100%)	STU_PA	NCB_PM(100%)	PCU
COMP 3.1.4	Participatory Case Studies	number	1.51	1.53	2.28	IFAD_1_FB (100%)	STU_PA	NCB_PM(100%)	PCU
COMP 3.1.5	Annual review workshop	number	-	2.95	1.47	IFAD_1_FB (100%)	TRAIN_PA	NCB_PM (100%)	PCU
COMP 3.1.6	Inter-Entity Workshop	number	2.90	2.95	4.38	IFAD_1_FB (100%)	TRAIN_PA	NCB_PM (100%)	PCU
COMP 3.1.7	Baseline study	study	17.41	-	17.41	IFAD_1_FB (100%)	STU_PA	NCB_PM(100%)	PCU
COMP 3.1.8	Information and Communication Materials	Lump Sum	-	2.95	1.47	IFAD_1_FB (100%)	EQUIP_PA	NCB_PM (100%)	PCU
COMP 3.1.9	Training Manuals	Lump Sum	-	5.89	2.95	IFAD_1_FB (100%)	EQUIP_PA	NCB_PM (100%)	PCU
COMP 3.1.10	Business Development Officer	pers/year	30.56	30.56	45.84	IFAD_1_FB (100%)	SAL_PA	DIR_CONTRACT_PM(100%)	PCU
COMP 3.1.11	Business Development Officer	pers/year	30.56	30.56	45.84	IFAD_1_FB (100%)	SAL_PA	DIR_CONTRACT_PM(100%)	PCU
COMP 3.1.12	Procurement Officer	pers/year	30.56	30.56	45.84	IFAD_1_FB (100%)	SAL_PA	DIR_CONTRACT_PM(100%)	PCU
Project Management, Monitoring and EvaluationM Unit_RS									
COMP 3.2.1	Local Courses	Course	1.16	1.18	1.75	IFAD_1_RS (100%)	TRAIN_PA	NCB_PM (100%)	APCU
COMP 3.2.2	International Courses	Course	-	2.95	1.47	IFAD_1_RS (100%)	TRAIN_PA	NCB_PM (100%)	APCU
COMP 3.2.3	External audit	audit	5.80	5.89	8.75	IFAD_1_RS (100%)	STU_PA	NCB_PM(100%)	APCU
COMP 3.2.4	Participatory Case Studies	number	1.01	1.02	1.52	IFAD_1_RS (100%)	STU_PA	NCB_PM(100%)	APCU
COMP 3.2.5	Annual review workshop	number	-	2.95	1.47	IFAD_1_RS (100%)	TRAIN_PA	NCB_PM (100%)	APCU
COMP 3.2.6	Inter-Entity Workshop	number	2.90	2.95	4.38	IFAD_1_RS (100%)	TRAIN_PA	NCB_PM (100%)	APCU
COMP 3.2.7	Baseline study	study	11.61	-	11.61	IFAD_1_RS (100%)	STU_PA	NCB_PM(100%)	APCU
COMP 3.2.8	Information and Communication Materials	Lump Sum	-	2.95	1.47	IFAD_1_RS (100%)	EQUIP_PA	NCB_PM (100%)	APCU
COMP 3.2.9	Training Manuals	Lump Sum	-	5.89	2.95	IFAD_1_RS (100%)	EQUIP_PA	NCB_PM (100%)	APCU
COMP 3.2.10	Business Development Officer	pers/year	29.42	29.42	44.14	IFAD_1_RS (100%)	SAL_PA	DIR_CONTRACT_PM(100%)	APCU
COMP 3.2.11	Business Development Officer	pers/year	29.42	29.42	44.14	IFAD_1_RS (100%)	SAL_PA	DIR_CONTRACT_PM(100%)	APCU
COMP 3.2.12	M&E/Targeting Gender Officer	pers/year	29.42	29.42	44.14	IFAD_1_RS (100%)	SAL_PA	DIR_CONTRACT_PM(100%)	APCU

Appendix 9: Project cost and financing

A. Assumptions

- Project Duration.** The implementation period of the Rural Competitiveness Development Project (RCDP) is estimated at 10 years.
- Price contingencies.** Price contingencies aim to cover expected price increase between project preparation and project start up as well as throughout the project implementation period. Local price inflation has been assumed at 1.5%.
- Physical contingencies** aim to cover uncertainties related to quantities and units costs. They are assumed at 5%, and they are applied only in specific case where variation in quantities may happen (e.g. trainings and study tours).
- Taxes:** The levels of taxes in the unit costs were estimated to include Governmental duties and taxes. Most costs items include VAT, which account for 17%. As per IFAD rules and regulations, local VAT and import taxes are considered as a contribution to project costs by the Government of Bosnia and Herzegovina (see financing tables). The Value Added Tax (VAT) applies to virtually all expenditure categories except international technical assistance, and staff allowances. An average amount of 17% VAT is included for all vehicles and equipment, training and workshops, studies (realised by a service provider) funded with IFAD funds. Salaries include 5.6% of income taxes in the Federation of Bosnia and Herzegovina and 10% in the Republika Srpska. The Government of BiH is expected to finance taxes for a total amount of up to US\$ 4.7 million.
- Exchange Rate.** The exchange rate used in the analysis is fixed at 1 USD=1.7357 BAM computed as an average of the exchange rate prevailing between January and end of March 2015, when the design mission took place.

B. Total Costs

6. The total project costs including physical and price contingencies are estimated at USD 61.45 million¹⁵⁵ (BAM 106 million) over a ten-year period. Project costs by components are summarized in the table below. Component 2, which is the main investment component, represents 86% of total project costs. A complete set of summary and detailed costs tables are attached in Appendix 9.

Table 30: Project costs by components

	(BAM '000)			(USD '000)		
	Local	Foreign	Total	Local	Foreign	Total
A. Enabling Environment for Inclusive Sub-sector Development						
1. Enabling Environment for Inclusive Sub-sector Development_FBiH	2,210.00	-	2,210.00	1,273.26	-	1,273.26
2. Enabling Environment for Inclusive Sub-sector Development_RS	1,503.00	-	1,503.00	865.93	-	865.93
Subtotal Enabling Environment for Inclusive Sub-sector Development	3,713.00	-	3,713.00	2,139.19	-	2,139.19
B. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains						
1. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_FBiH	55,346.80	-	55,346.80	31,887.31	-	31,887.31
2. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_RS	35,835.94	-	35,835.94	20,646.39	-	20,646.39
Subtotal Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains	91,182.74	-	91,182.74	52,533.70	-	52,533.70
C. Project Management, Monitoring and Evaluation						
1. Project Management, Monitoring and Evaluation_FBiH	4,322.28	157.29	4,479.56	2,490.22	90.62	2,580.84
2. Project Management, Monitoring and Evaluation_RS	3,730.31	149.77	3,880.08	2,149.16	86.29	2,235.45
Subtotal Project Management, Monitoring and Evaluation	8,052.58	307.06	8,359.64	4,639.39	176.91	4,816.29
Total BASELINE COSTS	102,948.32	307.06	103,255.38	59,312.28	176.91	59,489.19
Physical Contingencies	8.05	-	8.05	4.64	-	4.64
Price Contingencies	3,375.06	27.31	3,402.38	1,944.50	15.74	1,960.23
Total PROJECT COSTS	106,331.44	334.37	106,665.81	61,261.41	192.64	61,454.06

¹⁵⁵ Project total costs may increase during implementation depending on the accessibility of credit funds provided by other IFAD funded projects.

C. Project Financing

7. A total of US\$ 25.5 million of IFAD-financing is expected to be mobilized over the ten-year period. RCDP will absorb the entire PBAS allocation of 2013-2015, including a loan of US\$ 12.25 million and a grant of US\$ 500,000 specifically for inclusiveness-related activities to be implemented under Result 2 of Component 2. Subject to performance and availability, additional financing of US\$ 12.75 million could be earmarked from the 2016-2018 PBAS cycle, which will be allocated for the co-financing of Cycle 2 of the project.

8. IFAD loans will be used to fully finance: (a) Component 1; (b) Project Coordination Unit in both Entities, and (c) to co-finance Business Proposals (BPs) implemented under Component 2. BPs are expected to be financed according to the following allocation: (a) 38% from IFAD loans; (b) 5% from Municipalities; (c) 17% from PAs; and (d) 39% from agribusiness and/or financial sector.

Table 31: Total Costs by Financiers

(USD Million)

	IFAD LOAN CYCLE 1_FBIH		IFAD LOAN CYCLE 1_RS		IFAD LOAN CYCLE 2_FBIH		IFAD LOAN CYCLE 2_RS		IFAD Grant		Government		Municipalities		Private Sector		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Enabling Environment for Inclusive Sub-sector Development																		
1. Enabling Environment for Inclusive Sub-sector Development_FBIH	0.38	27.6	-	-	0.47	34.1	-	-	0.29	21.3	0.23	17.0	-	-	-	-	1.37	2.2
2. Enabling Environment for Inclusive Sub-sector Development_RS	-	-	0.27	29.2	-	-	0.29	31.6	0.21	22.2	0.16	17.0	-	-	-	-	0.93	1.5
Subtotal Enabling Environment for Inclusive Sub-sector Development	0.38	16.4	0.27	11.8	0.47	20.3	0.29	12.8	0.50	21.6	0.39	17.0	-	-	-	-	2.30	3.7
B. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains																		
1. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_FBIH	5.88	17.9	-	-	5.63	17.1	-	-	-	-	2.36	7.2	0.95	2.9	18.04	54.9	32.86	53.5
2. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_RS	-	-	4.17	19.6	-	-	3.26	15.4	-	-	1.52	7.2	0.61	2.9	11.68	55.0	21.24	34.6
Subtotal Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains	5.88	10.9	4.17	7.7	5.63	10.4	3.26	6.0	-	-	3.88	7.2	1.56	2.9	29.72	54.9	54.10	88.0
C. Project Management, Monitoring and Evaluation																		
1. Project Management, Monitoring and Evaluation_FBIH	0.84	29.9	-	-	1.75	62.7	-	-	-	-	0.21	7.4	-	-	-	-	2.79	4.5
2. Project Management, Monitoring and Evaluation_RS	-	-	0.72	32.0	-	-	1.35	59.6	-	-	0.19	8.4	-	-	-	-	2.26	3.7
Subtotal Project Management, Monitoring and Evaluation	0.84	16.5	0.72	14.3	1.75	34.7	1.35	26.7	-	-	0.40	7.8	-	-	-	-	5.05	8.2
Total PROJECT COSTS	7.09	11.5	5.16	8.4	7.85	12.8	4.91	8.0	0.50	0.8	4.67	7.6	1.56	2.5	29.72	48.4	61.45	100.0

9. As mentioned, IFAD will also provide a grant of US\$ 500,000 which will be used to finance inclusiveness impact monitoring. The loan will be disbursed during the first 5 years of the project.

10. The Government of BiH will finance taxes and duties on imported goods, and Value Added Tax (VAT) for a total amount of up to US\$ 4.7 million. This is an estimate as the bulk of project funds will be channeled to co-finance BPs, which will be formulated during the implementation so it is not possible at this stage establish which kind of investments will be included in the BPs and in consequence calculate taxes.

Table 32: Project components by year – total costs including contingencies

(USD '000)

	Totals Including Contingencies										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
A. Enabling Environment for Inclusive Sub-sector Development											
1. Enabling Environment for Inclusive Sub-sector Development_FBiH	95.60	128.32	172.73	188.10	199.55	108.81	100.92	115.96	117.70	119.46	1,347.15
2. Enabling Environment for Inclusive Sub-sector Development_RS	64.14	96.92	122.92	125.40	137.14	68.28	62.96	64.58	78.63	79.81	900.78
Subtotal Enabling Environment for Inclusive Sub-sector Development	159.74	225.24	295.65	313.50	336.69	177.09	163.88	180.54	196.33	199.27	2,247.93
B. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains											
1. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_FBiH	2,263.10	3,783.52	4,194.82	4,584.91	2,317.54	1,181.39	4,650.28	4,707.96	5,129.11	52.79	32,885.43
2. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_RS	1,526.90	2,651.99	3,045.21	3,048.90	1,920.66	797.09	2,717.11	2,753.65	2,771.49	33.05	21,266.04
Subtotal Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains	3,810.00	6,435.51	7,240.03	7,633.80	4,238.21	1,978.48	7,367.39	7,461.61	7,900.60	85.84	54,151.47
C. Project Management, Monitoring and Evaluation											
1. Project Management, Monitoring and Evaluation_FBiH	128.53	117.95	127.69	112.68	419.89	363.98	369.44	374.98	392.38	386.31	2,793.83
2. Project Management, Monitoring and Evaluation_RS	118.82	114.04	120.66	108.75	342.30	288.12	288.53	288.94	299.83	289.79	2,259.77
Subtotal Project Management, Monitoring and Evaluation	247.35	231.99	248.34	221.43	762.19	652.10	657.97	663.92	692.20	676.10	5,053.60
Total PROJECT COSTS	4,217.09	6,892.74	7,784.03	8,168.73	5,337.08	2,807.67	8,189.24	8,306.07	8,789.13	961.21	61,452.99

Table 33: Expenditures of accounts by financiers

(USD Million)																	
		IFAD		IFAD		IFAD		IFAD									
		LOAN CYCLE		LOAN CYCLE		LOAN CYCLE		LOAN CYCLE									
		1 FBIH		1 RS		2 FBIH		2 RS		IFAD Grant		Government		Municipalities		Private Sector	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment Costs																	
A. Federation of Bosnia and Herzegovina																	
1. Vehicles and Equipment_FBIH		0.08	43.3	-	-	0.06	33.7	-	-	-	-	0.03	17.0	-	-	-	0.17
2. Institutional Agreements & Service Contracts_FBIH		0.54	32.8	-	-	0.55	33.6	-	-	0.27	16.7	0.28	17.0	-	-	-	1.64
3. Business Proposals_FBIH		5.66	17.9	-	-	5.63	17.1	-	-	-	-	2.35	7.2	0.35	2.9	18.04	53.4
Subtotal Federation of Bosnia and Herzegovina		6.48	13.7	-	-	6.24	18.0	-	-	0.27	0.3	2.66	7.7	0.35	2.7	18.04	56.4
B. Republika Srpska																	
1. Vehicles & Equipment_RS		-	-	0.07	49.7	-	-	0.05	33.3	-	-	0.02	17.0	-	-	-	0.14
2. Institutional Agreements & Service Contracts_RS		-	-	0.35	31.0	-	-	0.36	32.0	0.23	20.3	0.19	17.0	-	-	-	1.16
3. Business Proposals_RS		-	-	4.15	19.6	-	-	3.26	15.4	-	-	1.52	7.2	0.31	2.9	11.66	34.5
Subtotal Republika Srpska		-	-	4.57	20.3	-	-	3.67	16.3	0.23	1.3	1.73	7.7	0.31	2.7	11.66	36.6
Total Investment Costs		6.48	11.3	4.57	8.0	6.24	10.9	3.67	6.4	0.50	0.3	4.40	7.7	1.56	2.7	29.72	93.0
II. Recurrent Costs																	
A. Federation of Bosnia and Herzegovina																	
1. Salaries & Operating Costs_FBIH		0.63	23.5	-	-	1.61	67.7	-	-	-	-	0.14	5.7	-	-	-	2.36
B. Republika Srpska																	
1. Salaries & Operating Costs_RS		-	-	0.57	29.3	-	-	1.23	63.8	-	-	0.13	6.9	-	-	-	1.93
Total Recurrent Costs		0.63	14.7	0.57	13.7	1.61	37.4	1.23	28.6	-	-	0.27	6.3	-	-	-	4.31
Total PROJECT COSTS		7.11	11.6	5.13	8.4	7.85	12.8	4.91	8.0	0.50	0.3	4.67	7.6	1.56	2.5	29.72	100.0

Table 34: Project components by year – totals including contingencies

(USD '000)

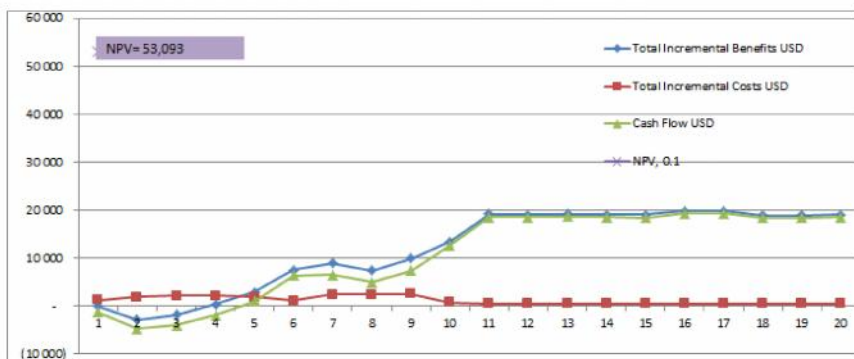
	Totals Including Contingencies										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
A. Enabling Environment for Inclusive Sub-sector Development											
1. Enabling Environment for Inclusive Sub-sector Development_FBiH	95.60	128.32	172.73	188.10	199.55	108.81	100.92	115.96	117.70	119.46	1,347.15
2. Enabling Environment for Inclusive Sub-sector Development_RS	64.14	96.92	122.92	125.40	137.14	68.28	62.96	64.58	78.63	79.81	900.78
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B. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains											
1. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_FBiH	2,283.10	3,783.52	4,194.82	4,584.91	2,317.54	1,181.39	4,650.28	4,707.96	5,129.11	52.79	32,885.43
2. Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_RS	1,526.90	2,651.99	3,045.21	3,048.90	1,920.66	797.09	2,717.11	2,753.65	2,771.49	33.05	21,286.04
Subtotal Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains	3,810.00	6,435.51	7,240.03	7,633.80	4,238.21	1,978.48	7,367.39	7,461.61	7,900.60	85.84	54,151.47
C. Project Management, Monitoring and Evaluation											
1. Project Management, Monitoring and Evaluation_FBiH	128.53	117.95	127.69	112.68	419.89	363.98	369.44	374.98	392.38	386.31	2,793.83
2. Project Management, Monitoring and Evaluation_RS	118.82	114.04	120.66	108.75	342.30	288.12	288.53	288.94	299.83	289.79	2,259.77
Subtotal Project Management, Monitoring and Evaluation	247.35	231.99	248.34	221.43	762.19	652.10	657.97	663.92	692.20	676.10	5,053.60
Total PROJECT COSTS	4,217.09	6,892.74	7,784.03	8,168.73	5,337.08	2,807.67	8,189.24	8,306.07	8,789.13	961.21	61,452.99

Table 35: Expenditure accounts by components – totals including contingencies

(USD '000)

	Enabling Environment for Inclusive Sub-sector Development		Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains		Project Management, Monitoring and Evaluation		
	Enabling Environment for Inclusive Sub-sector Development_FBiH	Enabling Environment for Inclusive Sub-sector Development_RS	Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_FBiH	Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains_RS	Project Management, Monitoring and Evaluation_FBiH	Project Management, Monitoring and Evaluation_RS	Total
I. Investment Costs							
A. Federation of Bosnia and Herzegovina							
1. Vehicles and Equipment_FBiH	-	-	-	-	165.13	-	165.13
2. Institutional Agreements & Service Contracts_FBiH	1,347.15	-	44.19	-	248.66	-	1,639.99
3. Business Proposals_FBiH	-	-	32,841.24	-	-	-	32,841.24
Subtotal Federation of Bosnia and Herzegovina	1,347.15	-	32,885.43	-	413.78	-	34,646.36
B. Republika Srpska							
1. Vehicles & Equipment_RS	-	-	-	-	-	139.41	139.41
2. Institutional Agreements & Service Contracts_RS	-	900.78	-	44.19	-	189.93	1,134.90
3. Business Proposals_RS	-	-	-	21,221.85	-	-	21,221.85
Subtotal Republika Srpska	-	900.78	-	21,266.04	-	329.34	22,496.16
Total Investment Costs	1,347.15	900.78	32,885.43	21,266.04	413.78	329.34	57,142.52
II. Recurrent Costs							
A. Federation of Bosnia and Herzegovina							
1. Salaries & Operating Costs_FBiH	-	-	-	-	2,380.04	-	2,380.04
B. Republika Srpska							
1. Salaries & Operating Costs_RS	-	-	-	-	-	1,930.43	1,930.43
Total Recurrent Costs	-	-	-	-	2,380.04	1,930.43	4,310.47
Total PROJECT COSTS	1,347.15	900.78	32,885.43	21,266.04	2,793.83	2,259.77	61,452.99

Appendix 10: Economic and Financial Analysis

[illegible]

SENSITIVITY ANALYSIS				
Assumptions		Related Risk	ERR	NPV \$ Million
Project Base Case			36.6%	53.1
Decrease in Project Benefits	-20%	Beneficiaries do not adopt new and more environmental friendly technologies. Price and market fluctuations. Low crop yields	32.9%	40
	-50%	Weak quality of extension services. Weak cooperation within the VC.	25.2%	20.1
Increase in Project Costs	20%		33.8%	50.5
	50%	Procurement risks. Low management capacity.	29.9%	46.6
Delays in Implementation	1 year		31.9%	44.5
	2 years	Capacity of PCU & APCU to implement the project and cooperate on common activities.	28.0%	38.7



	NET INCREMENTAL BENEFITS			NET INCREMENTAL COSTS					
	Total Crop Models Net Incremental Benefits ('000 USD)	Total Cooperative Models Net Incremental Benefits ('000 USD)	Total Increments (Benefits) ('000 USD)	A. Enabling Environment for Inclusive Sub-sector Development ('000 USD)	B. Sustainable Inclusion of Smallholders in the Thriving/ Successful Value Chains ('000 USD)	C. Project Management, Monitoring and Evaluation ('000 USD)	Total Incremental Costs ('000 USD)	Cash Flow ('000 USD)	
E C O N O M I C A N A L Y S I S	PY1	-	-	-	145	908	228	1 282	(1 282)
	PY2	(1 601)	(1 123)	(2 724)	197	1 527	214	1 939	(4 662)
	PY3	(1 427)	(378)	(1 804)	252	1 707	227	2 186	(3 991)
	PY4	385	(30)	355	263	1 790	205	2 258	(1 904)
	PY5	2 619	414	3 033	274	987	691	1 952	1 081
	PY6	6 202	1 398	7 599	139	457	597	1 194	6 405
	PY7	7 319	1 619	8 938	127	1 699	597	2 423	6 515
	PY8	6 387	1 124	7 511	138	1 708	597	2 443	5 068
	PY9	8 623	1 451	10 074	148	1 797	614	2 559	7 515
	PY10	11 480	1 939	13 420	148	16	597	761	12 659
	PY11	16 892	2 280	19 172			551	551	18 621
	PY12	16 957	2 156	19 113			551	551	18 562
	PY13	16 979	2 311	19 291			551	551	18 740
	PY14	16 926	2 236	19 161			551	551	18 611
	PY15	17 539	1 511	19 050			551	551	18 499
	PY16	17 766	2 169	19 935			551	551	19 385
	PY17	17 542	2 387	19 929			551	551	19 378
	PY18	16 856	2 156	19 012			551	551	18 462
	PY19	16 657	2 311	18 968			551	551	18 418
	PY20	16 920	2 236	19 156			551	551	18 605
NPV@ 10 % ('000 USD)			53 093						
IRR			36.6%						

Beneficiaries and Investment Phasing											
	Raspberry	Blueberry	Blackberry	Strawberry	Gherkin	Potato	Paprika	Cucumber & Tomato	Cucumber & Paprika	Berries Cooperative	Vegetable Cooperative
or	Unit	no.	no.	no.	no.	no.	no.	no.	no.	no.	no.
7	Py1	0	0	0	0	0	0	0	0	0	0
	Py2	345	115	58	115	173	58	58	115	115	22
	Py3	585	195	98	195	293	98	98	195	11	5
	Py4	600	200	100	200	300	100	100	200	11	5
	Py5	600	200	100	200	300	100	100	200	13	5
	Py6	240	80	40	80	120	40	40	80	0	0
	Py7	240	80	40	80	120	40	40	80	0	0
	Py8	705	235	118	235	353	118	118	235	235	13
	Py9	705	235	118	235	353	118	118	235	235	0
	Py10	705	235	118	235	353	118	118	235	235	0
	Total	4 725	1 575	788	1 575	2 363	788	788	1 575	1 575	70

A. Fruits, vegetables and MAPs subsectors in BiH

1. Bosnia and Herzegovina has favorable agro-ecological and soil conditions for production of a broad range of vegetables and fruits. Climate variations between northern continental part of Bosnia and southern Mediterranean part of Herzegovina enable provision and delivery of fruit and vegetables for the market throughout most of the year. Nevertheless, the country is a net importer for most fruits and vegetables.

2. Fruits production includes in particular apples, pears, plums, cherries, berries, peaches, grapes and apricots. The country is producing a broad range of berries, in particular raspberry and strawberry, but also blueberry, blackberry, redcurrant, blackcurrant and others, mainly for export. Currently, export of cherries and berries is expanding rapidly and interesting for smallholders, as their production is mainly based on family labour and small farm holdings. In the past few years BiH has emerged as a major exporter in this field, especially raspberries, mostly in frozen form. Production of other berries is much smaller, but also expanding from year to year. Berries, also categorized as “forest fruits” by the food industry have interesting demand prospects in the EU and non-EU markets, for example in the fresh market but also in fruits drinks and yoghurts. Consequently, the food industry is looking for new supplies and developing networks of wholesale buyers in BiH. A quick survey learned that at least 10 wholesale buyers and processors are currently buying berries in BiH. The market is transparent: purchase prices and conditions are known. The companies are using more or less the same price. Most of them are investing in networks of smallholder producers.

3. Vegetable production in BiH covers 75,000 hectares (gherkins, paprika, tomato, cucumber, lettuce, etc.), both for fresh consumption mainly in the domestic market and for processing in the domestic and EU-market. Vegetable crops in BiH covers 75 000 ha of sown land what is around 14 % of total sown area. Annual production of vegetables in BiH from 2011-2014 is between 676 109 t in 2011 up to 507 365 tons in 2014. In Herzegovina, production of Mediterranean fruits and vegetables is expanding. Production in greenhouses is in full expansion, but less developed than in most neighbouring European countries. Marketing chains for fresh produce are generally very poorly developed. . Most vegetables are produced for the domestic consumer market, but also for processing. The challenge of vegetable production is: (a) to develop market linkages with export markets; only few efficient linkages are being developed; one of these is the gherkins value chain for processing; (b) to enhance linkages in the domestic market; few vegetable producers have stable relations with wholesale buyers; (c) to mainstream modern production technologies, in particular irrigation and production in greenhouses; (d) to develop supply chains for the food processing industry, that is problems to procure raw material locally.

4. BiH, with its abundant forest resources, is very suitable for the collection of wild fruits, mushrooms, medicinal and aromatic plants (MAPs), which are premium products. Also in the MAPs and mushroom subsector, at least 10 wholesale buyers are active. Most of them are also buying berries. When talking about mushrooms then the following varieties are considered: *Boletus edulis* - King Boletus, *Cantharelluscibarius* – Chanterelle; *Cartarelluscornucopioides* - Black trumpet and *Morchellaesculenta* – Morel. Collecting MAPs is an income generating activity for rural people, in particular those with small revenues. The related market linkages for exports are developing, often based on collection points (cold rooms) at the level of municipalities.

5. Table 36 presents a swot analysis of the fruits, vegetables and MAPs subsectors in BiH. RCDP is based on strengths and opportunities in the targeted subsectors, while taking into account weaknesses (building linkages, promoting technologies, investment support).

Table 36: Swot analysis of the fruits, vegetables and MAPS subsectors in BiH

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> ✓ Competitive labour cost ✓ Various agro-ecological conditions ✓ Traditionally good estimate in production of some soft fruits, plums, vegetables. ✓ Existing conditions for organic production; presence of agencies for organic certification. ✓ Farmers and local authorities' great interest in production of fruits and vegetables. ✓ Strong demand from processing industry and exporters. ✓ Increasing consumers' requirements for local produce at the domicile markets. 	<ul style="list-style-type: none"> ✓ Weak market orientation; inadequate farmers' awareness ✓ Few well-organized value chains and market linkages. ✓ Low productivity and technology level; weak input supply lines (in many cases) ✓ Land ownership issues; small individual pieces of land; many lands in the country are abandoned and unutilized ✓ Difficult access to financial resources, especially for farmers ✓ Weak cooperation among producers ✓ Weak or poorly organized technical aid by the expert agricultural services.
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> ✓ Easy access to EU and non-EU markets. ✓ Wholesale buyers organize outgrower schemes. ✓ Strong export demand: berries, sour cherry and cherry, plum, soft fruit... ✓ Potential for organic production 	<ul style="list-style-type: none"> ✓ Unregulated import of foreign produce ✓ Strong regional competition ✓ Insufficient coordination of quality standards ✓ Pollution and lack of environment protection ✓ Fluctuating regional demand (Russia...)

Source: Based on own observations and on Boris Tadic (2008) "Fruit value chain in BiH"

B. Financial Analysis

Methodology

6. The primary objective of the financial analysis is to determine the financial viability and incentives for the Project target group as a result of their engagement in Project activities. Seven illustrative crop models were prepared to demonstrate the financial viability of the expected investments: a) raspberries model; b) strawberries model; c) blackberries model; d) blueberries model; e) gherkins open field model; f) potatoes open field model; g) paprika for industry open field model. Considering that farmers investing in greenhouse will have the possibility to grow more than one crop during the year; also two representative green house models were developed: a) cucumbers and tomatoes greenhouse model; b) cucumbers and paprika for the fresh market green house model. Furthermore; in order to show the impact that the project will have not only on the target group but also on other actors of the value chain; two cooperative models were designed: a) berries cooperative model, b) vegetables cooperative model. All financial models were used as building blocks for the economic analysis.

7. **Project Target Beneficiaries.** The broad target group for the Project will be non-commercial farmers of the three sub-sectors a) berries; b) vegetables; c) NTFP. The Project will have a poverty focus and it is estimated that the number of direct beneficiaries will be 16,000.

8. **Key Assumptions.** The following source of information gathered during the pre-design and the final design missions have been used to set up the analysis: a) interviews with farmers and cooperatives and wholesale buyers involved in out-grower schemes; b) other donors involved in the sector, in particular projects financed by USAID, UNDP, CARITAS International, Oxfam Italia; these development partners all prepared value chain studies and crop budgets to plan their interventions. Information on labour and input requirements for various operations, capital costs, prevailing wages, yields, farm gate and market prices of commodities, input and farm-to-market transport costs were

collected in the field. Conservative assumptions were made both for inputs and outputs in order to take account of possible risks. Statistics from FAOSTAT or from the National Agency for Statistics of Bosnia and Herzegovina did not provide information on most of the selected crops. When data were provided, they were found to be outdated if compared with more recent data collected in the field or provided by other sources as per the above list. Therefore, when different information on the same crop was available from different sources, an average was adopted.

9. **Assumptions on Greenhouse Model:** in the without project situation, it was assumed that farmers do not have greenhouses due to the high investment required. For this reason, it has been assumed that the source of income for farmers, in the without project situation, is “foregone income” that farmers would have earned by working at 30 KM per day for the same amount of days they are employed in the with project situation.

10. **Assumptions on Cooperatives Model:** Cooperative models in BiH may be very different from each other in terms of size, investments, number of members, and mix of products collected and distributed. Due to the lack of extensive information, the cooperative models designed for this analysis are based on some assumptions which are sourced from interviews with cooperatives and from other donors’ projects: a) type and quantity of products collected and distributed; b) number of farmers, 130 for the berries cooperative, and 160 for the vegetables cooperative; c) increase in 15% of number of farmers after the 4th and 8th year from the start of the project; d) 15% of marginal revenue compared to farmer gate prices; e) cooperatives are considered as intermediaries between farmers and final buyers; f) out of 100 cooperatives, 70% are berries cooperatives and 30% are vegetables cooperatives; g) blueberries crops are not included in the berries cooperative model because usually treated separately due to the large investments they require. The main aim of these two models is to represent to what extent increase in farmers’ productivity will also positively affect other value chain actors’ return, such as the cooperatives’ ones.

11. **Exchange Rate.** The exchange rate used in the analysis is fixed at 1 USD = 1.7357 BAM computed as an average of the exchange rate prevailing between January and end of March 2015, when the design mission took place.

12. **Labour.** Family labour has been valued both in financial and economic analysis. It has been assumed that farm labour is provided by the households. Farm labour is priced at 30 BAM per day, which is the prevailing market rate.

13. **Opportunity Cost of Capital.** A discount rate of 10% has been used in this analysis to assess the viability and robustness of the investments. In order to consider the profitability of the foreseen investments with market alternatives. The selected value is calculated as an average of the actual market interest rate on loans, which is around 7-8% and microfinance institutions interest rates, which is between 10% and 15%.

Summary of Results

14. **A summary of the Results** is presented in Tables 37 and 38, below. All financial models indicate that profitability of the targeted interventions is good, in case market access is ensured and farmers adopt good technologies. It can be concluded that investments and diversification in the berries and vegetables subsectors provide the required leverage to reduce rural poverty and to improve financial viability of small farm holdings in BiH. These results are only valid in areas where a) linkages to wholesale buyers are ensured; b) farmers adopt good technologies; c) the VC approach functions properly; d) farmers have access to the project grant – which is expected to finance up to 50% of the initial investments farmers have to face to start/improve their agricultural activities – and to the in-kind loans from buyers, such as PAs, cooperatives or agribusinesses. Market prices of berries and vegetables can fluctuate; however, when the necessary conditions are met, organized smallholders will be competitive in the targeted subsectors, even in a liberalized EU and non-EU market context.

15. For all financial models of berries and vegetables cultivated in the open field, the total costs of production (investment and inputs) in year 1 vary between 1,200 and 4,050 BAM per dunum. For financial models of vegetables cultivated in the greenhouse, total costs of production are about 9,400 BAM per 300 m². These high investment costs are due to the considerable investment that farmers have to face in order to purchase a greenhouse and to plant more than one crop over the year (in our models they produce tomato and cucumbers or paprika and cucumbers). Although part of this is the opportunity cost of family labour, these start-up costs are beyond the financial capacity of most rural poor, which generally leads to the adoption of second best technologies (e.g. without irrigation) and the resulting low yields and incomes. Matching grants and/or in kind loans are required to lower barrier of entry to poor people, in particular if they have to get access to good technology.

16. Net income of all models varies between 940 BAM and 5,168 BAM per dunum. In particular raspberry, blueberry, blackberry and gherkin are very profitable. Greenhouse production of tomato and cucumber gives a net income of 4,583 BAM while production of paprika and cucumber gives a net income of 4,374 BAM per year.

17. As shown in Table 38, all financial models present a positive NPV and high internal rates of return. By looking at the NPV's figures, the most promising crops are again blueberries, raspberries and blackberries, among the berries crops. Among the vegetables cultivated in the open field, gherkins have the highest NPV – 4,509 BAM. Cultivation in the greenhouse looks very much viable especially when production of tomato and cucumbers is combined.

18. The cost of seasonal labour in rural BiH is 30 BAM/day, which is significantly lower than the return to family labour of the financial models that varies between 84 BAM and 156 BAM/day. This shows that investments in the targeted subsectors contribute to poverty reduction.

19. Cooperative models show that, after an initial investment on machineries and other inputs – like a small cool house or trimmers and digital scales - that can be used to support farmers, cooperatives' financial indicators become particularly attractive already from the second year.

Models

20. **Berries Crop Models:** The most promising berry variety in BiH is currently raspberry. Raspberries are usually grown on small plots near the farmhouse, often on steep slopes with alkaline soils. With quality seedlings, drip irrigation and appropriate technology and crop husbandry, yields of 1.2 to 1.5 tonnes per dunum can be achieved already from the second year. Prices of raspberry were quite good since 2007, between 1.60 BAM and 3.20 BAM per kg. The financial model shows that raspberry production in BiH is profitable in case prices are higher than 1.6 BAM/kg. Smallholders are eager to invest in raspberry production because: (i) a net income of 3,887 BAM/dunum is attractive in rural BiH; (ii) the market is guaranteed in case a wholesale buyer is active in the area; (iii) almost optimal yields are obtained from year 2 onwards for almost 10 years; (iv) operational costs, except for family labour, are low after the initial investment; (v) production is based on family labour; (vi) all financial profitability indicators are attractive: NPV 11,935 BAM/dunum; Internal rate of return (IRR): 85%.

21. Although blueberry gives higher returns and higher NPV if compared to raspberries, it also needs to be considered that blueberry faces specific constraints, which make it less accessible in most situations, while the risk profile remains higher: (a) blueberry requires an acid soil, which is only available in specific areas of BiH, as most good soils are alkaline; (b) the initial investment cost is high compared to other berries; (c) full production is only achieved in year 4, compared to year 2 for other berries; a much stronger financial capacity is required; (d) wholesale buying is less developed; (e) international competition with producers in Poland is sharper, certainly in periods with low access to the Russian market. Nonetheless, currently very good prices, up to 10 BAM per kg, are paid for wild blueberry, but these volumes remain small and prices and market demand volatile. Potential exists to further develop marketing channels of this premium product. Net income for blueberry amounts to 5,168 BAM per dunum, Net present value (NPV) is 14,454 BAM per dunum and IRR is 68%.

22. Both blackberry and strawberry are considered as crops with good future prospects in BiH. Market demand for blackberry is growing, but it still remains more “niche product” than raspberry and mainly purchased by the food industry. Strawberry production is also developing with requests both from the fresh and industrial market. While other berries have an investment cycle of approximately 10 years, the production cycle of strawberry is 2 years with highest yields obtained in year 1. Financial indicators for both blackberry and strawberry are attractive although lower than for raspberry and blueberry.

23. **Vegetables Open Field Crop Models:** production of gherkins crop for processing as pickles is developing rapidly in BiH and it is the most promising crop, among the vegetables open field production, according to our financial indicators. Gherkins are annual crops, which are quite labour intensive. The production cost consists mainly of family labour while initial investments (excluding operating inputs and labour costs) are around 1,700 BAM per dunum. Wholesale buyers are developing out-grower schemes and are currently guaranteeing buying the entire production, which results in interesting farm gate prices (on average 0.90 BAM per kg, with 1.1 BAM for grade I, 0.50 BAM for grade II and 0.10 BAM for grade III). Strong demand results in a net income of 3,052 BAM/dunum. All financial profitability indicators are attractive if compared to other vegetables: NPV: 4,509 BAM/dunum, B/C: 1.9; return to family labour: 95 BAM/day..

24. Production of early potato and paprika for industry in the open field are attractive crops, especially as import substitution. Their cultivation is mainly valuable in some regions like Semberija; Krajina and Herzegovina. Financial indicators of paprika show a good NPV of 2,654 BAM, IRR of 90% and B/C of 1.54. Return to family labour is 84. In the potato financial model, beyond investing in irrigation, the with project situation invests on better quality seeds that allow farmers to produce higher yields than in the without project situation. Although the NPV of potato is less attractive than other vegetables – 1,918 BAM - the total initial investments are low – 1,213 BAM – therefore more accessible to many farmers. Furthermore, the net income – 942 BAM – and return to family labour – 113 – would be still attractive for a farmer cultivating a simple crop like potato.

25. **Vegetables Greenhouse Models:** these models show that, thanks to the use of a greenhouse, small plots of land – size of 300 m²- can become more productive than 1 dunum of land in the open field and allow the farmer to produce more than one crop over the year. Our models show that cucumbers and paprika or cucumbers and tomato can generate attractive financial indicators when produced in the same greenhouse. When producing more than one crop, the yield of each crop would be about 20% lower than producing the crop alone. However, economic results are still very attractive and extra investments for producing more than one crop are relatively small. For instance, first year's production total costs for producing tomato alone in the green house is 8,300 BAM while producing one extra crop – cucumber - during the same year would increase total production costs only up to 9,400 BAM. Consequently, net income for producing only tomato is 2,500 BAM (on the fourth year) while net income for producing both tomato and cucumber would be 4583 BAM. In the tomato and cucumber model, NPV is 6,204 BAM; net income is 4,583 BAM; and IRR is 44%. Although combination of tomato and cucumbers gives more attractive financial indicators, also combination between tomato and cucumbers is financially viable: NPV 3,355 BAM; net income is 4,374 and IRR is 29%.

26. Greenhouse can be attractive investments because a) they protect crops from bad weather; b) can be organized on small surfaces; c) do not necessarily require big investments in terms of machineries; c) are risk minimiser. However, considering that the initial investment for purchasing a green house would be minimum 6,000 BAM – the cost of a greenhouse varies between 20 and 30 BAM/m² - the target of this project will have access to such investment only with initial financial support by the project.

27. **Cooperative Models:** As previously mentioned, cooperative models were designed in order to show the financial effect that the Project has also on other actors of the VC. During the first year of the Project, cooperatives are expected to invest on new technologies than can be used by farmers. Examples of initial investments may be trimmers or digital scales in the case of berries cooperatives,

or small cool houses in the case of vegetables cooperatives. Considering that farmers will benefit from such investments, the Project will contribute to these purchases up to 70% of the total cost. The link between farmers and cooperatives is stressed in the model also by linking quantity of yields in the crop models to quantity of working capital (berries and vegetables) purchased and then sold in the cooperatives models. Overall, financial indicators are positive: NPV for the berries cooperative is 134,396 BAM and IRR is 35%; NPV for the vegetable cooperative is 78,527 BAM and IRR is 57%. During the first year, berries cooperative will have high costs of production - 158,600 BAM – compared to total revenue – 72,260 BAM – due to the fact that raspberries and blackberries crops give fruits starting from the second year. Berries cooperatives will therefore need to access to bank loans on the first year. Nonetheless, the expected high returns from the second year onward will allow them to repay the loan with an interest rate of 7% and also to have attractive incremental income after financing.

Table 37: Financial Analysis of Crop Budget

	Yield Kg/dunum	Production & Investment Costs Including Labour in year 1 BAM/dunum	Revenue BAM/Dunum year 4	Net Income (year 4) BAM/dunum	Net Incremental Income (year 4) BAM/dunum
Raspberries	1,500	2,848	4,500	3,887	2,947
Blueberries	1,200	4,058	6,000	5,168	3,947
BlackBerries	1,500	2,735	3,750	3,317	2,433
Strawberries	2,000	3,860	4,000	2,555	1,840
Potatoes_Open Field	2,500	1,213	1,500	942	502
Paprika_Open Field	3,300	2,073	2,475	1,589	692
Gherkins_Open Field	4,500	2,743	4,050	3,052	1,265
	Yield Kg/300 m2 GH	Production & Investment Costs Including Labour in year 1 BAM/300 m2 GH	Revenue BAM/300 m2 GH year 4	Net Income (year 4) BAM/300 m2 GH	Net Incremental Income (year 4) BAM/300 m2 GH
Paprika+Cucumber GH	7,760	9,479	6,324	4,374	1,764
Tomato+Cucumber GH	12,880	9,422	6,644	4,583	2,273

^aoptimal yield: raspberry year 2; blueberry year 4; blackberry year 3; strawberry year 3

Table 38: Financial Profitability Indicators

	Net Income (year 4) BAM/dunum	Net Present Value BAM/dunum	Internal Rate of Return (%)	Return to Family Labour BAM/Day	B/C Ratio
Raspberries	3,887	11,935	85%	138	2.26
Blueberries	5,168	14,454	68%	157	2.22
BlackBerries	3,317	7,991	56%	109	1.86
Strawberries	2,555	5,265	93%	116	1.38
Potatoes_Open Field	942	1,918	89%	113	1.65
Paprika_Open Field	1,589	2,654	90%	85	1.54
Gherkins_Open Field	3,052	4,509	107%	95	1.9
	Net Income (year 4) BAM/300m2 GH	Net Present Value BAM/300m2 GH	Internal Rate of Return (%)	Return to Family Labour BAM/Day	B/C Ratio
Paprika+Cucumber GH	4,374	3,355	29%	99	1.42
Tomato+Cucumber GH	4,583	6,205	44%	118	1.49
	Net Income (year 4) BAM	Net Present Value BAM	Internal Rate of Return (%)	Return to Family Labour BAM/Day	B/C Ratio
Berries Cooperative	72,360	134,396	35%	-	1.06
Vegetables Cooperative	31,502	78,527	57%	-	1.04

Mushrooms and Other Maps

28. Today mushrooms could be seen in many cases as a by-product of the berry value chain, as often the same wholesalers are still buying. Many companies started with mushrooms (which is still visible in their names) and then expanded to berries which are commercially more important today. The marketing infrastructure for mushrooms is very similar to the one for berries and many berry wholesale buyers started as mushroom collectors. These cold storage facilities for mushrooms are the same like for berries, either having 4° Celsius or minus 20° Celsius.

29. The collection of mushrooms (and blueberries) does not require any input beside workforce. Initial training, awareness creation to protect and maintain the natural resource base, and organization of bulking are required. Small-scale farmers and landless people are collecting mushrooms (and MAPs) during the season and bring them daily to collection points. These wild mushrooms are collected; graded according to size, colour, and percentage of broken parts. Mushrooms are sold fresh if possible as this allows the highest price, but volumes remain small. Therefore they need to be sorted and eventually mechanically cleaned. Imperfect mushrooms are sorted out and used for processing; processing traditionally was drying and pickling for conservation purposes. For drying the mushrooms are cut, dried (12% moisture content) and packed for shipment to export markets. The latest development was deep freezing (minus 40° Celsius) and then storing the mushrooms in cold storage facilities (minus 20° Celsius) in card boxes of 15 kg. In these cold storage facilities mushrooms are kept for further processing into smaller consumer packages or are shipped out to other processing facilities.

C. Benefits and Beneficiaries

30. The main benefits of the Project would be:

- Expansion of acreage of fruits and vegetables, and NTFP both for domestic and export markets; the promotion of agribusiness agreements and market linkages would enhance competitiveness of the targeted subsectors and ensure sustainability; the value chain cluster approach would enhance the position of about 12 national clusters of value chain actors;
- Increased revenues for 16,000 direct beneficiaries, who would develop or upgrade their fruit and vegetable production;

- Support to the berries subsector would lead to increased exports and export earnings; on an average additional national production of berries would be 7,600 tonnes per annum (40% increase of the current production, considering that 20% increase is expected from new production and 20% increase is expected from improved yields);
- The grassroots organizations of these farmers would be enhanced; over a period of 10 years, approximately 120 PAs and 100 cooperatives would be supported;
- Priority target groups of IFAD, including women, youth and rural poor would receive access;
- At wholesale and cooperative level, significant investments in collection and processing facilities would be supported;
- Creation of 3,150 fulltime and part-time jobs upstream and downstream in the value chains (estimated at 1 job per 5 farmers);
- Particular attention will be given to support climate change resilience, by for instance favoring environmental friendly technological investments;
- Component 1 would result in significant benefits in terms of institutional capacity building of specialized institutions and service providers.

D. Economic Analysis

31. The objectives of the economic analysis are: (i) to examine the overall Programme viability, and (ii) to assess the Project's impact and the overall economic rate of return; and (iii) to perform sensitivity analyses to assess the benefits from a broad welfare perspective.

32. **Key Assumptions.** The physical inputs and productions established in the financial analysis provided the basis to determine the viability of the programme investment in terms of opportunity costs and quantifiable benefits to the economy as a whole. The estimate of the likely economic returns from project interventions are based on the following assumptions: (i) Project life has been assumed at 20 years; (ii) Project inputs and outputs traded are valued at their respective market prices, and goods are expected to move freely within the Project area in response to market demand; (iii) an economic discount rate of 10% has been used; (iv) The economic analysis is based on direct costs and benefits, while social and indirect benefits have not been taken into account of the “average farmer” compared to the best farmer.

33. **Project Economic Costs and Benefits.** The economic analyses include the investment and incremental recurrent costs of Project components. The Project financial costs have been converted to economic values by removal of price contingencies, taxes and duties. In order to avoid double counting, the final aggregation considered only those costs that were not included in the financial models. Furthermore, it has been assumed that after the 10th year, the incremental net benefits of each model will be the same as for the incremental net benefits obtained after the fifth year of the Project, when the cost of replacing/maintaining of some specific equipment is considered for all models.

34. **Project Phasing.** Tables 39 and 40 below summarize the number of participating farmers during the implementation period and the related phasing of the investment.

Table 39: Number of Farmers and Phasing In

Number of Farmers											
	PY1	PY2	PY3	PY4	PY5	PY6	PY7	PY8	PY9	PY10	Total
Raspberry	30%	0	345	585	600	600	240	240	705	705	4725
Blueberry	10%	0	115	195	200	200	80	80	235	235	1575
Blackberry	5%	0	58	98	100	100	40	40	118	118	788
Strawberry	10%	0	115	195	200	200	80	80	235	235	1575
Gherkin	15%	0	173	293	300	300	120	120	353	353	2363
Potato_OF	5%	0	58	98	100	100	40	40	118	118	788
Paprika_OF	5%	0	58	98	100	100	40	40	118	118	788
Cucumber & Tomato_GH	10%	0	115	195	200	200	80	80	235	235	1575
Cucumber & Paprika_GH	10%	0	115	195	200	200	80	80	235	235	1575
Total	100%	0	1150	1950	2000	2000	800	800	2350	2350	15750

Table 40: Number of Cooperatives and Phasing In

Number of Cooperatives											
	PY1	PY2	PY3	PY4	PY5	PY6	PY7	PY8	PY9	PY10	Total
Berries Cooperative	70%	0	22	11	11	13	0	0	13	0	70
Vegetables Cooperative	30%	0	10	5	5	5	0	0	5	0	30
Total	100%	0	32	16	16	18	0	0	18	0	100

35. **Economic Pricing.** Economic pricing was undertaken using the following assumptions: (a) the opportunity cost of labour is BAM 24/day, or 80% of financial cost of labour, which is justified given high rural unemployment; (b) the shadow exchange rate (SER) has been calculated at 1 USD=1.5230 BAM and 1 EUR = 2.0230 BAM (c) the standard conversion factor for the exchange rate has been calculated at 1.03; (d) the conversion factors for outputs and inputs have been calculated starting from FOB and CIF prices when data were available; when data were not available CFs were calculated starting from the financial price, deducting any duty or tax and multiplying it by the SCF; overall all CF vary between 0.8 (for imported inputs) and 1.09 (for the specific case of raspberries).

36. **Economic Rate of Return.** On the basis of the above assumptions, the ERR of RCDP would be 36.6% and the Net Present Value (NPV) would amount to USD 53.1 millions. The high ERR reflects the ambition and potential leverage of RCDP, with an approach focused on clear comparative advantages and existing economic dynamics in Bosnia and Herzegovina.

37. **Sensitivity Analysis.** In order to test the robustness of the above results, a sensitivity analysis has been carried out, the outcomes of which are presented in Table 41 below. The sensitivity analysis investigates the effect of fluctuations in Project costs, benefits and delays in implementation on the NPV and ERR. The sensitivity analysis shows the economic impacts that a decrease in project benefits - of up to -50% - will have on the project's viability. Similarly, it shows how the economic viability of the project will be affected with an increase – of up to +50% - in project costs and with one and/or two years delay in project implementation. Finally, the analysis shows that the economic viability of the project remains attractive by preserving positive NPV and ERR in each case.

Table 41: Sensitivity Analysis

	Assumptions	Related Risk	ERR	NPV \$ Million
Project Base Case			36.6%	53.1
Decrease in Project Benefits	-20%	Beneficiaries do not adopt new and more environmental friendly technologies.	32.9%	40
	-50%	Price and market fluctuations. Low crop yields Weak quality of extension services. Weak cooperation within the VC.	25.2%	20.1
Increase in Project Costs	20%	Procurement risks. Low	33.6%	50.5
	50%	management capacity.	29.9%	46.6
Delays in Implementation	1 year	Capacity of PCU & APCU to implement the project and cooperate on common activities.	31.9%	44.5
	2 years		28.0%	36.7

Appendix 11: Draft Project Implementation Manual

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Abbreviations & Acronyms

I. Introduction (to be completed by APCU/PCU)

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3. Project Approach, Focus, Subsector Approach
4. Description of the Project Components
5. Cost and financing
7. Project Implementation modality
6. Organisation and management
7. Institutional and implementation arrangements
9. Organisational chart

II. Administrative Procedures (to be completed by APCU/PCU)

1. Human Resources management
 - 1.1. Job descriptions
 - 1.2. Recruitment procedures
 - 1.3. Contract Management
 - 1.4. Internal Rules for Personnel
2. Communication Organisation
3. Logistics
4. Asset management

III. Financial and Disbursements Procedures (to be completed by APCU/PCU with IFAD support)

1. Financial Arrangements and Flow of funds
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3. Disbursement procedures
4. Accounting systems and procedures
5. Planning and budgeting

IV. Procurement Procedures (to be completed by APCU/PCU with IFAD support)

1. IFAD basic procurement principles
2. Procurement procedures, rules and regulations
3. Main methods of procurement for goods, works and contracting of services
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5. Specific procurement arrangements

V. Monitoring & Evaluation and Knowledge Management (to be completed by APCU/PCU)

1. Planning of M&E
2. AWPB Preparation, including annual targets (RIMS+)
3. Follow-up of outputs
4. Evaluation of results and outcomes
5. Impact evaluation
6. Progress Performance report

Appendix 12: Compliance with IFAD policies

A. Compliance with IFAD Policies

IFAD policies	Compliance
Strategic Framework (SF) 2011-2015	RCDP is highly compliant with IFAD Strategic Framework 2011-2015. RCDP has a clear focus on enabling poor rural women and men to overcome poverty. RCDP is aligned to the 5 strategic objectives of the framework, especially: (i) a natural resource and economic asset base for poor rural women and men that is more resilient to climate change, environmental degradation and market transformation; (ii) access for poor rural women and men to services to reduce poverty, improve nutrition, raise incomes and build resilience in a changing environment; (iii) poor rural women and men and their organizations able to manage profitable, sustainable and resilient farm and non-farm enterprises or take advantage of decent work opportunities; (iv) poor rural women and men and their organizations are able to influence policies and institutions that affect their livelihoods.
Private sector development and partnership strategy	Compliant. The key areas of action in RCDP are: (i) formalization of value chain linkages; (ii) technical and management skills training; (iii) investment support; (iv) knowledge management.
Rural Enterprises Policy	Compliant. IFAD's longer term vision in BiH is to support development of formalized agribusiness linkages for better income generation. In this respect, RCDP will facilitate access to financial and non-financial services and skills training. The approach will be demand-driven.
Rural Finance Policy	Compliant. All interventions are market-conform and implemented through commercial and rural banks.
Targeting Policy	Compliant. RCDP uses (i) targeting of pro-poor value chain; (ii) self-targeting; (iii) direct targeting; (iv) enabling factors to reach rural poor and empower them. RCDP will also support institutional strengthening of those actors (PAs, coops, etc.) who provide services to rural poor. A particular focus will be placed on investment support that enables disadvantaged groups, including women and youth, to integrate commercial value chains and improve their livelihoods.
IFAD gender policy	Compliant and innovative. Due cognizance will be given to women in value chains (see also: Appendix 2).
Climate change strategy	Focus on scaling up good practices – targeting the most vulnerable ecosystems and groups to climate risks and shocks. Focus on smallholder farmers.

B. Environmental and Social Review Note (ESRN)

38. Based on the relatively minor negative impacts of the targeted economic activities on the environment, the Programme has been classified for the purposes of environmental scrutiny as Category B.

39. To successfully achieve sustainable agricultural and rural livelihoods in the Project catchment area, due attention must be given to environmental and social safeguards implementation. The main E&S impacts are concentrated around Component 2.

40. To ensure environmental and social safeguards compliance, Environmental and Social Management Plans (ESMPs) will be developed and monitored for all major rural infrastructures. This will be done through consultations and monitoring visits by the various stakeholders (PCU, APCU, Municipalities). This will be aimed at addressing all the concerns from the stakeholders. Periodic environmental and social compliance monitoring reports must be prepared and shared with all stakeholders, in line with local policies. Training of farmers on basic best environmental practices in agriculture will be provided.

41. The Project will only have positive social impacts, in particular on rural poverty reduction. It will not have negative effects on indigenous population groups. Special monitoring will be done of labour conditions of smallholders, youth and female labour in the targeted value chains.

42. The main threats, caused by climate changes, affecting the three sub-sectors are given in table below.

Table 42: Main threats and mitigation measures

Threat	Affected sectors	Mitigation measure
Drought	Berries Vegetables	Adoption of water efficient technologies, such as drip irrigation systems; Use of resistant new varieties; Use of anti-hail nets (for sun protection)
Heavy snow	Vegetables in greenhouse	Adaptation of greenhouses frames and shape, distance between the greenhouses and development of crisis management plans
Hail	Berries Vegetables	Development of the anti-hail protection systems (nets, rockets)
Severe precipitation	Berries Vegetables	Development of the drainage systems; Production in greenhouses (controlled environment)
Fire	NTFP	Improved wildfire management; Adoption on forestry laws on state/entity levels (strategy for forest protection)
Soil erosion	Berries Vegetables NTFP	Reforestation, proper drainage, contour farming
Degradation of NTFP habitats / loss of biodiversity	NTFP	Increase production of NTFP on plantations Improve regulatory framework (introduce red lists)

43. In addition to the mitigation measures proposed above, for threats 1-4 additional solution can be the development of insurance products against weather-related yield variations.

44. With a wide range of climatic threats foreseen in the near future, some are more important than others with regards to relevance to the three sub-sectors for consideration under RCDP. With regards to the berries sector, drought, hail, severe precipitation, and soil erosion are the most evident threats. Vegetables are most at risk with regards to drought, heavy snow (greenhouse cultivations), hail, severe precipitations, and soil erosion. Finally, NTFPs are expected to suffer the most through the occurrence of fires, soil erosion, and loss of biodiversity. Mitigation measures exist, and cover a range of technologies, but also improvement of regulatory frameworks and enforcement when it comes to mitigation against threats of fires and biodiversity loss.

45. The most recommended technologies in agriculture consist in use of drip irrigation system, adoption of drought-resistant crop varieties, and anti-hail nets to mitigate against the threat of drought and hail especially for berries and vegetables. Greenhouses can provide for better controlled environments for vegetables as well as berries, against damages from severe precipitations. Greenhouse vegetables production may benefit from stronger frames, rounded shapes, more robust pipes structures (as well as a more appropriate distance between greenhouse structures) to prevent damages from heavy snows. A combination of reforestation schemes, improved drainage systems and contour farming can serve as mitigation measures against soil erosion for all three sub-sectors. Finally, and of particular interest for NTFPs, threats of fire may be mitigated through improved wildfire management, development of a forest protection strategy, and enforcement of state and entity laws, whereas the threat of biodiversity loss may be mitigated through plantation production, and introduction of 'red lists' as part of a wider effort to improve the regulatory framework.

46. The comparative analysis is computed between climate smart and non-climate smart technologies. In a nutshell, the drip irrigation system can – on a 0.1 ha land - yield a farmer with

KM 720 higher profits (against an additional yearly investment of 31 KM) compared to traditional irrigation systems; this, through an estimate 30% increase in yields, water savings (9,000 litres/year/dunum), and easier fertilization of crops through the system (resulting in additional time and money savings). With regards to water pumping, the analysis demonstrates that the most cost-efficient source of power is electrical (at an annual cost of 60 KM), followed by solar-powered pumps (annual cost of 200 KM) that are most suitable where rural households are disconnected from the electric grid.

47. When it comes to greenhouses –based on 100 m²– calculations clearly favor, in the medium and longer term run, the more climate smart models (either PVC pipes filled with reinforced concrete, or aluminum/zinc plated pipes structures) offering the most resilience to snow (60 to 70 kg/m²), longest duration (20 to 30 years), and an estimate yearly price of 60 KM (for the reinforced structures) and 108 KM (for the aluminum/zinc-plated pipes structures); this, compared to non-climate smart greenhouses (traditional, of lighter structure, with no additional or standard reinforcements). The resilience of greenhouses to heavy snows is of special interest in BiH, where the occurrence of heavy snowfalls is frequent on a yearly basis (at least 3 to 5 times a year). Greenhouse production also offers a considerable potential in an agricultural context such as BiH characterized by continental climates and high land fragmentation, and small plots of land, thus providing the opportunity for farmers to extend the growing season, and enhance production efficiency.

48. Anti-hail nets provide a highly profitable solution against damages from ice, rain, strong winds and sun, also contributing towards the creation of a favorable microclimate for crops. With an initial installation investment required (400 KM/dunum/raspberries), the payback period can already occur during the first year, when potential losses from crop damage resulting from extreme weather events are minimized. Considering the potential seasonal profit of 4,500 KM/dunum of raspberry, as an example, the initial investment of anti-hail nets is highly justified.

49. The activities to reduce climate change vulnerabilities are shown in the table below.

Table 43: Reducing vulnerability to climate change

Threat	Measure	Cost benefit analysis
Drought	1. Installation of drip irrigation system	The installation of this system can increase the yield of berries and up to 100% and taking into account that proper installation of the system can ensure a double profit, it is easy to calculate that the installation of such a system is extremely cost-effective.
	2. Use of anti-hail nets (for sun protection)	The installation of anti-hail net is primarily for protection of hail and heavy rains, but it also ensure exceptional protection from the heat, which presents a serious threat to crops. Please see the columns below for the cost benefit analysis
	3. Promotion of greenhouse production	Greenhouses ensure high quality produce around the year with efficient use of resources, such as water, fertilizers, pesticides and labour. Greenhouses may also lead to put in value areas in marginal regions as it makes economically-efficient use of many resources, such as land, labour and water and allows out-of-season products. All parameters show that this way of production is extremely cost-effective. The fact that the production is possible throughout the year, the much higher prices of products, 2-3 times higher yield than in open area, easier access to market etc. prove that it's very profitable investing in greenhouse production. For some varieties (e.g. some sorts of strawberries) it is possible to pay off the investment in some more than one year. It is expected this technology will increase water use efficiency (as a result of reduced potential evaporation, indoor climate characterised by higher humidity and less radiation and wind), increase yields and the application of advanced irrigation technologies, such as drip irrigation and hydroponics.

Heavy snow	Reinforced frames and semicircular shape of the greenhouses: Aluminum/ zinc plated pipes structure or PVC pipes filled with reinforced concrete (concrete ribbed steel rod 10 mm, unlimited lifetime).	Considering potential damage that heavy snow may cause to the greenhouses, the installation of climate smart, snow- resistant frames is worth investing. The two proposed models, described in the left column, are recommended to be installed in all project areas, regardless of projected climate zones as occurrence of heavy snow is likely to happen in all country. The price of reinforced, weight resistant frames is 30-50% higher than the standard ones but the risk of damage is reduced to minimum.
Hail	Installation of anti-hail protection systems (rockets, nets) Anti- hail net	In case of hail (or extreme drought), the net can save 20 – 100% of total corps, which for raspberries is about 15 tons per ha. Since the price of 3 KM/kg and the life-time of the net is about 5 years, it is easy to calculate the benefit of its use. The usage of anti-hail net pays off for itself already in the first year
Severe precipitation	Development of drainage systems	Heavy rains cause floods and landslides, but also plant diseases and a loss of berry seedlings in affected areas. The development of drainage systems aimed to removing excess waters is a most effective measure, requiring not big investment but some labor by the user. The cost of installation of drainage pipes, most recommended Ø 110 –300 mm will solve the problem and will not require significant investment (should not exceed 150 KM/0,1 Ha)
Soil erosion	Reforestation, proper drainage	The only proven method on mitigation of soil erosion risk is proper reforestation of critical areas. Depending on the degree of soil damage or indicators of possible emergence of landslides, the measures should be planned to prevent negative consequences. In case of necessity for smaller/light intervention, very often is enough to properly treat endangered areas and implement measures described in paragraph “f” of this document.
Degradation of NTFP habitats / loss of biodiversity	Increase production of NTFP on plantations – introduction to farmers with benefits of such production	In order to protect natural habitats, the plantation production of profitable sorts of NTFPs is the best mitigation measure. Bearing in mind huge potential in this sub-sector, demands of foreign market and increasing export trend, the opportunities in production and processing of NTFPs are very high.

Appendix 13: Contents of the Project Life File

RCDP - Concept Note (BiH RB-COSOP)

RCDP - OSC Issue Paper

RCDP - OSC Minutes

RCDP - Detailed Design (main report and appendices)

RCDP - QE memo

RCDP - CPMT minutes