

## **Bosnia and Herzegovina**

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### **Rural Enterprises and Agricultural Development Project (READP)**

#### **Final Project Design Report**

Main report and appendices

Document Date: 19-Dec 2017  
Project No. 2000001813  
Report No: 4636-BA

Near East, North Africa and Europe Division  
Programme Management Department



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## Currency equivalents

Currency Unit	=	BAM Convertible Mark
US\$1.0	=	BAM 1.76
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 hectare	=	2.47 acres
1 dunum	=	0.1 hectare

## Abbreviations and acronyms

APCU	Agriculture Projects Coordination Unit
AWPB	Annual Work Plan and Budget
BAM	Bosnian Convertible Mark
BDS	Business Development Services
BiH	Bosnia and Herzegovina
BP	Business Plan
CAP	Common Agricultural Policy
CDP	Cluster Development Program
COSOP	Country Strategic Opportunities Programme
CPMT	Country Programme Management Team
EA	Extension Services Agency in RS
ERR	Economic Rate of Return
EU	European Union
FARMA	Fostering Agricultural Markets Activity
FBiH	Federation of Bosnia and Herzegovina
FMA	Financial Management Assessment
FO	Farmers' Organization
GALS	Gender Action Learning System
GDP	Gross Domestic Product
GIZ	Gesellschaft für Internationale Zusammenarbeit
GNI	Gross National Income
GlobalGAP	Global Good Agricultural Practice
HACCP	Hazard Analysis and Critical Control Points
HBS	Household Budget Survey
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
LPP	Law on Public Procurement
LRFDP	Livestock and Rural Finance Development Project
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
MoFT	Ministry of Finance and Treasury
MOFTER	Ministry of Foreign Trade and Economic Relations
MTR	Mid-term Review
NGO	Non-Governmental Organization
NPV	Net Present Value
NRP	Nominal Rate of Protection
NTFP	Non-Timber Forest Products

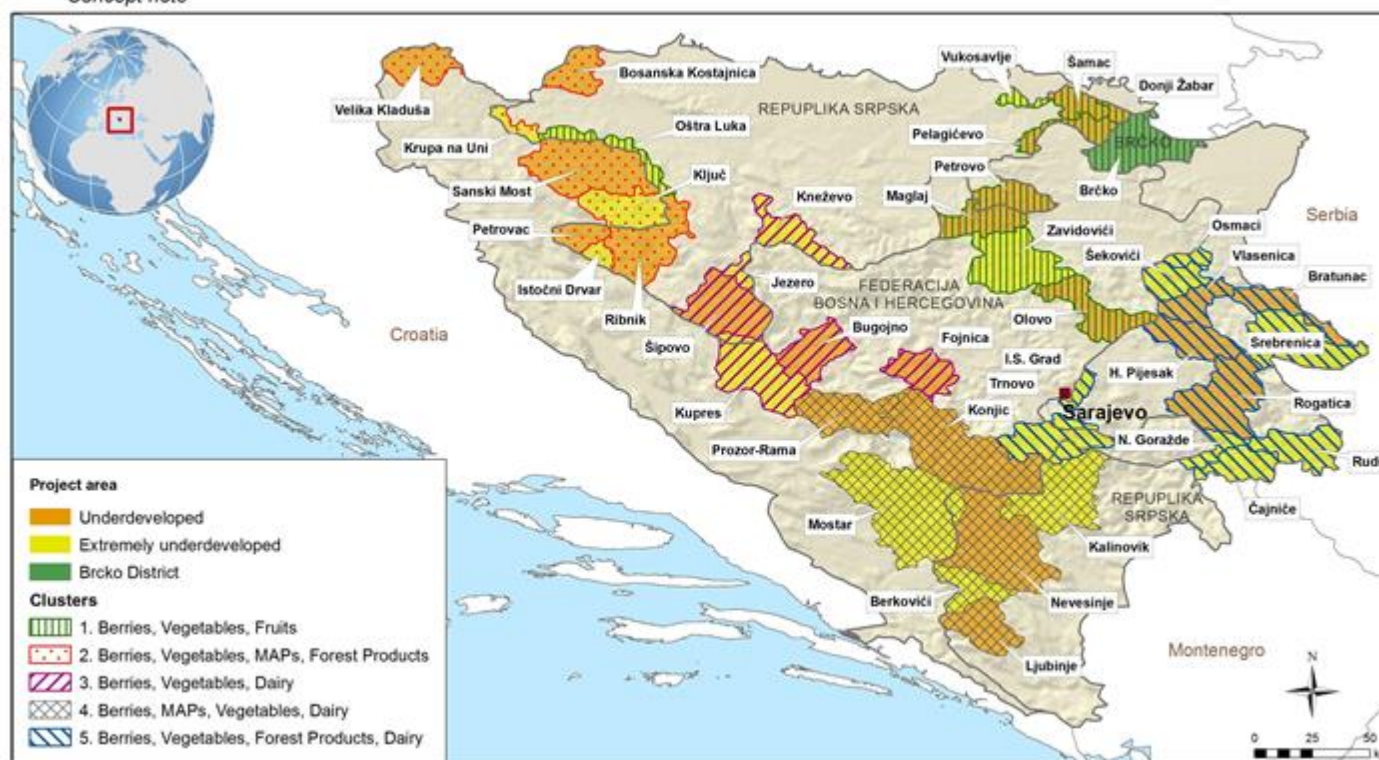
OFID	OPEC Fund for International Development
PA	Producers Association
PBAS	Performance-Based Allocation System
PCR	Project Completion Report
PCU	Project Coordination Unit
PEFA	Public Expenditure and Financial Accountability
PFI	Participating Financial Institution
PIM	Project Implementation Manual
PRSP	Poverty Reduction Strategy Paper
PSC	Project Steering Committee
PY	Project Year
RB-COSOP	Results-based country strategic opportunities programme
RBDP	Rural Business Development Project
RCDP	Rural Competitiveness Development Project
READP	Rural Enterprises and Agricultural Development Project
RS	Republika Srpska
REEP	Rural Enterprise Enhancement Project
RIMS	Results and Impact Management System
RLDP	Rural Livelihoods Development Project
SDC	Swiss Agency for Development and Cooperation
SDG	Sustainable Development Goals
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

## Map of the Project area

### Bosnia and Herzegovina

#### Rural Enterprises and Agricultural Development project (READP)

Concept note



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.  
Map compiled by IFAD | 28-04-2017



## Executive Summary<sup>1</sup>

**Background:** Following the Bosnian war from 1991-95 Bosnia and Herzegovina became a sovereign country with several tiers of Governance. The State level Government of Bosnia and Herzegovina (BiH) at the top is followed by two Entities, the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS), plus the self-governing Brčko District (BD). The third tier of governance consists of 10 cantons in FBiH. The fourth tier comprises 143 municipalities. The total population is 3.52 million, with 58% living in rural areas. In 2015, one in six households lived in poverty and 15% of BiH population did not have public social security. The poverty headcount of BiH in 2015 stood at 16.3% of the population with 19% poverty in rural areas and 9% in urban areas. Unemployment is extremely high amongst youth at 62.3%. Women unemployment is higher at 30.7% than for men at 25.2%. In February 2016, BiH applied for EU membership and with the subsequent adoption of a Stabilization and Association Agreement, it has taken a critical step to accession to the EU. At the State level BiH is formulating its first Strategic Plan for Rural Development for 2018-2021 to serve the pre-requisite to access the pre accession funds.

**Rationale:** The justification for the project is rooted in the presence of high levels of rural poverty with 19% of the rural population living in chronic material poverty and up to another 27% at the risk of falling back into material poverty. Simultaneously, the lack of economic opportunities has led to very high levels of youth unemployment estimated at 62.3%, with large numbers of them leaving the rural areas in search of better livelihoods. Commercial agricultural production by the rural poor is limited due to their lack of competitiveness caused by small land holding sizes, lack of technical enterprise skills, information and technology gaps and limited access to resources such as quality inputs and rural finance. Weak and non-inclusive nature of farmers' organisations (FO) has added to the problem. Furthermore, in the absence of such market linkages, the rural poor continue at subsistence level unable to develop into commercial farmers.

**Potential for agriculture to develop the rural economy:** There is strong potential for agriculture to develop the rural economy. Vegetable production in BiH covers 75,000 hectares (gherkins, paprika, tomato, cucumber, lettuce, etc.), and exports from BiH have nearly quadrupled since 2008 to 125 million BAM in 2015. At the end of 2015, the total milk production was around 666 million litres from around 243,000 cows. The number of beehives in BiH nearly doubled within ten years (2004-2014) from 240,723 to 392,348 beehives. It is assessed that BiH has over 700 species of medicinal and aromatic plants of which around 200 are exploited. Mushrooms are important within NTFPs and mainly collected in the forest. MAP and mushroom collection is a sector dominated by around 30,000 rural families as collectors of which 60% are female.

**Project area:** The programme area will consist of 90 municipalities grouped into 10 clusters with an average of 9 municipalities per cluster.

**Target group:** The READP target group will comprise (i) rural households with 0.1-0.5 ha (1-5 donums) land available for cultivation either through direct ownership or rented/leased (ii) households with monthly income less than 817 KM comprising mainly non-commercial farmers (iii) unemployed rural youth (below 30 years<sup>2</sup>) and (iv) poor women headed households in rural areas. The outreach of the project will be 8,650 direct beneficiaries and around 5,000 indirect beneficiaries from the enabling infrastructure investments. The project supported sub-sectors will comprises berries, fruits and vegetables, forest products, honey, MAPs and to a limited extent dairy.

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<sup>1</sup> The mission consisted of Mr. Swandip Sinha (Team Leader), Mr. Roberto Longo (Lead advisor, IFAD), Ms Sigrid Giencke (Value chain specialist), Mr. Benjamin Toric (Production and marketing infrastructure specialist), Mr. Nedim Dzano (Targeting and institutional specialist), Mr Yonas Mekonen (M and E Specialist, IFAD); Mr Malek Sahli (Senior finance officer and team leader, IFAD), Ms Dajana Grandic (Economic and financial analysis specialist) and Mr Željko Vaško (Procurement specialist). Mohamed Abdelgadir (Country Programme Manager, IFAD) supervised the mission and provided overall guidance to the design team.

<sup>2</sup> READP is aligned with BiH's youth age classification and existing age categorisation.

**Targeting strategies:** In order to reach the target group READP will adopt (i) geographical targeting measures to reach those areas with higher concentration of targeted households (ii) self-targeting means by selecting crops and enterprises suitable enough and of interest to the target groups (iii) direct targeting actions to include rural youth and women headed households and (iv) other enabling measures to promote greater chance of linking the target group to business leaders. Business leaders are regarded as SMEs or Farmers Organisations (FOs) primarily offering market linkages to the target households.

**Targeting of enterprises and farmers' organisations:** Enterprises will be selected based on appraisal of their business plans against criteria such as (i) market prospects (ii) outreach to the target households (iii) potential returns to the target households including youth. Farmers Organisations will be targeted based on criteria indicating their pro poor orientation and business plan merits.

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

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

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

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

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

**Sub component 1.2: Farmers' Organisations Development:** This subcomponent will strengthen FOs to increase their outreach to target households and to develop into viable inclusive farmers' institution. The main activities will be (i) seed capital financing to 40 FOs (FO seed capital support) resulting in direct benefits to 800 households and (ii) institutional development training and advisory support.

**Subcomponent 1.3: Enabling Infrastructure Support:** This subcomponent will improve the profitability of the target households, connect business leaders to the target households and improve the market participation of the beneficiaries. The project will identify and support the infrastructure requirements for successful implementation of the BPs. Thus, READP will support (i) publically owned

and managed infrastructure such as public water supply, which benefits multiple farmers in a defined area, or the establishment and rehabilitation of feeder roads, culverts and small bridges which connect business leaders and target households (ii) publically owned infrastructure, such as irrigation structure, cooling and packing facilities, which is co-managed in partnership between the municipalities, FOs and private sector.

## **Component 2: Project coordination**

**Overall responsibility:** The READP will be implemented by Government and non-government institutions and private sector partners. The The Ministry of Finance and Treasury of Bosnia and Herzegovina(MOFT) will have overall responsibility of READP and will coordinate with the Entity Ministries of Finance and Agriculture.

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

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

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

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

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

**Project costs:** The total project cost is expected to be around EUR 27.68 million. Out of this the share of FBiH is 60% and RS is 40%. IFAD contribution will be EUR 11.78 million (43%) as loan in ordinary terms. The remaining amount will be co-financed by the Government (15% - totally for VAT), municipalities (9%) and private sector (33%). The private sector contribution of 33% is related only to its co-financing contribution in the project specific categories. In addition, it will invest in other business plan implementation areas such as financing of private assets and working capital requirements equivalent to at least additional 50% of the READP costs.

**Economic Rate of Return:** The EIRR of READP will be 35%. The high EIRR reflects the ambition and potential leverage of READP, with an approach focused on clear comparative advantages and existing economic dynamics in Bosnia and Herzegovina.

## Logical Framework

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

<sup>3</sup> Given that the support will be reaching 8,650 household and given an average household size of 2.9 members in BiH, READP will reach around 25 000 people at project completion.

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

<sup>4</sup> Includes 350 young apprentices and 50% of the 8,300 beneficiaries of starter packages and FO seed capital financing. Their cash returns from the adoption of the project supported activities is expected to equal at least the minimum net salary earned (BAM 425) from a full time job

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-term	End Target	Source	Frequency	Responsibility	
	6. Number of beneficiaries reporting at least 30% increase in sales over the baseline level	0%	2 200	4 400 <sup>5</sup>	Outcome survey, Progress report, Service Providers	Annually	PCU/APCU	farmers organisations to establish stronger linkages with lead enterprises
<b>Output 1.1:</b> Development and implementation of Business Plans	8. Number of pro-poor BPs approved and implemented by Business Leaders	0	100	150	M&E system of READP, Service providers	Semi-annual	PCU/APCU	Timely, quality and continuous access to business development services
	9. Number of targeted farming households engaged in 4Ps *	0	5 000	8 000 <sup>6</sup>	M&E system of READP, Service providers	Semi-annual	PCU/APCU	
<b>Output 1.2 :</b> Provision of start-up packages	10. Number of rural producers accessing production inputs and/or technological packages (RIMS 1.1.3)*	0	5 000 (25% women)	8 300 (25% women)	M&E system of READP	Semi-annual	PCU/APCU	
<b>Output 1.3 :</b> Youth Apprentice Programme	10. Number of youth supported by the Youth Apprentice Programme *	0	250 (50% women)	350 (50% women)	M&E system of READP	Semi-annual	PCU/APCU	
<b>Outcome 2 : Enhanced FOs for increased integration of farmers in markets</b>	11. Percentage of FOs engaged in formal partnerships/agreements or contracts with public or private entities (RIMS 2.2.3)	0	60%	80%	Outcome survey, Progress report, Service Providers	Annually	PCU/APCU	FOs governance and management capacities increased
	12. Percentage of FOs' members reporting new or improved services provided by their organization (RIMS 2.2.4)	0	60%	80%	Outcome survey, Progress report, Service Providers	Annually	PCU/APCU	

<sup>5</sup> The number of farmers at mid-term and end term represents 40% and 80% of the 5,500 beneficiaries of starter packages who will be directly engaged in production activities.

<sup>6</sup> Includes 7 500 direct beneficiaries of starter packages plus 50% of the 800 beneficiaries of FO seed capital financing

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-term	End Target	Source	Frequency	Responsibility	
<b>Output 1.4:</b> FOs seed capital financing	13. Number of FOs provided with seed capital financing	0	30	40	M&E system of READP, Service Providers	Semi-annual	PCU/APCU	
<b>Output 1.5</b> FOs capacity development	14. Number of persons trained in FOs capacity development *	0	1 500	3 000	M&E system of READP, Service Providers	Semi-annual	PCU/APCU	
<b>Outcome 3: Market access of target group households enhanced through improved market infrastructure</b>	15. Number of persons/households reporting improved physical access to markets, processing and storage facilities (RIMS 2.2.6)	0	3 000	5 000	Outcome survey, Progress report, Service Providers	Annually	PCU/APCU	- Willingness of municipalities, farmers organisations and local communities to manage marketing infrastructure
<b>Output 1.6:</b> Production and marketing support	16. Number of market and storage facilities constructed or rehabilitated (RIMS 2.1.5)	0	18	28 <sup>7</sup>	READP Progress report, Service providers	Semi-annual	PCU/APCU	- Effective coordination from the municipalities
	17. Km of roads (linked to the selected value chains) constructed, rehabilitated or upgraded (RIMS 2.1.5)	0	10	16	READP Progress report, Service providers	Semi-annual	PCU/APCU	- Target households' access to timely irrigation facilities and crop - Recruitment of locally experienced contractors

<sup>7</sup> Includes both cold storage facilities and packing/mini warehouses and rural markets

## I. Strategic context and rationale

### A. Country and rural development context

1. **Governance and administration:** Prior to 1991, Bosnia and Herzegovina was a republic in the Yugoslav Federation. Following the Bosnian war from 1991-95 it became a sovereign country under the terms of the Dayton Peace Agreement in 1995. However, a complex multi-tiered governance structure was adopted starting with the State level Government of Bosnia and Herzegovina (BiH) at the top followed by a second tier of governance with two Entities, the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS), plus the self-governing Brčko District (BD). The third tier of governance is unique to the FBiH and consists of 10 cantons. The fourth tier comprises 143 municipalities, 79 in FBiH and 64 in RS. The municipalities are extremely variable in terms of socio-economic development, size and population. BiH is highly decentralised and many public services are delivered at the municipality level. BiH has an ethnically diverse population of 3.52 million, with 58% of it living in rural areas. The share of the rural population living in rural area has remained constant in recent decade; from 60.5% in 1991 to 58% in 2015.
2. **Economy:** In 2016, the GDP growth was 2.8%, valued at USD 16.19 billion and ranked 109 out of 194 countries. The Gross National Income (GNI) per capita was US\$ 4,880 qualifying BiH as an upper middle income country. Yet, it is the third poorest country in south-eastern Europe. Agriculture comprised 7.5% of the GDP. A key economic challenge is the imbalance of the country's economic model: public policies and incentives are skewed towards the public sector rather than the private sector; consumption rather than investment; and imports rather than exports. BiH ranked 81 out of 190 countries in the World Bank ease of doing business rankings 2017, the lowest amongst former Yugoslav republics. Inter-entity fragmentation has led to an absence of common vision and objectives, lack of coordination mechanisms, gaps in cooperation between agencies and an inefficient public service. A highly decentralized government has provided scope for frequent political obstruction and gridlocks and hampered economic policy coordination and reform. Excessive bureaucracy and a segmented market has discouraged foreign investment (Appendix 1).
3. **Poverty profile:** According to the Household Budget Survey in FBiH, one in six households live in poverty and 15% of BiH population does not have a public social security. The poverty headcount of BiH in 2015 stood at 16.3% of the population. Poverty incidence is much higher in rural area at 19%, compared to 9% in urban areas. High rate of unemployment and inactivity, stagnating at 25.4% and 45.5%, are the main reasons for poverty. Unemployment is extremely high among youth at 62.3%. Women unemployment is higher at 30.7% than for men at 25.2%. Between 1990 and 2015, BiH progressed well with the Millennium Development Goals (MDGs) increasing life expectancy at birth (+5.7 years), mean years of schooling (+1.6 years) and expected years of schooling (+2.6 years). However, it performed poorly in employment, gender and youth, long and healthy life, access to knowledge and decent standard of living thus ranking 81 out of 188 countries and territories, below most of its neighbours. A Sustainable Development Goals (SDGs) roadmap for the country needs to get adopted (Appendix 1).
4. **Agriculture:** Agricultural land covers 2.1 million hectares, of which 46.5% is arable and as much as half of arable land remains unused. Cultivable land amounts to 1 million ha. However, less than 20% of agricultural land is suited to intensive agriculture, for the most part located in lowlands and river valleys. The main agricultural crops are corn, wheat and barley. Agricultural exports by value mainly consists of fruits and nuts, animal or vegetable fat and oils and fish. These are mostly exported to Turkey (27%), Serbia (15%) and Croatia (11%). Although the share of agriculture in GDP is steadily decreasing, from 11% in 2003 and 7% in 2016, agricultural production is a backbone of the rural economy and generates significant economic value, provides for 10% of the country's exports, generates 8% of GDP and creates jobs for about 18% of the national labour force, representing 147,000, of which 65% men and 35% women. In 2015, this number of employees rose by 8,000 or 6% compared to the previous year.
5. **Climatic and environmental challenges:** BiH has experienced frequent weather extremes and natural disasters over the past decade, causing severe economic losses. Individual households working in the agricultural sector are more vulnerable to weather shocks and lack the resilience to recover from natural disasters and the increasing impacts of climate change, including floods, droughts and harsh winters. Building resilience and ensuring the climate proofing of agricultural value chains is essential for both sustainable

economic growth and rural livelihood. The consecutive climatic shocks of 2013 and 2014 revealed an under insured agricultural sector.

6. **EU accession:** On February 15, 2016, BiH applied for EU membership and with the subsequent adoption of a Stabilization and Association Agreement, BiH has taken a critical step to accession to the EU. At the moment, it is in the process of preparing responses of BiH to the questionnaire received from the EU based on which its candidate status will be approved. Progress is required in several areas of the economy to reach compliance with the EU's Common Agricultural Policy (CAP), which sets standards for participation in the common agricultural market. Meanwhile, BiH is working to meet the required preconditions for using the Pre-Accession Assistance for Rural Development (IPARD) funds of up to US\$ 21 million earmarked by the commission to support competitiveness of agriculture in the pre-accession phase (Appendix 1).

7. **Rural Development Strategy:** At the State level BiH is formulating its first Strategic Plan for Rural Development for 2018-2021 to serve as a road map to adopt EU food security and phytosanitary measures. It is a pre-requisite to access the pre accession funds. At FBiH level, the Mid-term Strategy for the Agricultural Development Sector (2015-2019) was adopted in mid-2015 but the corresponding program of work still needs to be approved. It builds on areas such as improvement of profitability and competitiveness of agriculture and food industries, strengthening FOs and linking them to food industry, increasing quantity and quality of food to meet domestic and export demands, and promotion of exports of agricultural and food products. At the RS level the 2016-2020 Strategic Plan for the Development of Agriculture and Rural Areas has been adopted. Its priorities are on-farm investments, investments in processing and marketing of agricultural products, support to FOs and rural finance sector, construction and maintenance of rural infrastructure. Brčko district also drafted the Strategy of development agriculture, food and rural development for period 2008-2013 which was never officially adopted (Appendix 1).

8. **Farmers Organisations:** Producers' Associations (PAs) and Cooperatives and commonly referred to as Farmers Organisations (FOs) by the Government and development partners. Producers Associations (PAs) are considered as not for profit Civil Society Organizations (CSOs) under the BiH State Law on Associations and Foundations 2001. They benefit from tax exemptions on donations, grants, membership fees and profits from economic activities. PAs are treated like any other profit-making enterprises but with condition that profits cannot be distributed to members. There are around 200 PAs in FBiH and 70 in RS. Cooperatives are registered under the 2003 State Law on Cooperatives. They are commercial entities owned and controlled by members (minimum 5 required) for carrying out economic activity for mutual benefit. Economic benefits are distributed to members as dividend on sales or purchases. The cooperative sector in BiH is a non-governmental sector. Around 400 cooperatives operate in the agricultural sector and more than half are considered active. Active cooperatives in the two entities have established umbrella federations at the entity levels namely Federation of BiH Cooperative Union (FBiHCU), Republika Srpska Cooperative Union (RSCU) and the Brcko District Coop Union (BDCU). All three entity associations have established a BiH level apex, the BiH Cooperative Union to influence policy making (Appendix 1).

9. **Rural Advisory Services:** In the RS, public advisory services are managed by a central unit in Banja Luka, the Agency for Extension services in the Ministry of Agriculture. It coordinates its services through seven regional branches. In FBiH, the system was originally established at canton level with no centralised coordination unit. Currently, and given the cantons' lack of capabilities, municipalities are tasked with mobilising external resources and recruiting and financing their own extension officers. This has not proven to be efficient or effective. In general extension services in both entities are deficient, being underfunded, suffering from lack of equipment and understaffed. In response six regional semi-public entities have emerged in the FBiH as business development service providers to private actors, businesses, NGOs and governments. RS created the Agency for Development of Small and Medium Enterprises in 2004 which coordinates its activities through 13 local development agencies across the entity. Advisory services for value chain development are also available through private service providers, chamber of commerce in both entities, the Bosnia and Herzegovina Export Promotion Agency (BHEPA) and other donor supported advisory centres e.g. incubation centres in Mostar, Zenica and Banja Luka, funded by the EU. (Appendix 1).



## B. Rationale

10. The justification for the project is rooted in the presence of high levels of rural poverty with 19% of the rural population living in chronic material poverty and upto another 27% at the risk of falling back into material poverty. Simultaneously, the lack of economic opportunities has led to very high levels of youth unemployment estimated more than 60%, with large numbers of them leaving the rural areas in search of better livelihoods. The firm potential for agriculture to develop the rural economy is not harnessed and BiH remains a net food importer with agricultural products representing 10% of exports but accounting for 18% of total imports in 2015. Commercial agricultural production by the rural poor is limited due to their lack of competitiveness caused by small land holding sizes, lack of technical enterprise skills, information and technology gaps and limited access to resources such as quality inputs and rural finance. Weak and non-inclusive nature of farmers' organisations (FO) has added to the problem. Furthermore, poorly developed transport networks and marketing channels and weak wholesale linkages for processing and bulking have limited the outreach of business leaders to the rural poor. In the absence of such market linkages, the rural poor continue at subsistence level unable to develop into commercial farmers.

11. **High levels of rural poverty:** The main rationale for READP is the presence of a large number of economically deprived poor people in the rural areas along with a large section of unemployed youth. Out of the 2.1 million (58% of population) people living in the rural areas around 19% (394,000 people) suffer from chronic material poverty and 22-27% are at the risk of falling into material poverty, and thus living in a precarious situation, a rate higher than all European countries except Bulgaria. The magnitude of this problems are even more amplified considering that BiH is classified as an upper middle income country with per capita gross national income of USD 4,880 (present the poverty statistics). The presence of the large number of rural poor in this context indicates that the benefits of overall economic development in the country are unable to reach the rural poor households.

12. **High levels of youth unemployment:** This is one of BiH's biggest challenges. The youth unemployment rate at 62.3% is more than double the overall unemployment rate, 25.5%. Around 31% of young people have no qualifications or inadequate knowledge and 90% lack skills for the labour market. For years, young people are unable to enter into in the labour market which is affected by rigid labour market regulations, high tax burden, unfair competition and insufficient control of unregistered labour. Consequently, there is a high rate of youth migration. The Government has created Employment Bureaus at the municipality level with job seekers database and efforts to link employers and job seekers. Donors such as the World Bank, USAID and SIDA have initiated employment development projects. However, there is limited focus on job creation in the agricultural sector. READP will supplement the efforts of the other stakeholders with special focus on job creation in the rural sector (Appendix 1).

13. *The development hypothesis* on which the project is based is that business leaders<sup>8</sup> (SMEs and FOs) can be motivated and driven by their commercial interests to anchor and lead the process of including youth and poor households in their raw material supply chains resulting in job creation, income generation and poverty reduction of these households. This requires producers' access to information, skills, finance, and services from FOs that can support them to become commercial producers by producing and selling the quality and quantity of products required by the business leaders. This approach is in line with the State and Entity level rural and agricultural development strategies, the IFAD COSOP, the IFAD supported Rural Competitiveness Development Programme (RCDP) which will be implemented simultaneously, expected EU accession and other donor initiatives in the rural and agricultural sector. READP will co-finance and support the implementation of viable business plans based on 4-Ps models with the objective of expanding the supply chain of business leaders, enterprises and FOs, and creating additional demand for raw materials sourced from poor rural farming households and assisting to transform them from non-commercial to commercial farmers.

14. Smallholders' access to finance is critical for developing their linkages to business leaders and thus for ensuring the sustainability of smallholders' business ventures. However, the high cost of borrowing (15-24%) from MFIs and the lack of rural outreach of banks (agricultural portfolio 2% only) are currently the major obstacles to producers' access to finance. At the same time, the banking system currently has sufficient

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<sup>8</sup> Business leaders are regarded as SMEs or Farmers Organisations (FOs) offering market linkages to the target households along with other services such as supply of crop production inputs, advisory inputs and pre financing support.

liquidity which is available at an affordable cost of 3-5% but smallholder farmers are unable to access this as they are confronted by barriers at entry in terms of high collateral requirements and the need for reliable financial accounting records which are often lacking for first time commercial farmers. Also the relatively small individual financing needs of smallholders (US\$ 500-1500) is often too low for generating the interest of commercial banks which seldom deliver loans lower than US\$ 5,000-6,000. To overcome this problem READ will provide grants to co-finance starter packages that meet the production costs of first time commercial smallholders linked to business leaders. The starter packages will be partly in the form of subsidies from the project and will be triggering co-financing by the municipalities, cash contribution of the smallholders, credit from financial institutions and value-chain financing (advance) from the buyers.

15. The profitable linkage between the smallholders and the buyers through the adoption of the starter packages will increase cash returns to the smallholders from assured sales and will increase the capacity for own investment in subsequent crop production cycles. This will eventually enable the graduation of newly developed commercial producers from grant financing to commercial financing in subsequent crop production cycles. Specifically, graduation will be achieved by meeting the future agricultural financing requirements from higher self-cash contributions of the smallholders and increased commercial financing from business leaders and financial institutions as described below;

16. The profitable linkage between the smallholders and the business leaders/buyers through the adoption of the starter packages will develop win-win partnership between the business leader and the smallholder farmers with the latter integrated as partners in SMEs businesses (as suppliers of quality raw materials). The increase in smallholders' income will increase their capacity to invest on their farm while the stable partnership between the buyers and the smallholders will promote value-chain financing – through the business leaders pre-financing (advancing) the production costs of smallholders. Pre-financing from business leaders will increase as a result of project facilitated working capital loans from commercial banks to business leaders at prevailing commercial interest rate of 3-5%.

17. There will also be an increase in the participation of banks and MFIs in directly financing the production costs of these smallholder farmers as these farmers will become viable/bankable clients based on functional marketing linkages with buyers, documented evidence of the cash flows from these linkages and greater presence of bankable assets generated from increased revenue. In particular, the lending from MFIs to the smallholders will increase given the doorstep presence of several MFIs which will compete to finance the smallholders at market based interest rates or around 15%. However, due to the Increase in smallholders' own capacity to invest and in the availability of pre-financing from buyers, the loan requirement by smallholders from MFIs will be relatively limited (around 25% of investment costs). This factor will assist to reduce the effective interest paid on the overall investment to 3-4% and make the MFI loans more affordable to the smallholders.

18. The higher self-cash contribution from the smallholders will be facilitated by project sponsored financial planning and management training and adequate record keeping guidance to assist producers to reinvest their returns for expansion of commercial agricultural activities.

Problem	Causes	Effects	Intervention	Impact	Objective
- Economic poverty of households living in rural areas - Youth unemployment in the rural areas	- Lack of competitiveness - Lack of technical and enterprise skills - Lack of access to resources	- Agri. production limitations - Low outreach of business leaders - Low production and productivity - Non- commercial farming practices - Not integrated in VCs - Limited participation in FOs - Lower asset ownership and living standards - Social concerns – rural desertification	- Linking non-commercial households to business leaders - Support to youth apprenticeship - Strengthen FOs with focus on including poor - Support market linkage and production infrastructure	- Scalable model for first time commercial farmers - Reduction in poverty – improved living standards - Increases in the volume and value of produce - Job growth; increase in self-employment - Reduction in migration from rural areas	- Increase the income and job creation of rural youth and poor households by linking them to profitable agribusiness and employment options on a sustainable basis

19. **Potential for agriculture to develop the rural economy:** There is strong potential for agriculture to develop the rural economy. Yet, BiH is a net food importer. In 2015, agricultural products only represented 10% of exports, but accounted for 18% of total imports. The lack of competitiveness of the agricultural sector is a major constraint to agricultural development and is caused by (i) fragmentation of land ownership (ii) lack of technical enterprise skills (iii) suboptimal technology leading to low yield and low profits (iv) weak market demand information leading to poor choice of produce and (v) inadequate capital to engage in commercial agricultural production. Small land parcels (4.7 ha/farm) often dislocated from each other, makes production more costly and less efficient. Out of the 600,000 smallholder farms, 50% own less than 2 ha, 89% own less than 5 ha and only 4% own beyond 10 hectares. Formal holdings registration gives access to direct support from the municipalities in the form of subsidies. But, due to the minimum threshold to qualify as a farm, less than 20% benefit from direct subsidies. READP will address these areas by providing target households with access to market information, knowledge, agronomy skills and access to quality inputs, services and financial resources and most importantly assured market linkages to support their commercialisation and contribution to the rural economy. The potential of the READPs focal sub sectors are presented below;

20. **Fruit and vegetable:** Fruits such as plums, raspberries, strawberries, cherries, forest fruits and vegetables such as cucumbers and gherkins, tomatoes and peppers are attractive for fresh markets as well as processing. 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. Annual production of the main fruit and vegetables in BiH from 2013-2015 was between 815,736 and 955,821 tons. Due to favourable climatic and economic conditions the area with berries (raspberries, strawberries, blueberries, blackberries and chokeberry), has increased over the last few years and has reached production above 13,631 tons in 2015. Fruit and vegetable exports from BiH have nearly quadrupled since 2008 to some 125 million BAM in 2015. Worldwide BiH is in 15<sup>th</sup> place with plum production and 10<sup>th</sup> place in raspberry production. The raspberry sub-sector generates exports of BAM 50 million and employs 50,000-60,000 people in production, harvesting and processing. Some 15 companies in BiH are involved berries export. Industrial processing of fruit in BiH involves fruit drying and fruit juice production (or concentrates), syrups, jams and marmalades. There are approximately 20-25 fruit and vegetable processors in BiH. About one third of processed fruit and vegetables are imported, as a local production cannot meet the local demand (Appendix 1).

21. **Dairy:** In the last decades the dairy sector in Bosnia has developed towards increased productivity by reduction of cows alongside increased milk production per animal. At the end of 2015, the total milk production was around 666 million litres from around 243,000 cows. Dairies collect approximately one third of milk produced by local farmers, which is still low in comparison to other countries such as Slovenia with 80% milk collection). BiH has 100 dairies with total production capacity of 2 million litres/day. Approximately 45 dairies exceed capacity of 1,000 litres/day and 10 dairies exceed capacity of 100,000 litres/day. Six large dairies are market leaders in the country with a market share of more than 70%. BiH currently processes less than one quarter of its total milk production and with demand for dairy products such as cheese, yoghurt and other milk probiotic products are expected to rise by 20% over the next 5 years in the region, the country offers an excellent opportunity for added processing. Therefore, conditions to further improve milk production meeting EU standards in terms of productivity as well as in terms of hygiene and standards are required.

22. **Honey:** Bosnia and Herzegovina (BiH) has good potential for the production of honey due to its varied climate and landscapes. Bosnia, with its continental climate and mountainous terrain, enables the production of several high-value types of mono-floral (chestnut blossom, acacia), forest and meadow honey; Herzegovina, on the other hand, with its Mediterranean climate, is ideal for the production of other types of honey such as poly-floral honey derived from the nectar of many types of Mediterranean herbs. According to FAOSTAT official data, the number of beehives in BiH nearly doubled within ten years (2004-2014) from 240,723 to 392,348 beehives. Production has rapidly increased and imports have dropped from 270 tons in 2012 to some 180 tons of honey in 2015. However, beekeeping accounts for 1% of the total agricultural production in BiH and cannot cover local market demand.

23. **MAPs/NTFP:** Bosnia and Herzegovina has long tradition in collecting and cultivating of medicinal and aromatic herbs, wild berries and mushrooms. A very rich biodiversity of medicinal and aromatic plants and mushrooms in Bosnia and Herzegovina has the potential to contribute substantially to the national economy.

It is assessed that BiH has over 700 species of medicinal and aromatic plants of which around 200 are exploited (balm, immortelle, juniper, chamomile, lavender, mint, rosemary, sage, savory, etc.). The annual harvesting of medicinal and aromatic plants in BiH varies from 1,500 to 9,000 tons. Still, herbs continue to play an important role in the MAPs sector, accounting for about 20% of total exports. Also notable is the recent trend of cultivation, especially for plants such as chamomile, lemon balm, mint, marigold, lavender, basil and immortelle. Some 30-40 companies in BiH are active in MAP export.

24. **Essential oils:** Production of essential oils has dramatically increased over the last 10 years. Most popular oils are immortelle, sage, lemon balm, chamomile, bay laurel, juniper, lavender, heather, chaste tree, mint, wild thyme, prickly juniper and rosemary. Certain number of companies also specialized in essential oils from conifer trees, such as Black pine, Scots pine, Silver fir and Spruce. The United States and France are the key markets for essential oil, with great interest for immortelle oil from Herzegovina. To meet the growing demand, over 1,000 ha are planted with immortelle in Herzegovina, with seeds taken from the wild plants and in areas where immortelle naturally grows. The immortelle oil contains high percentage of alfa-pinene, which is considered to be a broad-spectrum antibiotic. Therefore, this oil is more and more in demand by pharmaceutical industry.

25. **Mushrooms:** MAP and mushroom collection is a sector dominated by around 30,000 rural families as collectors. According to recent studies 20% of the collectors are young people below 25 years, 60% middle-aged (25-45 years) and 30% elderly collectors. Most collectors belong to rural and unemployed population; 60% of them female. Collection of mushrooms and medicinal herbs are the major source of income of 44% of the collectors; for 38% of the collectors it is additional income and rest use NTFP for own consumption.

26. **Inadequate market linkage between poor producers and SMEs:** Value chain actors such as agro processors, traders, buyers, wholesalers and exporters have low outreach to the rural areas in spite of the high potential for agricultural development in these regions. They are discouraged from linking with smallholder farmers due to low production and productivity, non-commercial farming practices, lack of integration with value chains support service providers such as FOs, input suppliers and financial institutions. Additionally, they are discouraged by infrastructure constraints such as (i) poorly developed transport networks and marketing channels (ii) unreliable wholesale linkages for processing and bulking (iii) low rate of mechanisation and the very low share of land under irrigation, about 1%. Previous IFAD projects have developed models to address some of these issues and to facilitate linkages between target households and private lead buyers, notably by channelling inputs through the lead buyers and other forms of pre-financing arrangements. These arrangements are based on win-win producers-private-public partnerships also involving the municipality to provide public infrastructure support to leverage greater private sector commitment. READP will build on the success stories and will adopt a business plan methodology for sustainable integration of target households to value chain actors.

27. **Inadequate outreach of financial services to the poor:** There are 24 commercial banks registered with the Central Bank of BiH. The non-banking financial system is distributed among 25 insurance companies (5% of financial system assets), 8 leasing companies (2%), 34 investment funds, and 18 micro-credit organizations (MCOs) (3% each) and 1 factoring company as of end of 2013. The MCOs are treated as microfinance institutions (MFIs). The credit outreach of commercial banks to the agriculture sector is only 2% of the total portfolio as they have traditionally avoided rural markets due to limited understanding of agricultural business and higher risk perception associated with small producers. Thus potential borrowers are constrained by high collateral requirements, high interest rate, and a lack of reliable financial accounting records. Commercial banks have seldom engaged with IFAD's target group. In contrast the MFIs have increased their lending to agriculture, from 33% in 2011 to 38% in 2015. They cater to unemployed and vulnerable groups, women and youth which correspond to the IFAD target group. However, they charge high interest rate ranging from 15-24% which hinders access to finance by the rural poor.

28. **Complementary to RCDP:** IFAD projects in BiH are implemented by the Project Coordination Unit (PCU) in FBiH and the Agricultural Programme Coordination Unit (APCU) in RS. The two coordination units are collectively referred to as A/PCU in the rest of this document. The A/PCUs have just started the implementation of a new IFAD supported project, the Rural Competitiveness Development Project (RCDP). RCDP is a national project that will be implemented up to 2027 by the A/PCUs and will overlap with READP

that is likely to be implemented from 2019-2023. Both projects will be then implemented during the period 2019-2023 period.

29. RCDP was designed in 2014 focusing on the concept of the starter packages to finance the crop production needs of smallholder farmers. The starter packages replaced the credit line approach which was witnessing targeting and disbursement problems in previous and ongoing projects. RCDP is based on the business plan (BP) approach to develop linkages between poor producers and buyers. Over the last three years current IFAD projects implemented by the A/PCUs (RLDP and RBDP) have successfully tested the starter package concept and have developed partnerships between producers and business leaders that can be strengthened and replicated through RCDP's business plan approach.

30. RCDP and the new READP project will be complementing each other at field level and at the same time READP will be working on approaches and investments that are not covered by RCDP. For example, READP will be piloting specific initiatives for addressing youth out-migration. Specifically READP will be supporting RCDP activities by:

- Complementing BP support with investment in infrastructure. READP will be supporting the implementation of BPs holistically taking into account the on-the-farm needs of producers as well as addressing the infrastructure needs such as the ones related to storage facilities, secondary irrigation schemes, market outlets and roads. READP will address this gap by dedicating 37% of IFAD contribution to infrastructure development.
- READP approach of supporting BP will be demand driven, open to any pro-poor marketing opportunity as identified by Business Leaders, without being focusing on specific value chains as is the case of RCDP. Thus, READP will be selecting proposals for different value chain crops in the identified geographical clusters and these will be complemented by RCDP with a value chain approach focusing mainly on the berries sector. RCDP will be also investing in higher level policy changes with value chain platform development and setting up pro-poor and sustainable regulatory frameworks for selected value chains
- Although RCDP recognises the problem of youth unemployment it does not have clear solutions to this issue. READP will adopt direct targeting of the youth with around 30% of investments in starter packages and apprentice programmes directly supporting youth.
- RCDP will continue for several years after READP. This will provide the opportunity to consolidate READP's achievement in the common municipalities and replicate the success stories in other municipalities through RCDP.

31. In addition to the above READP will assist to enhance the impact of RCDP in the READP target municipalities. Out of the estimated 57,000 rural households living below poverty line in the READP targeted municipalities RCDP will reach around 10,500 households (18% of poor rural people). READP will provide benefits to an additional 8,650 households thus increasing the overall impact of the IFAD investments in the targeted municipalities.

32. **Weak and non-inclusive farmers' organisations:** IFAD interventions have established or supported more than 200 Producer Associations (PAs) and Cooperatives, with a total membership of 18,750 out of which 14,250 were men and 4,500 of women representing 24% of the total membership. Yet, the persistent challenges have been their lack of cohesion, non-commercial mind set still at its early stage, limited outreach to poorest farmers and constraints in achieving financial sustainability. With regards to cooperatives the main challenges are low barriers to entry in the cooperative sector which have led many would-be companies to register as agricultural cooperatives and operate as private businesses. Cooperatives are relatively easy to establish; five founding members and limited capital are required. As a result, a vast majority of cooperatives are family centred and operate as commercial enterprises, taking advantage of certain cost effective requirements, including reduced registration time, lower operating costs than companies, lower capital and workers requirement and access to government subsidies and donor support, generally unavailable to companies. The RCDP which will be implemented in parallel with READP will have strong focus on strengthening the enabling environment for the FOs by addressing their policy and regulatory challenges which will assist their institutional sustainability. READP will capitalise on these initiatives and support the commercial aspects of these FOs and help their progress towards financial sustainability. IFAD experience with supporting FOs in past project is presented in Appendix 1.

33. **Harmonized with donor initiatives:** READP is harmonised with other donor programmes. For example, it is aligned to agricultural and agribusiness development focus of FARMA II – an ongoing 5 year project supported by the USAID and Sweden. Similarly, it is also in tune GIZ's ProLocal initiative promoting local economic development and agricultural value chain development. READP will develop effective linkages with such donor initiatives both for harmonised implementation as well as for knowledge sharing and dissemination of good practices, replication and scaling up of success stories. The project will also be aligned with IFAD's Strategy for Engagement in Countries with Fragile Situations. BiH is part of the countries identified by the strategy, given its complex and conflict-ridden history and its effect on the institutional framework. In line with the strategy, the project will adopt flexible and differentiated approaches as compared to other IFAD projects (e.g. the PCUs across the entities). Further, the targeting focus of the project on unemployed youth is as per the guiding principle of the strategy.

34. **Harmonized with government strategies and EU accession:** The government strategies are being aligned to the scope of future EU accession and READP is oriented in this direction with initiatives to strengthen private sector enterprise linkages to the agricultural sector, improving the competitiveness of agricultural production, strengthening farmers' organizations, supporting exports and rural employment generation. In relation to harmony with future EU accession The IFAD RB-COSOP is already tuned in this direction by focusing on farmers' transition from non-commercial to commercial agriculture. The RCDP will augment the enabling environment for commercial rural agriculture. READP will complement and capitalize on RCDP's achievement to foster more efficient and sustainable local commercial agricultural models.

## II. Project description

### A. Project area and target group

35. **Project area:** The programme areas is selected based on geographical targeting approach. It will consist of 10 clusters (five each in FBiH and RS) with an average of 9 municipalities per cluster grouped together on the basis of two main criteria;

- majority of the municipalities represented in the clusters classified as extremely underdeveloped and underdeveloped by each entity according to their economic ranking and
- presence of suitable conditions within the cluster for developing and strengthening the value chains of the project supported produce/crops

36. Thus, some relatively better-off municipalities are also included in each cluster where they offer advantages such as the presence of marketing infrastructure and strong farmers' organisations linked or with potential for linkage to target group members in the underdeveloped municipalities. In these relatively better-off municipalities READP's implementation will be directed to those pockets with relatively higher concentration of target households. As a result of this approach the READP clusters will include 90% of all extremely underdeveloped and underdeveloped municipalities and 40% of semi-developed and developed municipalities in BiH (appendix 2).

37. **Target group:** The total direct outreach of the READP will be 8,650 households. An additional 5,000 households will be the indirect beneficiaries mainly from the READP infrastructure investments (refer appendix 2). The criteria for defining the target group follows from the experiences in RLDP and RCDP and is based on availability of average land plot size and the level of income per household. Thus, the READP target group will comprise (i) rural households with 0.1-0.5 ha (1-5 donums) land available for cultivation through direct ownership or indirect arrangements such as leasing or renting (ii) households with monthly income less than 817 KM comprising mainly non-commercial farmers (refer table below) (iii) unemployed rural youth (below 30 years<sup>9</sup>) and (iv) poor women headed households in rural areas. Only one member per household will be eligible for direct project support in the areas of standard starter package, youth and women starter package and youth apprentice support (refer SC 1 and 2 for details about starter packages).

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<sup>9</sup> READP is aligned with BiH's youth age classification and existing age categorisation

Category	Average monthly income per household member BAM	Per household 4 members*	Average land size per household (area in ha)
Rural Poor	Upto 389	Less than 817	0.1 – 0.5 ha
Borderline poor	390 – 500	817-1000	0.51 – 1.5 ha
Not poor	501 and above	1000+	and above

\*Based on BiH household survey 2015 stating that 4 member households with income less than 817 KM per month are poor.

38. READP will also partner with a range of institutional actors and link them to the target group through profitable business models to ensure the sustainability of the livelihood opportunities created for the target group. These institutional actors will consist of (i) farmers' organisations (PAs and cooperatives) (ii) enterprises in the selected value chains (iii) service providers and (iv) financial institutions.

39. **Targeting strategies:** READP aims to promote the inclusion of **very poor and poor non-commercial farmers, women and youth** in selected value chains through the development and implementation of cluster based business plans for connecting producers to buyers. In order to ensure the inclusion of the target group in the business models supported by the business plans READP will adopt (i) **geographical targeting** measures to reach those areas with higher concentration of targeted households (referring to project area above) (ii) **self-targeting** by enterprises/FOs offering business opportunities in proposed VCs suitable enough and of interest to the target groups (iii) **direct targeting** of youth (youth apprentice) and (iv) other enabling measures to promote greater chance of linking the target group to business leaders and inclusive FOs.

40. **Geographic targeting strategy:** The first level of geographical targeting has already been embedded in the clustering of the municipalities in a manner that 54 (61%) out of the 89 municipalities selected for the project are underdeveloped and extremely underdeveloped municipalities (Appendix 2). These municipalities are characterised by fewer economic opportunities leading to higher levels of unemployment and outmigration as well as other factors such as less number of pupils in school. These local governments have limited financial strength and are often unable to attract investments to generate employment and revenues which further limits their ability to pursue developmental activities. These factors have contributed to higher levels of poverty and higher proportion of farming households in these municipalities ranging from 33-56% compared to the average of 32%. However, around 90% of these farming households are currently non-commercial in nature indicating the high relevance of the project activities in these areas. It is estimated that the project beneficiaries in these municipalities will be drawn from a domain of 15,057 non-commercial, poor farming households (Appendix 2, table 9).

41. The second level of geographical targeting measures will be adopted to assure that the cluster level business plans are adequately incentivised to include more target households from the underdeveloped municipalities. Thus, the business leaders that achieve more than 60% of their linkage outreach to target households in the underdeveloped municipalities will be eligible for project support in the areas of product certification, trade fair participation and other marketing assistance such as branding and product identification. At least 20 out of the 30 youth apprentice providing management support to FOs will be deployed to FOs in the underdeveloped municipalities. This is consistent with the fact that the majority of the identified FOs are located in underdeveloped municipalities and a number of them have been involved in previous IFAD funded projects. Similarly, the contribution from the underdeveloped municipalities required for business plan related infrastructure development such as road, bridges, cold storages, rural markets and irrigation facilities will be 5-15% only compared to 50-70% requirement from developed municipalities. Increased infrastructure investments in the underdeveloped municipalities in this manner will play a vital role in the sustainability of the target households' linkages to the value chains. The third level of geographic targeting measures will include direct sensitisation, guidance, technical assistance and implementation support to the business leaders assisting them to design and implement profitable business models especially relevant for the underdeveloped municipalities.

42. **Self-targeting:** READP will promote self targeting of target households by focusing on mechanisms and activities that has greater involvement and relevance for target households. Thus, it will follow a demand driven approach for the selection of the crops instead of restricting to specific VCs. This approach will allow the selection of produce such as vegetable and MAPs that can generate reasonable returns from limited initial investments and from limited land area, thereby being more suitable for the inclusion of the target households who have limited resources for investment. READP will co-finance starter packages to assist the beneficiaries

to meet the production costs for selected crops (starter packages are described in SC1). In order to ensure the starter packages are attractive only for smallholder farmers/target households READP will impose a ceiling of EUR 500 and 800 on the standard, youth and women starter packages. Finally, READP's FO seed capital financing is expected to stimulate a range of FO level businesses involving on-farm production and processing activities as well as off-farm activities such as tourism and other rural services which will mostly be labour intensive in nature and will promote higher engagement of the target households.

43. **Direct targeting of youth:** Building on the experiences of RBDP and RCDP, youth aged from 20 to 30 years and belonging to the target households will be eligible for direct targeting schemes as given below.

44. **Youth starter packages:** As described earlier, READP will co-finance starter packages to support beneficiaries with the cost of first time commercial production of selected VC crops. Out of the 7,500 starter packages supported, READP will reserve 1,400 starter packages as specific quota for eligible youth. The unit size of these starter packages will be higher at EUR 800 and will finance upto 60% of production costs compared to the standard starter packages of EUR 500 financing upto 40% of such costs. Access to the starter package will assist the youth to develop entrepreneurial skills and self-employment. Where relevant specialised youth farmers' organisations, comprising members supported by youth starter packages, will be promoted and strengthened. Youth involved in producers' organizations should benefit from complementary skill development training to address competency and knowledge gaps (e.g. participatory planning, leadership skills, mentoring etc.).

45. **Youth apprentice support:** The project will assist 350 youth apprentice in the agricultural and rural sector (details in SC1). An apprentice will be a person undergoing on the job training leading to a full time job. At the end of the apprenticeship period the individual will be absorbed as a regular employee resulting in job creation and increased income for the target household. The project will finance the cost of youth apprenticeship for 1 year or upto a maximum of EUR 2,100 with all remaining costs borne by the employer<sup>10</sup> (implementation details in SC1).

46. **Targeting of women:** The project will develop a gender strategy based on lessons from past and current projects (RLDP, RBDP and RCDP) regarding interventions that can increase women's incomes, enhance their decision-making and empowerment. In particular, READP will refer to tools developed under RBDP in establishing a mentoring system to empower women and promote their inclusion in the project activities. Self-targeting and direct targeting measures will be adopted for inclusion of women.

- (a) The self-targeting measures will promote the selection of produce such mushrooms, gherkins, pepper and tomato which have higher women's involvement. The starter packages will support labour intensive crops which have greater involvement of women and the FO seed capital financing will promote enterprises involving processing, packaging, handicraft production and tourism promotion (small hotels and other services) which have higher women's involvement.
- (b) Direct targeting measures for women's inclusion will involve a quota of 600 starter packages reserved for women headed households which will have the same preferential conditions as the youth starter packages, i.e. unit size of EUR 800 financing upto 60% of production costs. Additionally, 50% quota or 183 youth apprentice opportunities will be received for young women. As a result of these mechanisms women will comprise at least 25% of the READP outreach achieved over the life of the project.

47. **Gender empowerment measures:** Gender empowerment measures adopted by READP will be divided into three categories. The first category will comprise training and capacity building inputs for enhancing crop production and processing skills, business management skills and household budgeting and savings skills. FOs will be sensitised on women's inclusiveness and women's participation in governance and management roles. In order to optimise results training and capacity building inputs will be provided through classroom sessions as well as on farm lessons and exchange visits. The second category of empowerment measures will promote the adoption of farm tools and equipment for increasing productivity and saving time and energy. For example, farm labourers, who are often women, will be trained on the use of tools for weeding and harvesting produce. Similarly, target group households' access to production and marketing related

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<sup>10</sup> In addition to the cost sharing mechanisms, the sustainability of the youth apprentice scheme will be ensured based on the strict selection of the enterprises that demonstrate their strategic labor force requirement for the medium term. Access to regular employment will be subject to performance assessment



infrastructure will be enhanced by supporting works such as domestic/irrigation water supply and roads which will reduce drudgery. The third category of empowerment measures will promote increased participation and decision making by women and youth within the business plan implementation partners. For example, the youth starter packages with the fixed women's quota will lead to increase in women and youth membership in FOs. The women's quota in the youth apprenticeship will lead to increased employment of young women. READP will also promote greater inclusion of youth and women in the governing and management committees of the FOs for increasing their decision making roles in these institutions.

### **Implementation of the targeting approach**

48. The implementation of the targeting approach will commence with a targeting survey followed by selection of business leaders, PAs and other implementation partners that are willing to adopt the objective of reaching the target households. This will be followed by stakeholder sensitisation and guidance on the steps towards target group inclusion based on information/findings from the targeting survey. Thereafter, the project will provide training, technical assistance and implementation support for strengthening the capacity of the project partners to include the target households and for assisting the actual identification and linkage of the target households to the business leaders. These steps are further described below

49. **Targeting survey:** READP will conduct a targeting survey (see SC 1) guiding the project team in the identification of poverty pockets and to identify where to focus on outreach. The study will identify the potential poverty areas and the target groups including assessing gender and youth dynamics in designated clusters. The targeting survey will be incorporate experiences from previous projects, in particular started in the pilot projects of RCDP and further elaborated under RBDP and RCDP. Furthermore, the study will recommend suitable products from the project supported agricultural sub-sectors, taking into consideration their prevailing market demand.

50. The survey will involve (i) consultations with key actors, such as social service centers, employment bureau, heads of the local communities, authorities managing entity level farm registers and financial institutions active in the project area (ii) identification of the broad geographical areas and potential farmers' organisations (FO) with higher concentration of the target households (iii) validation visits to these geographical areas and FOs and (iv) preparation of a verified list of the geographical pockets and FOs with higher concentration of target households. These lists will be used during the stakeholder workshops to promote inclusive business plan preparation. The target households identified in the business plans will be drawn from the poverty areas identified in the targeting survey.

51. **Selection of poverty focused business leaders, FOs and other implementation partners:** The selection of the business leaders will be based on criteria that specifically indicate their commitment to link with the target households in addition to other criteria indicating their commercial strengths. Thus in order to be eligible the business leaders should comply with criteria including (i) proven experience in or formal commitment to establishing business linkages with small producers/target households in economically underdeveloped geographical areas (through MoUs); (ii) selection or willingness to select crop/produce suitable for production by target households and involving engagement of mainly women and youth as wage labour in the production cycle. Similarly, the business proposals submitted by the business leaders must indicate (i) targeted outreach to the target households including youth and women and (ii) bulk of the targets households planned to be drawn from the underdeveloped municipalities (iii) potential returns to the target households including youth and women.

52. Similarly the criteria for selecting FOs will include indicators of their potential to reach target households such as (i) at least 25 members, which includes at least 20 members from the READP target group households with income less than KM 817 per month, in majority from the underdeveloped municipalities (ii) intention to further increase membership particularly from the READP target group in the underdeveloped municipalities and (iii) outreach to a wide base of co-operant and rural poor. The selection of the business plans for the FO seed capital financing will focus on identification of both on farm and non-farm business ideas which promote the involvement of women and youth. Relevant criteria for further assessing farmer associations and cooperatives, as successfully applied in RBDP, are described in Appendix 2.

53. **Sensitisation, training and technical assistance:** Cluster level sensitisation workshops will be organised to develop shared understanding about the poverty reduction context of the project. The targeting

criteria and the targeting approach will be explained. The technical assistance during the BP formulation will incorporate strategic and operational guidelines for targeting poor households. FO organizational strengthening will focus on inclusiveness and empowerment of rural poor, women and youth through activities such as (i) information and mobilisation campaigns; (ii) business counselling for members of PAs; (iii) seed capital financing to leverage investments; (iv) support to ensure active participation of women and youth in FOs' decision-making process through adoption GALS methodology for financial inclusion ; and (v) information campaign on rural labour conditions, food safety, enforcement of regulations in agriculture and business leaders.

54. **Target household selection process:** Target households will be selected through (i) sensitisation and orientation of the target households about project details and mobilising applications for participation (ii) participatory wealth/poverty ranking of the interested households (iii) Selection and verification of eligible households.

- (a) Sensitisation and orientation of the target households will begin during targeting survey followed by participation of community representatives in the cluster level sensitisation workshops. This will be followed by community level campaigns during the BP development stage focusing on the pockets of poverty identified during the targeting survey and selected by the business leaders for BP implementation. These campaigns will be conducted by the service providers, cluster coordinators/extension and representatives of the municipality and business leaders. During these visits the criteria for target household selection already explained during the cluster level workshops will be further explained. Next, READP in coordination with the other partners will invite expressions of interest from the target households.
- (b) Participatory poverty/wealth ranking: The applications by interested households will be collected by the project service providers and field coordinators in coordination with the municipalities. The poor households will be screened from these applicants based on the project criteria highlighted in the 'target group' section above. Participatory poverty/wealth ranking of these screened applicants will be conducted in focus group discussion with community representatives and FOs active in the areas. This exercise will lead to the further classification of the poor category applicants into extremely poor, very poor and poor categories based on participatory approach.

55. Selection and verification of applicants will be conducted by a joint team comprising representatives of the business leader, municipality, FOs and READP for selecting starter package beneficiaries. The team will conduct detailed examination and shortlisting of the applications according to different poverty categories identified during the participatory poverty/wealth ranking exercise. Shortlisting will be done based on the target group selection criteria presented above. Applicants in the extremely poor category will be selected first followed by those in very poor and poor categories. In case there are more applicants than the available number of packages the candidates will be selected based on lower average annual income per family member. The project will conduct household visits for shortlisted candidates to verify and validate the household selection. The quota for youth starter packages and starter packages for women will be respected during the selection process.

## **B. Development objective and impact indicators**

56. **Goal:** READP's goal is to contribute to rural economic development and poverty reduction by improving livelihood, generating revenue and enhancing the living standards of target households.

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

58. **Key impact indicators:** The achievement of the project objectives at the end of the project will be measured by the following indicators, (i) At least 8,650 households or around 25,000 household members have benefited from the project services (ii) At least 80% of the beneficiary households have increased their income by at least 30% (iii) Assets of the beneficiary households have increased by at least 25% (iv) At least 4,500 full time jobs (or equivalent) created leading to stable income for enhanced food security and

sustainable livelihood of beneficiary households (v) At least 75% enterprises supported by the project reporting an increase in sales through 4P arrangements (vi) At least 80% of beneficiaries reporting increase in production (vii) At least 80% increase in contracts between public and private entities (viii) at least 80% members reporting new or improved services provided by their organisations and (ix) at least 5,000 households reporting improved physical access to markets, processing and storage facilities.

59. **Project overview:** READP will support 4-Ps (Private, Public Producer, Partnerships) based business models that increase the income of the target households by developing profitable marketing linkages between them and sustainable business leaders. Business leaders can be capable private enterprises or FOs with the interest and potential to develop partnerships with the target households. In general, the integration of poor farming households in commercial value chains often faces challenges: private enterprises are interested in working with the target households only if they are competitive in production to make their VC integration commercially viable, while municipalities, mandated to reduce poverty, offer subsidies that do not address competitiveness to support commercial linkages for the target households.

60. Against this background READP will broker linkages between the business leaders and the target households by investing in activities to (i) mobilise and reconcile the commercial and social interest of private, public and producer stakeholders (ii) incentivise and catalyse collaboration between business leaders, inclusive FOS, municipalities and target households and (iii) monitor and ensure that the collaboration with these target households develops into sustainable business relationships. The entry point of READP investments will be inclusive pro-poor business plans developed collaboratively by the business leaders and other private, public and producer partners facilitated by the project.

61. The pro-poor BPs will describe the business model and partnership needs for profitably linking the target households to business leaders based on marketing opportunities for the selected produce. The selection of the produce will be market led mainly from the fruit and vegetable, MAPS/NTFPs, dairy and associated sub-sector. The business plans (BP) will be implemented using 4Ps arrangement involving partnerships between business leaders i.e SMEs and FOs as private partners, municipalities as public partners, target households as producers, and the READP as further public partner to fulfil the following responsibilities:

62. *Business leader (SME and FO) responsibilities (Private):* Private business leaders will be responsible for (i) all marketing aspects, private infrastructure, working capital investments and operational requirements (ii) supply of quality planting material, other production inputs including advance financing to the producers (iii) including the target households in the business models. FOs can be intermediaries between the target households and the private enterprises or as independent businesses directly marketing their produce. FOs will (i) negotiate better terms and conditions for their members and adopt measures to safeguard members interests (ii) improve their services to increase the membership from the target households (iii) assist members to meet the quality and quantity requirements of the buyer by providing access to advisory assistance, machinery and agronomic inputs and (iv) where relevant ensure the proper management and maintenance of enabling infrastructure investments.

63. *Beneficiary household responsibilities (Producers):* The target households will be the main project beneficiaries. They will be responsible partners in the business planning and implementation process and will (i) co-finance the starter packages and produce the selected products (ii) supply the agreed quantities and qualities to the business leaders and (iii) participate in strengthening FOs by lobbying and advocating more inclusive approach.

64. *Municipality responsibilities (Public):* Municipalities will provide a supportive setting for BP implementation by (i) assisting consultation and discussions between different BP partners (ii) co-financing starter packages, FO seed capital financing and enabling infrastructure needs and (iii) ensuring proper management and maintenance of the developed infrastructure.

65. *Project responsibilities (Public):* READP will facilitate the linkage between the business leaders and the target households. It will (i) sensitise and mobilise the stakeholders (ii) assist market development, training and advisory services to support competitive production by target households (iii) co-finance starter packages for competitive production by first time commercial farmers (iv) co-finance enabling production and marketing

infrastructure investments and (v) plan, monitor and provide oversight to ensure that the project resources are being used as agreed and planned.

## **C. Outcomes/Components**

66. The project has two components: (i) A technical component titled enhancement of economic opportunities and smallholders integration in value chains and (ii) Project management and coordination.

### **Component 1: Enhancement of economic opportunities and smallholders integration in value chains – EUR 26.2 million (95% of project cost)**

67. The expected outcomes of this component are (i) production, productivity, marketing of produce and profitability of target group households improved based on 4Ps models (ii) enhanced FOs for increased integration of farmers in markets (iii) market access of target group households enhanced through improved market infrastructure. The component is supported by three mutually reinforcing sub-components; (i) development and implementation of pro-poor BPs (ii) development of farmers' organisations and (iii) enabling infrastructure development.

#### **Sub component 1.1: Development and implementation of pro-poor business plans**

68. This subcomponent will increase the adoption and implementation of 4-PPs based business models by business leaders along the value chains. Business leaders comprising SMEs and FOs will be the originators of the BPs. The Project will assist around 150 business leaders to develop BPs and will facilitate BP implementation agreements between different partners targeting poor households in the selected project areas. With transparent targeting measures the project will ensure the identification of locations/communities with higher concentrations of the potential target households and the selection of suitable pro-poor sub-sectors and crops. It will co-finance the implementation of standard starter packages (5,500) and preferential starter packages for youth (1,400) and women headed households (600) which will transform 7,500 non-commercial households to commercial households in agriculture by developing their profitable linkages to the business leaders. Additionally, it will provide apprentice support for the employment of 350 youth (50% women) by linking them to employers in the rural sector.

69. The main BP development related activities are (i) selection of service provider (ii) targeting survey (iii) stakeholder awareness and sensitisation workshops (iv) call for proposals and selection of eligible applicants (v) development of detailed BPs and implementation agreements. The main BP implementation related activities are (i) market development assistance (ii) farmers' training, advisory and capacity building services (iii) co-financing starter packages and youth apprentice support (iv) assisting other external linkages e.g. to financial institutions, certification bodies and (v) creating a supportive setting for BP implementation.

#### **Development of pro-poor business plans**

70. **Activity 1 - Selection of service provider:** The A/PCUs will prepare terms of reference for service providers to be selected. The terms of reference of the service provider (SP) will differ between the two entities. The PCU is already experienced in implementing current IFAD projects by partnering with service providers. Whereas in the RS, the APCU implements current IFAD projects by partnering with the Agency for Extension Services (extension agency - EA) which currently does not have experience in the BP methodology. Also, the RCDP, which will start prior to READP, will invest in business development services (BDS) and implement a voucher system for financing advisory services. READP will take the RCDP experiences into consideration both for SP selection and financing arrangements.

71. **SP selection by PCU:** The PCU will competitively hire a service provider company (SP) to support the READP BP development and implementation process. Depending on performance, the SP will be retained for implementing other READP sub-components. The PCU will contract 5 field officers as cluster coordinators, one in each of the five clusters, for field presence and quality implementation of READP. The SP selection criteria will include significant in-house expertise and experience in the sub-sectors, participatory targeting of individual beneficiaries, BP development, rural area development, environmental protection and climate change mitigation capacities, youth employment, stakeholder coordination, procurement, technical and financial reporting and donor interaction. The SP will (i) implement the targeting survey (ii) conduct

sensitisation workshops before call for business proposals (iii) provide technical assistance for developing detailed BPs (iv) facilitate implementation agreements and implementation by BP partners.

72. **SP selection by APCU:** The APCU will also contract a SP for implementation of this sub-component. However, the ToR of the SP will be adjusted to include training and capacity building of the extension agency (EA) to support the implementation of the BPs. Once trained, the SP and the EA will collaborate for implementing subcomponent 1 and 2. The EA will provide field coordination through 7 regional extension officers located in the 5 project clusters.

73. After tendering the SP selection will be done by the A/PCUs in consultation with the IFAD CPM. The PCUs will orient the selected SP/EA to the project objectives, target group, approach and implementation steps. The cluster coordinators and the extension officers will be mandatorily included in the orientation activities. The orientation process will comprise (i) workshops for discussions between the SP/EA, A/PCUs' staff and RCDP BDS providers (ii) field visits to farmers' organisations, business leaders and municipalities.

74. **Activity 2 - Targeting survey:** READP will conduct a targeting survey to identify the locations/communities with higher concentrations of the potential target households and to recommend the suitable pro-poor products from the project supported agricultural sub-sectors, taking into consideration their prevailing market demand. In consultation with the A/PCUs, the SP/EA will develop the questionnaires, checklists and other tools for conducting the targeting survey. These tool will be reviewed and approved by the A/PCUs followed by field level implementation of the survey by the SP/EA in coordination with the cluster coordinators and extension officers.

75. The survey will involve consultations with key actors (social service centers, employment bureau, heads of the local communities, authorities managing entity level farm registers, financial institutions, business leaders active in the project area) and identification of the areas/communities mainly in the underdeveloped and extremely underdeveloped municipalities that have higher concentration of potential target households. A verified list of these geographical pockets will be developed and profiles of these geographical pockets will be developed in terms of (i) crop production experiences of target households and recommendations of potential crops suitable to the conditions and capacities of the target households (ii) current marketing arrangements followed for agricultural produce from these pockets along availability and access to crop production inputs and services by the target households (iii) identification of opportunities and constraints against women and youth involvement in project supported activities (iv) identification of FOs with higher concentration of the target households (v) recommendations of the areas/pockets specially in the underdeveloped municipalities where the business plan implementation should commence (vi) listing of interested enterprises and potential rural sector jobs they can potentially offer that can engage the youth apprentice.

76. These findings will be discussed during the stakeholder workshops (Activity 3) to promote inclusive BP preparation. The business leaders and other stakeholders will be encouraged to increase their outreach in these poverty pockets. Going forward, the target households identified in the BPs will be drawn mainly from the poverty areas identified in the targeting survey (details in activity 7).

77. **Activity 3 - Stakeholder awareness and sensitisation:** Cluster level stakeholder sensitisation workshops will be organised prior to the business planning exercise. The SP/EA in coordination with the A/PCUs will be responsible for organising these. The cluster coordinators and extension officers will be co-facilitators. These workshops will be attended by representatives from target municipalities, business leaders, financial institutions, input suppliers, farmers' organisations and target households.

78. The process of generating eligible pro poor business ideas will be stimulated during these workshops. The participants will be informed about the concept of linking business leaders to target households using the BP methodology. The steps involved in the BP development process will be explained. Sample proposals and the templates for submitting BP proposals will be shared. The multiple criteria against which the business proposals will be evaluated will be transparently communicated.

79. The workshops will clarify that (i) viable BPs are expected to include an array of producers including larger farmers but with strong focus on the project target households (ii) the role of the project is to facilitate and ensure the sustainable integration of target households in the business models and that this is clearly reflected in the BP target and investment projections and to monitor that these target households are actually reached during BP implementation process (iii) the BPs should consider the inclusion of various project

promoted social, environmental and business issues such as gender and youth inclusion, climate change adaptation and marketing opportunities (iv) the business plans should incorporate geographical targeting, self-targeting and direct targeting measures in line with the READP design along with the incentives for doing so where relevant. Resource person discussions and audio-visual sessions will be held during the workshops to assist full understanding of these concepts, best practices and approaches.

**80. Activity 4 - Call for proposals and selection of eligible proposals:** Every year (for three years) the A/PCUs will announce a call for business proposals (expression of interest), through newspapers and the internet, inviting business ideas from interested business leaders. After the announcement, the SP/EA, along with the cluster coordinators and extension officers will follow up with potential cluster level business leaders and assist them to submit proposals to the A/PCU. It is to be noted that previous IFAD projects have already established linkages to SMEs active in agribusiness who can be potential leaders. An overview of actors and their businesses in the envisaged sub-sectors is attached in the Annex of Appendix 2. These businesses will be encouraged to respond to the call for proposals.

**81.** Business leaders comprising both SMEs and FOs can respond to the call for proposals. The proposals from SMEs must be related to the agricultural supply chain linkages to the target households directly or indirectly through FOs. The proposals from the FOs can be related to their intermediation role in supporting the linkages between SMEs and smallholders. They can also be related to independent businesses related to farming or non-farm ventures such as rural tourism that can contribute to diversification of the rural economy. The specific nature of the support from READP to selected business plans from FOs is described in component 1.2.

**82.** These proposals will present (i) background details and rationale (ii) description of the business model/concept (iv) targeting strategy and measures to be adopted specifically for including women and youth (v) the selected produce (vi) raw material supply, production/processing and marketing approach (vii) mechanisms for benefitting and potential outreach to target households (including youth) (viii) estimation of investments required and expected returns and (ix) measures to address environmental and climate change concerns. The produce selected will be demand driven based on consultations between the business leaders, target households and other stakeholders and would not necessarily be limited to one item or commodity.

**83. Selection of eligible proposals:** Screening and shortlisting of the business proposals will be done by a selection committee appointed by the A/PCUs in consultation with IFAD CPM. The committee will include representatives from the A/PCUs, SP/EA and development partners to ensure harmonisation with similar initiatives. The selection process will involve (i) screening and shortlisting eligible proposals (ii) validation visits to the shortlisted business leaders (iii) final selection of proposals.

**84. Screening proposals:** The A/PCUs in consultation with the SP/EA will develop objective criteria and scoring method for reviewing and ranking the proposals. They will organise selection committee meetings and will sensitise the members about the scoring indicators. More weightage will be placed on indicators related to the targeting aspects such as (i) past experience of linkages with target group households directly or through PAs and willingness to invest in solving VC related problems of target households e.g. by extending pre-financing support or providing training services (ii) willingness to select crop/produce suitable for production by target households and involving engagement of mainly women and youth as wage labour in the production cycle (iii) bulk of the target households planned to be drawn from the underdeveloped and extremely underdeveloped municipalities and (iv) plans for new full time jobs in the future (to manage the organisation growth from BP implementation) that can absorb youth through the youth apprenticeship support.

**85.** The business proposals and subsequently the BPs submitted by the business leaders will be further assessed against criteria including (i) proven know-how and technical expertise in the subsector (ii) willingness to use environmental friendly production practices and compliance with social, labour and gender standards (iii) strategy for long-term presence and viable business relationships with smallholder producers (iv) market prospects (national/export) and overall profitability (v) targeted outreach to the target households including youth (vi) market prospects (national/export) and overall profitability of the business model (vii) potential returns to the target households including youth (viii) prospects for partnerships with municipalities, FOs and other donor initiatives and (ix) measures to address environmental and climate change concerns.

86. The selection committee will review, score and shortlist around 200 proposals for around 250 proposals received. Out of these around 175 will proceed with detailed BP development and 150 of these will actively implement the business plans (see table below).

Details of phasing	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b><i>Business proposals</i></b>						
No of business proposals received	75	100	75	-	-	250
No of proposals selected	60	80	60	-	-	200
<b><i>Business plans</i></b>						
No of business plans prepared	50	75	50	-	-	175
No of new BPs implemented	40	65	45	-	-	150

87. **Validation and final selection:** Final selection of the proposals will be based on field visits to confirm the critical areas presented in the screened proposals. The A/PCUs in consultation with the selection committee will develop the validation checklist for each screened proposal. Validation visits will be carried out by the SP/EA in coordination with cluster coordinators and extension officers with oversight from the A/PCUs. They will visit the business leaders and the proposed business partners such as municipalities, FOs and the target households to confirm their interest and technical and financial ability to participate. Based on confirmations obtained through the validation process the A/PCUs will prepare the final list of eligible business leaders which will receive technical assistance from READP for their development into detailed BPs.

88. **Activity 5 - Development of detailed business plans and implementation agreements:** The SP/EA will deliver technical assistance to the selected business leaders and FOs to develop detailed BPs. The lessons learned and good practices from the RCDP programme in implementing the BP approach will be considered and adopted.

89. **Actions involved:** The SP/EAs will hold detailed consultations, site visits and stakeholder workshops with the business leaders, target households, FOs and municipalities. They will assist the business leaders with (i) data collection and analysis (ii) marketing and profitability assessment (iii) formulation of the targeting strategy, targeting steps and actual target selection (described in the targeting section) with specific focus on the inclusion of women and youth (iv) identification of other business partners (v) outreach and financial target setting (vi) financial planning, identification of financial sources (vii) implementation agreement with other stakeholders. They will also be responsible for writing the BP in coordination and consultation with the business originators.

90. **Main elements of the BPs:** The final BPs will describe how the business will progressively increase the profitability and sustain the inclusion of the READP target households. They will present (i) the nature of business including forward and backward linkages to other value chain actors (ii) ownership and management structure proposed for implementation of the business model (iii) domestic and export market analysis (iv) strategic plan for achieving the business objectives (v) targeting strategy and implementation steps for ensuring target group, mainly women and youth inclusion in the promoted VCs (vi) specific measures to support target household inclusion including advisory, extension, operational measures, partnership agreements and monitoring needs (vii) operational needs including implementation arrangements and partnership requirements (viii) financial plan estimating the total investment and co-financing needs and (ix) enabling infrastructure requirements such as roads, water supply and bridges expected to be implemented through municipality involvement

91. **Performance target setting:** The BPs will present 5 years projected growth targets in key areas such as market share increase; increase in profitability and return on investment; increase in the quantity of produce purchased from the target households; increase in the number of target households linked to the business; increase in the total returns to the target households and increase in direct and indirect employment of youth in the business.

92. **BP co-financing plan:** The detailed activities in the BPs will be divided into expenditure categories; (i) fixed and working capital needs including producer starter packages and seed capital financing to FOs (ii) market development investments including study tours, trade fair participation, certification (iii) training and advisory needs and (iv) enabling infrastructure necessities. Co-financing plan will be prepared indicating

contributions from different partners; business leaders, READP, municipalities, FOs and the producers, according to the guidelines presented below. Contribution of the business originators and the target households will be regarded as self-contribution from their own resources (self-financing), in-kind or from borrowings from financial institutions.

Categories	READP [ceiling in EUR]	Others*
Training and advisory	100%	
<b>Market development</b>		
-Study tours (abroad)	70% [8,000]	30%
-Trade fair participation	40% [4,000]	60%
-Certification	40% [4,000]	60%
-Other marketing support	50% [4,000]	50%
<b>Starter package</b>		
-Standard	Upto 40% [500]	60%
-Youth and women	Upto 60% [800]	40%
<b>Enabling infrastructure</b>	details in subcomponent 1.3	
<b>Assets for FOs</b> (details in subcomponent 1.2)	Upto 70% [17,500]	30%

\*Other cofinanciers include municipalities, business leaders, FOs and beneficiaries

93. **Training and advisory services financing:** The project will bear the costs for BP related training and advisory services to the target households except costs for transport and accommodation. These services will be provided by the READP contracted service providers, field coordinators and extension officers. The cost of domestic study tours for target households will be covered by the project.

94. **Market development costs financing:** BP partners will be eligible for co-financing for READP initiated market development activities such as (i) study tours abroad - 70% of costs to a maximum of EUR 8,000 (ii) trade fairs – 40% of costs to a maximum of EUR 4,000 (iii) international standards and certifications - 40% of costs to a maximum of EUR 4,000 and (iv) other marketing support such as branding, product identification, packaging, promotion material - 50% with maximum of EUR 4,000. The business leaders will be eligible for receiving project financing for these activities only as performance incentives for achieving at least 60% of linkages to target households in underdeveloped and extremely underdeveloped municipalities through BP implementation.

95. **Starter package financing:** Starter package describes the initial size of the investment required by a target household to become a commercial farmers. It is the size of investment required by a target household to produce the quality and the quantity of product required for developing marketing linkage with the business leaders for the first time according to the details in the BP. The estimated starter package requirement for producing the project supported products in 1-2 dunums of land (and with 1-3/3-5 cows) is around EUR 2,500. The starter package will be co-financed by READP, municipalities, advances from the business leaders and self-contribution of the producer in harmony with experiences of the RLDP and RBDP (see lessons learnt). It will also be in harmony with the starter package approach adopted for RCDP and will smoothen its implementation by the A/PCUs.

96. The starter package will include the cost of planting materials; farm protection investment such as wires, pillars and nets; onsite irrigation works comprising barrels for water storage, pumps for lifting water and drip irrigation kits and pipes; fertilizers and other chemicals; machinery services such as ploughing, harrowing, tilling; labour costs in different stages of crop production and minor farm tools and equipment.

97. In circumstances where the contributions from the other partners are not sufficient to meet the full financing needs of the starter package, the producer households will borrow from financial institutions (bank or MFI) to meet the gap. It is expected that 40-60% of the beneficiary households may have to borrow from financial institutions. Taking into account the co-financing contributions from other partners the borrowings from banks/MFIs are expected to finance between 15-25% (EUR 700) of the starter package (production costs). Beneficiary households can borrow from any financial institution of their choice based on terms and conditions offered. The project will facilitate the linkage of beneficiary households to financial institutions by actively promoting the financing opportunities offered by READP amongst the banks/MFIs active in the project clusters.



98. READP will promote market-based interest rates. The co-financing from the MFI/banks will utilise existing liquidity in the banking system and will be based on market driven interest rates (currently around 15%) thus avoiding market distortion. However, since other co-financiers will shoulder almost 75% of the size of the starter package the beneficiary household will pay market driven interest rate only on around 25% of the starter package, thus resulting in an affordable, competitive and effective interest rate of around 3% on the full cost of the starter package. These financial linkages will assist the future commercial growth of the target household.

99. The starter packages will potentially lead to the involvement of several MFIs and Banks resulting in competitive services and interest rates. They will also help the A/PCUs to fulfil the demand for lower interest rates for the borrower and faster disbursement of project funds by directly financing input costs for first time commercial farmers. Most importantly, the implementation of the starter packages will involve the A/PCUs directly in target household selection leading to improved targeting performance. Two types of starter package co-financing will be offered by the project.

100. Standard starter package: The standard starter package co-financing from READP will be valued at a maximum of EUR 500 and will benefit 5,500 households. It will co-finance up to 40% of production costs in-kind by supplying items such as planting materials, agrochemicals, fertilizers and small equipment. The target households provided with starter packages (i) will be contractually linked to business leaders for selling the produce (ii) would have undergone training and skills development and (iii) will receive agronomic advice from the project during the production cycle in order to meet the quantity and quality standards required by the buyers. These conditions will make these producers bankable and attractive as potential clients of banks/MFIs.

101. Youth and women starter package: Project contribution to this type of starter package is valued at maximum EUR 800 and will promote self-employment of 2,000 youth (30% women headed households). It will co-finance up to 60% of production costs in kind as described above. The starter packages for youth will offer financial institutions with the opportunity to get access to a large number of young farmers by contributing a small share of the starter package and thereby developing linkages to a new segment of the microfinance market. Their support towards the future growth of youth as commercial farmers will significantly increase their portfolio and long-term profitability.

102. **Continuous appraisal of the business plans**: The BPs will be developed over a period of 3-6 months and the process of their development will be subjected to continuous appraisal. The A/PCUs will organise biweekly BP progress review meetings with the SP/EA. During these meetings the BPs under preparation will be continuously divided into three categories, strong, moderate and borderline, based on criteria including (i) commitment of the businesses leaders in terms of time and resources devoted to the BP development exercise (ii) commitment of the business leaders in terms of their willingness to discuss and develop the partnership ideas and implementation arrangements (iii) business leaders' acceptance of activities to keep the BPs focused on inclusion of target households and (iv) ability of the business leaders and other BP partners to supply co-financing in a timely manner. During the review meetings the nature of the challenges facing the moderate and borderline BPs will be discussed along with mitigation measures. The SP/EAs will be responsible for follow-up and implementation of these measures to ensure that majority of BPs get strong rating. The strong BPs will be prioritised for implementation.

103. **BP implementation agreements**: In preparation for the implementation of the BPs the SP/EA, in coordination with the A/PCUs, will develop templates for implementation agreements/MoUs between the various implementation partners identified in the BPs (municipalities, FOs, financial institutions and the project). These agreements will define (i) financing commitments of the partners in different categories for implementing the business plans guided by the allocations presented in the co-financing table (ii) ownership, management and revenue sharing (if any) roles (iii) targeting roles and responsibilities (iv) monitoring and review responsibilities. The SP/EA will be responsible for organising meetings, facilitating negotiations and ensuring the development of the written agreements between the partners. These agreements will be accompanied by draft action plans indicating implementation responsibilities and time schedules.

### **Implementation of pro-poor business plans**

**104. Activity 6 - Market development support:** The activities under market development support will be planned in the BPs but project financing for their implementation will be based on performance incentive basis. Therefore, only for the business leaders who have achieved at least 60% of linkages to target households in underdeveloped and extremely underdeveloped municipalities through BP implementation will be eligible for this support.

In consultation with the SP/AE the business leaders will identify the specific market linkage and business development areas where they require assistance in order to increase their national and export market share of the BP produce. These will be presented in the BPs. Responding to these needs the SP/EA in coordination with the A/PCUs will provide assistance in the selected areas described below. Strong emphasis will be placed on collaboration with other donor projects providing support in similar areas and well as on coordination with RCDP initiatives in these areas.

**105. Quality assurance and certification support:** The SP/EA will guide the business leaders on importance, mechanisms and process for obtaining different kinds of certification and will also link them to relevant certification bodies where required. The A/PCUs will co-finance eligible business leaders for the introduction of international standards such as HACCP, ISO, Global GAP and HALAL. Eligibility will be based on (i) clear assessment that certification will be an advantage for production and marketing (ii) presence of signed contract between the business leaders and a certification company on standards' implementation (iii) higher partnering outreach to target households.

**106. Trade fair participation, study tours, other marketing support:** READP will support representatives from the business leaders to participate in trade fairs and study tours that assist them to understand the market demand for different products as well as develop linkages for the marketing of their existing produce. Participation in local, regional and international trade fairs (e.g. Biofach, Fruit Logistica, ANUGA), regional marketing platforms and business networking activities will be supported along with local and international study tours. Other market development activities such as product identity, certification and brand development initiatives will be supported in collaboration with the BiH Foreign Trade Chamber, RCDP initiatives and other donor programmes.

**107. Activity 7 - Farmers' training, advisory and capacity building services:** The SP/EA will identify the specific areas of farmers' training and advisory services in the BP development stage in consultation with the business leaders and the FOs. These will be clearly reflected in the BPs.

**108. Training for farmers:** Based on inputs from the BPs the SP/EA will draft the annual farmers' training plan which will be reviewed and finalised by the A/PCUs. The SP/EA along with the cluster coordinators and extension officers will be responsible of delivering the trainings and advisory services. Where relevant additional technical specialists will be hired to support training and advice in specific areas. The objective of the training will be assist the target households to timely adopt the different applications for quality and quantity production as agreed with the buyers.

**109.** Target households will be trained on (i) quality standards (GAP, hygiene, EU quality standards) (ii) production of fruit and vegetables, MAPS/ NTFP, dairy as identified in the BPs (iii) environment training e.g. climate change and pest management (iv) investment related trainings including household budgeting and savings plan for next season crop financing and (v) training on organising into FOs (vi) training on adoption of farm level tools and equipment. Training will involve on-farm inputs and exposure trips to demonstration farms in the country. Where relevant the training courses will be open to all farmers involved in the BP, including relatively larger farmers to get to larger quantities and economies of scale.

**110. Advisory services:** The SP/EA, in collaboration with the cluster coordinators and regional extension officers in the FBiH and RS respectively will provide production related advisory services and practical guidance to the farmers according to the BP agreements. These will focus on support related to (i) standards implementation, e.g. assistance in application (ii) production, e.g. access to seeds, fertilizer, advice in the field in production (iii) product value addition, e.g. access to processing equipment, packaging and post-harvest handling, bulking including storage (iv) investment regarding equipment to meet BP targets, tender process, installation and implementation and (v) access to finance, e.g. linkage to formal financial sector and agricultural insurance (vi) organising farmers into FOs. These inputs will be delivered through regular on-site visits by service providers as well as cluster coordinators and extension officers to enable real-time solutions

to farmers' production related problems. Advisory services will be concentrated mainly on the target households.

#### **Activity 8 – Delivery of starter packages and youth apprentice support:**

111. **Starter package:** Both the standard and the youth starter packages will be implemented in the same way and will be strictly linked to the BPs. The SP/AE will ensure that each BP and implementation agreement clearly reflects the starter package requirements along with estimated outreach, potential co-financing partners, co-financing shares and draft action plan indicating implementation schedule and responsibilities. Eligible production related investments supply and cover by the grant include: planting materials, agrochemicals, fertilizers and small equipment. Prior to implementation the SP/AE will organise cluster level planning workshops. The A/PCUs will invite interested financial institutions to these workshops. In these workshops (i) the inputs/services financed by the starter packages will be finalised (ii) identification of the target households to be linked to the business leaders will commence and (iii) partners including the financial institutions (where relevant) will re-affirm their co-financing commitments and finalise implementation arrangements.

112. The SP/AE will ensure that the above steps are strongly directed towards the inclusion of the targeted households. Identification of target households will start by focusing of the geographical locations with higher concentration of the target households particularly in the underdeveloped and extremely underdeveloped municipalities as identified during the targeting survey. The SP/EA will along with the representatives of the business leader, municipalities and the FOs will visit these communities and conduct awareness and orientation campaigns sensitising the local population about the project and seeking applications from interested households. During these visits the criteria for target household selection already explained during the cluster level workshops will be further explained.

113. The applications by interested households will be collected by the SP and field coordinators in coordination with the municipalities. Participatory poverty/wealth ranking of these applicants will be conducted in focus group discussion with community representatives and FOs active in the areas. This exercise will lead to the participatory classification of the applicants (poor households) into three sub categories - extremely poor, very poor and poor.

114. The applications in the three categories will be screened and shortlisted by the SP/EA in consultation with the business leaders, FOs and municipality representatives according to READP poverty targeting criteria. First priority will be selection of candidates from the extremely poor category followed by candidates from very poor and poor categories. In case there are more applicants than the available number of packages the candidates will be selected based on lower average annual income per family member. The project will conduct household visits for shortlisted candidates to verify and validate the household selection. Thereafter, the SP/EA in coordination with the cluster coordinators and the extension officers will facilitate municipality level discussion workshops between the shortlisted households and the business leaders leading business agreements and contractual arrangements between them. The quota for youth starter packages and starter packages for women will be respected during the selection process and the bureau of employment at the municipality will be involved in the identification of the target youth beneficiaries for the youth starter packages. The SP/EA will ensure that 30% of the youth starter packages are directed to women-headed households.

115. The SP/EA will assist with the (i) finalisation of the contractual agreements between the target households and the business leaders and BP implementation partners (ii) additional sensitisation of the farmers where required (iii) involvement of FOs in identification and negotiation with input suppliers (iv) coordination between business leader, FOs and final target households leading to compilation of the list of starter package beneficiaries which will be submitted to the A/PCUs for financing.

116. The A/PCUs will assess and approve these proposals based on (i) compliance with the conditions for starter packages contributions by the project (ii) co-financing commitment for the full package by other business partners (iii) presence of buyer contract (iv) completion of initial training and skills development. The A/PCUs, in coordination with the business leaders and the FOs will start the procurement process for the starter package inputs to be co-financed by them. The project will directly pay the selected vendors on evidence of delivery of the inputs to the approved target households.

117. **Youth apprentice support:** READP will assist 350 youth apprentice to find full time employment in the agricultural and rural sector<sup>11</sup>. Thus, it will include jobs which are created as a result of the project supported BP implementation activities by the business leaders as well as jobs offered by any other public or private agency. The project will actively promote the inclusion of youth apprentice in the business proposals and BPs submitted by the business leaders and this will be an important criteria for the selection of these business proposals and plans for READP support. The inclusion of youth apprentice will be promoted in business proposals and plans as response to the need for new full time jobs by the business leaders to manage future organisational growth resulting from the successful implementation of the project supported BPs.

118. An apprentice is a rural youth up to the age of 30 undergoing in-house training in an enterprise. In order to promote women employment 50% quota will be reserved for young women apprentice. At the end of the apprenticeship period the individual will be absorbed as a regular employee resulting in job creation and increased income for the target household. The apprentice support will be implemented in partnership between the project, the employment bureau at the canton/municipality level and an employer. The project will bear the costs of an apprentice for one year to a maximum of EUR 2,100 which can be used for paying both the net salary and the mandatory government contributions for taxes, health and pension funds. The administration of these payments will be done through the employment bureaus.

119. In order to implement the scheme the project in partnership with the employment bureaus will invite expressions of interest from individual youth interested in receiving apprentice support as well as from employers interested in employing such youth. The announcement of the scheme will be done by the project at the cluster level in coordination with the employment bureaus. In order to be eligible the youth must be from the cluster, belonging to a target group household and the job should pertain to delivery or procurement of goods and services in the rural areas.

120. The employer can be a project value chain partner including private sector and FOs as well as other enterprises and institutions active in job creation in the rural sector. They can be headquartered anywhere in BiH but the job offered must be related to supporting the rural operations in the project area. The employer will engage the apprentice in response to its requirement for a regular full-time employee in the organisation. Where there are multiple applicants for a single position the apprentice will be selected competitively and transparently through competitive selection process conducted by panel including the employer, employment and the project. In order to be eligible for apprentice support, the offer of employment by the employer will be for at least three subject to transparent performance assessment at the end of the apprentice period.

121. On pilot basis READP will reserve the appointment of at least 25 young apprentices as coordinators/managers in FOs as a part of management support to promising FOs primarily the PAs which benefit from READP seed capital financing. READP will partner with the agricultural universities for selecting fresh graduates who are ready to serve as young apprentices in the FOs. Where required such apprentices can be guided by the universities during the course of the apprenticeship. Based on transparent performance evaluation at the end of the apprentice period the apprentice can continue working for the FO if so required or receive an apprenticeship certificate from the project/university that can assist the person to secure other rural sector jobs.

122. **Activity 9 – Support to business leaders to develop external linkages:** The SP/AEs in coordination with the A/PCUs will assist the business leaders to develop external linkages in areas such as financial support, certification and sources of business management and operational guidance where needed. For assisting financing needs the project will facilitate their introduction and negotiations with financial institutions by highlighting the role of the project as a co-financier of the BPs. Also, a substantial proportion of credit lines to PFIs from past IFAD supported projects will be repaid by the PFIs to the government in the course of READP implementation. In FBiH, the PCU has initiated the process of pooling these repayments into a special fund for financing agricultural sector projects. In RS, these repayments are already pooled in a central account of the Ministry of Finance referred to as the partner fund. READP will facilitate negotiations with relevant actors to facilitate the investment of these funds for assets and working capital financing of the partner business leaders.

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<sup>11</sup> Access to regular employment will be subject to a transparent performance assessment at the end of the scheme.

123. **Activity 10 – A supportive setting for BP implementation:** The A/PCUs will develop a supportive setting for BP implementation by (i) establishing BP implementation oversight committees (ii) developing BP implementation monitoring system and (iii) organising BP implementation review and planning workshops. These will support regular consultation, implementation planning and feedback between the BP partners for smoother, target oriented BP implementation.

124. **BP implementation oversight committees:** These will comprise representatives from the municipalities, business partners (PAs, buyers, processors, farmers, municipalities and project), and project—including members from A/PCU teams, SPs, AE and cluster level field officers and extension officers. They will be responsible for planning and implementation review of the BPs. The committees will be headed by selected municipalities and will (i) track the BP implementation progress against the BP targets at the cluster level (ii) identify and address the reasons for gaps in target achievement (iii) support the development and implementation of joint action plans between the different partners and (iv) swiftly resolve partnership issues and conflicts in the collaborative arrangements.

125. **BP implementation monitoring system:** In coordination with A/PCUs, SP and AE the oversight committee will define the reporting needs of the business partners and ensure their regular reporting to the project and the municipalities. The cluster coordinators and the extension officers in coordination with the SP, AE and the M and E specialists at A/PCUs will be responsible for collection and cluster wise consolidation of these reports. The project will organise information and orientation workshops for capacity development of the members of the oversight committee to analyse and interpret the cluster reports.

126. **BP implementation review and planning workshops:** The project will organise regular cluster level BP implementation review and planning workshops attended by the implementation oversight committee and other relevant stakeholders. The oversight committees in coordination with the A/PCUs and the SP/AE will organise these workshops. The SP/AE will co-facilitate these workshops along with the committee members. These meetings will identify and address the reasons for gaps on target achievement by the business partners. They will strengthen the collaboration between the partners, assist conflict resolution and planning for future actions.

### **Sub component 1.2: Farmers' Organisations Development**

127. This subcomponent will strengthen FOs to increase their outreach to target households and to develop into viable inclusive farmers' institution. The project will also support the transformation of PAs to cooperatives as well as the transformation of owner centric cooperatives into inclusive institutions. Strengthening the FOs will empower them to increase their membership from the target households, become effective partners under business schemes and increase their capacity to take informed decisions about their business. The main activities will be (i) seed capital financing to 40 FOs (FO seed capital financing) and (ii) institutional development training and advisory support. Given the parallel implementation of READP and RCDP, the approach for the two programmes will be harmonized on the basis of lessons learnt of the RBDP implementation. Specifically, the MTR of the ongoing RBDP identified a major challenge for the counterpart financing from FOs for the seed capital financing and modified accordingly the ratio for RBDP funds to FOs mobilized funds to 70:30 ratio. In addition, the support for both seed capital financing and capacity building support will be also aligned as detailed below.

128. The identification of the FOs to be supported by READP will be driven by the BPs call for interest and subsequent selection. In order to avoid the risk of duplicating support, FOs already supported by RCDP (or RBDP) will not qualify for READP assistance unless there is good performance registered by these FOs from previous assistance from RCDP (or RBDP) and there is an increase in the FOs membership following RCDP (or RBDP) support. In such cases FOs that have already benefited from RCDP (or RBDP) support can also benefit from READP support but for activities limited to (i) start up packages for members that have *not* benefited from start-up packages under RCDP (or RBDP) (ii) additional capacity building support for business expansion and consolidation. As a result, the seed capital financing will be directed mainly to the FOs not yet supported by RCDP (or PBDP) to ensure a greater outreach of IFAD supported interventions.

129. **Activity 1 - FO seed capital financing:** The project will provide upto EUR 17,500 as seed capital financing to 40 eligible FOs to finance business assets identified in a profitable BP linked to project target

households directly benefitting an average of 20 members per FO<sup>12</sup>. The seed capital financing to FOs is expected to generate outreach to around 800 target households. The co-financing arrangement<sup>13</sup> includes up to 70% READP contribution, while the remaining counterpart funding will be provided by FOs through contribution by members – cash or through loans, contribution from partnering business leaders, and support by Municipalities

130. In order to be eligible for seed capital financing the FOs should be Producers' Associations (PA) or Cooperatives (coop) with (i) at least 25 members, which includes at least 20 members from the READP target households with income less than KM 817 per month (ii) intention to further increase membership particularly from the READP target households (iii) cooperative audit (for cooperatives only), indicating that the cooperative functions in accordance with the BiH Law on Cooperatives, particularly in relation to the organization and management of the cooperative, and maintenance of the cooperative members' ledger. The A/PCUs through the SP/EA will provide institutional development training and advice to interested FOs. Consequently, those FOs which are initially not eligible for seed capital financing can qualify in later years by fulfilling the above conditions through project training and advisory support.

131. During the targeting survey (SC1) the SP/AE will identify the potential FOs based on the above criteria which may be suitable for the seed capital financing support. The SP/AE will follow-up to facilitate (i) their participation in the cluster level sensitisation workshops (ii) submission of business proposals (either as Business Leaders or as Business Partners of a business leader) in response to the call for proposals (iii) competitive selection (based on criteria described in SC 1) for detailed business plan development assistance from the project.

132. The seed capital financing of EUR 17,500 from the project will provide FOs with seed capital to purchase small productive assets at the FO level such as machinery and equipment, means of transport, small storage facilities, value adding equipment such as driers and small processing equipment and materials such as pipes and pumps for supporting farm connectivity to irrigation facilities. These assets will allow the FO to render services to the members such as production, processing and bulking, that will enhance the profitability of these members while simultaneously strengthen their linkage to other business leaders. The BPs should present the management and operational procedures as well as the revenue model for the implementation of these activities. The financial plans for these investments must realistically show that the income earned by the partnering FOs from these services will be sufficient to meet the maintenance and replacement costs of this asset after its productive life as well as can generate surplus towards capital formation and increasing the returns to the members. The SP/EA will provide management advice to the FOs qualifying for seed capital financing so that the BP implementation by the FOs is assisted, full utilisation of the project financed assets are achieved and the BP outreach and financial targets are met.

133. **Activity 2 - Institutional development training and advisory support:** SP/EA in coordination with the A/PCUs will develop training and advisory plans defining the required institutional development training and advisory services for FOs. The project will recruit professional trainers and advisors experienced in cooperative movement and the defined technical areas. Capacity building support packages will be flexible depending on the needs of the FOs and aiming at assisting FOs to (i) increase membership outreach to the target households (ii) strengthen their institutional foundation through better governance, management and operational procedures and (iii) support profitable implementation of their business and hence profitable implementation of their BPs (where relevant). These activities will be targeted at FOs applying for BP support, including the ones that do not immediately qualify for FO seed capital financing. By adopting the recommended institutional strengthening measures the initially non-qualifying FOs can achieve the eligibility criteria and subsequently receive FO seed capital financing.

134. **Training areas:** The training inputs will cover (i) organizational structure (ii) governance and management (iii) tailored women and youth FOs leadership programmes (iv) market intelligence and marketing, standards e.g. GAP, GHP, HACCP, GlobalGAP, ISO, organic, SPS, EU standards and negotiation skills (v) accounting, finance and bookkeeping (vi) BP development, costing and financing (vii) contract development with other chain stakeholders (viii) collective/bulk marketing and procurement of inputs (ix)

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<sup>12</sup> This pertains to the additional number of poor members in the FOs who will benefit from the FO seed capital financing in addition to the members who already benefit from individual starter packages.

<sup>13</sup> The share of co-financing will be a selection criteria; only a lower percentage will be considered for FOs co-financing.

management of common storage facilities and equipment (x) technology development for agricultural intensification and productivity enhancement (xi) financial literacy and linkages with banks (xii) savings mobilization and approaches to implement internal savings schemes for addressing social needs, business expansion and collateral requirements of the banks (xiii) sustainable adoption of climate resilient crop development that will be accompanied with approaches for sustainable use of natural resources. Trainings programmes will be complemented by exchange and learning visits, within the country and in Europe. These visits will provide exposure and learning for further expansion of FOs business model, to develop environmental sustainable strategies, and to promote market compliance. Promising FOs with limited net margin to cover the recurrent costs during start-up and growth stages will receive management support from READP through the placement of youth apprentice to manage both the commercial and institutional development aspects of these FOs.

### **Subcomponent 1.3: Enabling Infrastructure Support**

135. This subcomponent will improve the profitability of the target households, connect business leaders to the target households and improve the market participation of the beneficiaries. The BPs will identify the full range of infrastructure requirements for their successful implementation including privately owned and publicly owned or co-owned investments. Under this subcomponent the project will support publicly owned or co-owned investments. Public ownership will be considered when a municipality has majority ownership of the infrastructure. READP will support two categories of infrastructure activities (i) publically owned and managed infrastructure such as public water supply, which benefits multiple farmers in a defined area, or the establishment and rehabilitation of feeder roads, culverts and small bridges which connect business leaders and target households; (ii) publically owned infrastructure, such as irrigation structure, cooling and packing facilities, which is co-managed in partnership between the municipalities, FOs and private sector.

136. The activities in this subcomponent will involve (i) stakeholder sensitisation about infrastructure investments (ii) identification of eligible proposals (iii) selection and prioritisation of infrastructure investments (iv) design, procurement and implementation (v) monitoring, supervision and training. The PCU will implement the infrastructure related activities through the selected SP while APCU will implement these directly through the in-house infrastructure engineer. The A/PCU will orient the SP and infrastructure engineer on the above aspects who will then orient the other stakeholders. The main tasks of the SP and the infrastructure engineer will be technical and financial analysis of screened proposals, review and approval of engineering designs, procurement of civil works and submission of evaluation reports and supervision of civil works. The A/PCU and the SPs will also support stakeholders to identify important social, environmental and climate issues early in the BP process, with adaption and mitigation measures factored in the BP process from the outset.

137. **Activity 1 - Stakeholder sensitisation about infrastructure investments:** This will be done in full coordination with municipalities during the orientation workshops organised before the call for business proposals. The SP and the infrastructure engineer will be responsible to ensure that the BPs clearly present (i) the enabling infrastructure requirements in the geographical locations with higher concentration of target households including potential increase in outreach to target households from these investments (ii) the impact of these infrastructure on the profitability of the business leaders. The A/PCU and the SPs will advise stakeholders to incorporate into the business plans the relevant environmental and climate proofing measures to safeguard the infrastructure from natural hazards as well as to promote measures that reduce the adverse environmental impact of these investments by supporting energy and water efficiencies.

138. **Activity 2 - Selection and prioritisation of infrastructure investments:** All relevant infrastructure items will be identified in the business plans. They must support the achievement of (i) the outreach (market access) targets set in the business plans for rural poor smallholder farmers, women and youth (ii) profitability targets of the target group farmers as presented in the BPs and (iii) the sustainability of the linkages between the target group farmers and the business leaders. Identification of the infrastructure items in the business plans will be undertaken in a participatory and demand-driven manner in consultation with the key BP implementation partners which includes the business leaders, municipalities, target group farmers and FOs. The A/PCUs will be assisted by the SP and the infrastructure engineer to coordinate the selection and prioritisation of eligible infrastructure investments. Business leaders will, in coordination with the municipality,

identify infrastructure development needs that will enable the implementation of their BPs that are aligned with READP development objectives.

139. The infrastructure selection process will be anchored by the SP and the infrastructure engineer. It will involve (i) long-listing all potential infrastructure items as presented in the BPs (ii) participatory discussion at the municipal/cluster level to shortlist the more important infrastructure items and examine opportunities for harmonization with infrastructure proposals identified in other BPs as well as municipal infrastructure plans, priorities and budgets. Screening criteria will include (i) contribution to increasing the outreach of the BP to the target households (ii) contribution to the profitability of the target households (ii) performance of the business leader in the implementation of the BP (iv) link between infrastructure and value chain development for municipality identified proposals.

140. Final selection will be based on feasibility studies of the shortlisted infrastructure items, which will include mainstreaming and assessments related to environment and climate change. Final infrastructure evaluation will be based on criteria including (i) number of individuals assisted per USD 1,000 of investment (ii) co-financing by other stakeholders (iii) expected Increase in the value and volume of products sold by target households using better infrastructure (iv) technical and financial viability of the project (refer PIM). The selected infrastructure will be ranked based on this assessment and finalised for design and implementation according to the priority.

141. **Activity 3 - Design, procurement and implementation:** The municipalities in coordination and with inputs from the private sector where relevant will be responsible for developing the designs for the selected infrastructure. The SP and the infrastructure engineer will review the proposal and incorporate relevant environmental and climate proofing measures to safeguard the infrastructure from natural hazards (such as flooding and landslides) through designs that take into account the climate risks. The aim of the measures is to avoid damages to property and forgone economic activity as a result of damages (e.g. failed bridges, damaged buildings), effects on health and human life, and impacts on environmental services (e.g. erosion, loss of natural capacity to protect from future climate change). In addition READP will promote measures that reduce the adverse environmental impact of these investments by supporting energy and water efficiencies.

142. Following the above, the SP and the infrastructure engineer will tender for implementation of the works. The municipality along with the SP and the infrastructure engineer will be responsible for monitoring the implementation process. Following the technical acceptance of the works the SP and the infrastructure engineer will train the actors engaged for the management of the infrastructure where relevant. They will also facilitate the development of management agreements between different actors for operating the infrastructure (refer to PIM). Such agreements will be based on best practices and experiences in Bosnia and elsewhere. In case of irrigation systems, for example, the municipality will establish a mechanism for the collection of fees for irrigation water use, which will be used to cover maintenance and repair costs of irrigation systems. The municipality, in consultation with the project and POs, will determine which entity will be responsible for the collection of water use fees. A Water User Association (WUA) may be formed for this purpose or an existing will be used in case of READP activities that build on the existing World Bank Irrigation Development Project, which has introduced participatory approach to water management and created WUAs. The fees collected will be paid into a municipality bank account established solely for the purpose of accruing funds collected from irrigation water users and will be paid to the municipal utility company, which will be responsible for the maintenance and repairs of irrigation systems.

143. **Activity 4 - Monitoring, supervision and training:** The SP and the infrastructure engineer will conduct periodic monitoring and follow-up visits to the infrastructure sites to assess the quality of implementation and the generation of benefits according to the projections in the BPs and feasibility studies. They will also provide technical assistance to overcome any issues and bottlenecks observed during the follow up visits. READ will provide tailored training to WUAs on organizational aspects of managing WUAs as well as technical aspects of operating irrigation systems to ensure optimum water use, optimum yields and minimum adverse impact on the environment.

144. **Activity 5 - Financing arrangements:** The approved infrastructure investments will be co-financed by READP in partnership with municipalities and, whenever applicable, other entities such as business leaders, FOs, individual farmers. The expected average investment by municipalities and others shall be 25%, however, the eligibility and co-financing proportions expected from municipalities and other entities will vary



according to their economic development category. The developed and the semi developed municipalities will not be eligible for project financing for roads, bridges, village water supply and rural markets. Their cost contribution for other infrastructure projects will be higher (50-70%) compared to the less developed municipalities (5-15%) as presented in the table below. However, the actual co-financing commitment to an infrastructure project will be one of the key criteria for the selection of an infrastructure for financing. The expected average investment through IFAD financing is 75% (may vary between 95% and 30% depending on the development category of the municipality) but in all cases IFAD financing in different infrastructure categories will be subject to ceilings (in EUR) as defined in the table below. These ceilings are only applicable to IFAD financing. There is no ceiling on the total size of infrastructure investment as long as the infrastructure development meet READP objectives.

	Minimum contribution from municipality and other entities*				IFAD [ceiling in EUR]
	Extremely Underdeveloped	Underdeveloped	Semi-developed	Developed	
<b>Publicly managed infrastructure</b>					
- Rural roads	5%	15%	X	X	[75,000]
- Small bridges	5%	15%	X	X	[75,000]
- Domestic water supply	5%	15%	X	X	[40,000]
<b>Infrastructure co-managed in partnership between the public and the private sector</b>					
- Cold storage and packing facilities	5%	15%	50%	70%	[100,000]
- Small storage and packing facilities	5%	15%	50%	70%	[50,000]
- Rural market	5%	15%	X	X	[75,000]
- Irrigation for agricultural production	5%	15%	50%	70%	[85,000]
- Small marketing infrastructure	5%	15%			[10,000]

\*other entities include SMEs, FOs, individual farmers

## Component 2: Project coordination and Management – EUR 1.49 million (5% of project costs)

145. The expected outcome of this component is efficiently and effectively managed project with knowledge management integrated in all aspects of operations. The The Ministry of Finance and Treasury of Bosnia and Herzegovina(MOFT) will have overall responsibility of READP and will coordinate with the Entity Ministries of Finance and Agriculture. At entity level, the Ministry of Agriculture, Water Management and Forestry (MAWMF) in the FBiH and the Ministry of Agriculture Forestry and Water Resources (MAFWR) in the RS will have the overall responsibility for the implementation as the Lead Agencies. A Project Steering Committee (PSC) chaired by the entity Ministry of Agriculture or its designated representative would be set up in each Entity to provide overall guidance to the Project at Entity level. READP implementation in each of the two Entities will be carried out by the existing A/PCUs that are well-versed with the systems and procedures for IFAD projects implementing. Dedicated project managers, additional staff and technical service providers will be deployed for the core project activities. Service providers and field coordinators will be hired to strengthen the implementation process. Further details on project management and coordination is presented in the in the section “Organisational Framework”.

## D. Lessons learned and adherence to IFAD policies

146. IFAD's financial assistance to BiH started in 1996, soon after peace was restored following the signature of the Dayton Peace Agreement in December 1995. The overall portfolio comprises six projects valued at US\$ 234.2 million with IFAD's funding amounting to US\$ 83.3 million. IFAD projects have directly benefited over 145,000 households or some 480,000 people which is nearly 20% of the country's rural population<sup>14</sup> and resulted in an annual increase of income of over 30% (Appendix 3).

147. The country program has evolved from emergency relief and rehabilitation in the first two projects to supporting private sector led growth and enterprise development. The first generation of projects focused on rehabilitating a decimated livestock sector devastated by the war through directly supply of high quality dairy

<sup>14</sup> The number of indirect beneficiaries is not included in this figure.

cows and sheep of improved breeds to poor households. The second generation of projects aimed at integrating smallholders into pro-poor profitable value chains (VCs), through the provision of basic organizational and technical support to producers and FOs. The Livestock and Rural Finance Development Project (LRFDP closed 2008) supported through this approach improved the quality of milk products and developed market linkages along the dairy value chain. These third generation projects focused on livelihood diversification and increased competitiveness in the context of economic transformation and trade liberalisation concurrent to the EU accession process. The REEP (closed in 2013), RLDP (closed in 2016) and the RBDP (closing 2019) and RCDP (planned from 2017-2027) are based on this approach.

148. All these projects have contributed to increase the income and livelihood of the rural communities. For example, REEP increased the average monthly agricultural income of beneficiary households to over 60% from KM 11,700 in 2008 to 18,720 in 2012, through increased sales of milk, meat and fruits. RLDP increased the monthly income of beneficiary by 48% from to KM 822 in 2012 to KM 1,214 in 2015. More than 90% of the participating farmers were from unemployed category and the projects created more than 1-2 'jobs' per household for 1,500 households. PFIs disbursed 5,687 smallholder loans (valued at US\$ 22 million) and 146 on-farm and off-farm SMEs loans (valued US\$ 6.6 million). The projects also funded the construction of 350 small rural infrastructure schemes (237 feeder roads with a total length 285.5 km, 15 small bridges, 77 village water supply systems and 21 animal watering points), aimed at improving market linkages and rural living conditions. As a result, the overall food security situation has improved and rural livelihoods have become more diverse, strengthening their resilience in dealing with climate change induced variability.

149. **Status of IFAD interventions:** BiH has a diversity of agro-ecological conditions that supports labour intensive production in limited area of land for decent family income; for example vegetables, fruits, berries, dairy and honey. IFAD funded interventions have demonstrated that with adequate technical and organizational support, smallholders can benefit from growing demand for agricultural products, especially in the fruits, vegetables and non-timber forest products (NTFP) subsectors. There is strong demand from domestic processing industry<sup>15</sup> and potential to increase exports of such products providing smallholders the opportunity to fully integrate into the European and global market, through technological innovations, business model adaptation and compliance with the EU requirement and standards. Based on these considerations the COSOP 2013-2018 has two strategic objectives (SOs) focus on Farmer organizations (FOs) and their apex organizations (SO1) and fostering innovations and increased competitiveness through the expansion of technological innovation, business development and financial services to individual producers or institutional partners (SO2). The READP will be the second project designed against this COSOP after RCDP which is planned for implementation from 2017-2027.

150. READP builds on IFAD's past and on-going experience and accumulated knowledge over more than two decades of in-country operations. Lessons learned can be categorised into the following: (i) FO institutional strengthening (ii) enterprises linkages (iii) targeting (iv) advisory services (v) Infrastructure development and (vi) implementation support and M and E. Details are presented in Appendix 3.

151. **FOs institutional strengthening:** the experiences of the IFAD projects clearly indicate that FOs can assist smallholders to achieve economies of scale and to access markets on a competitive basis. Recent IFAD projects have successfully implemented the value chain approach connecting 18,750 individual beneficiaries to commercial buyers and more than 200 FOs have facilitated the linkages for input supply, advisory services and output marketing wherever relevant. FOs have been supported in negotiations with financial institutions to encourage them to increase their presence in rural areas and offer financial services for poor rural households. Nevertheless, FOs need further attention in order to become inclusive, increase the range and quality of their services to members and strengthen their linkages to different actors in the value chains for more outreach, sustainability and impact.

152. **Enterprises linkages.** RLDP and RBDP have both shown the key role played by private enterprises in driving the inclusion of IFAD's target households to domestic and export markets. PCU's co-financing of producers' production costs (starter packages), piloted under RLDP have proved useful in leveraging private sector investment. In the piloted areas RLDP reached out to some 1,500 target households leveraging a total investment of US\$ 465,276 for mechanisation, irrigation and cold storage facilities with a 54% contribution of

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<sup>15</sup> "BiH imports two thirds of the food it consumes, mainly processed foods, while it exports lower value food commodities" (WB 2015: 59).

the project<sup>16</sup>. RBDP has further scaled up the starter package co-financing instruments to trigger and deepen private sectors' interest. Based on these experiences, READP will include any commercially driven entity committed to expand its supply chains of raw materials from smallholders.

153. **Targeting:** Insufficient and *ad hoc* selection of beneficiaries in previous IFAD interventions often led to missing the target groups, particularly the very poor. Ad hoc selection resulted due to i) the distribution of the poor across a wide geographies of municipalities ii) absence of differentiated criteria across farming patterns and seasonality iii) municipalities selection of beneficiaries based on inaccurate lists iv) lack of capacity from overstretched service providers and within A/PCUs and vi) underperforming monitoring and lack of corrective action. IFAD's mission have consistently highlighted the weak participation of the poor in project-supported PAs and has pointed out that the guiding principle for supporting SMEs should be their commitment to establish backward linkages with poor small producers and collectors with a long-term business perspective.

154. In this context, the design and implementation of Pro-Poor Value Chain Development pilot project, financed by RLDP and implemented in collaboration with Oxfam italia witnessed promising results in implementing specialized targeting approaches to include the poor households. READP will mainstream the implementation of these methodologies by the enterprises, FOs and municipalities in the process of expanding their rural outreach. It will form clusters of municipalities based on level of socio-economic development. These clusters will include 95% of all extremely underdeveloped and underdeveloped municipalities; in order not to exclude the poor households falling outside these municipalities, READ will incorporate a maximum of 35% of semi-developed and developed municipalities in the country. Specific attention will be paid to include women-headed households and youth participation in rewarding VCs.

155. **Access to finance.** Responding the shortage of liquidity in the financial system past IFAD supported projects supported rural finance through refinancing of PFIs through credit lines. IFAD's credit lines were devised in the post global financial crisis context when there was shortage of liquidity in the financial system. They were used to support refinancing mechanisms to incentivise commercial banks to scale up agriculture lending to agribusiness and SMEs and MFIs to deal with individual farmers. The three IFAD supported projects, REEP, RLDP and RBDP implemented since mid-2000s used credit lines for lending above US\$ 42 million to 16,150 individuals at 3-8% interest rates. However, the relevance and requirements for credit lines has declined since this approach was adopted in the mid-2000s.

156. The Central Bank of BiH data reveals that liquidity in the banking sector is currently high with deposits against loans ratio, at 96.9% in 2015. Secondly, interest rate on bank deposits has decreased to less than 1% at the end of 2016 making credit lines (1-1.5%) unattractive to commercial banks. Therefore, the credit line approach was no longer relevant to the liquidity conditions of the financial system.

157. MFIs too, are less interested in credit lines as the pressure on such partnering financial institutions (PFI) from the projects and the government to reduce interest rates to borrowers have squeezed their margins. They also find the reporting obligations to the project on these funds quite cumbersome. Consequently, in the FBiH only 1-2 MFIs have partnered in recent projects. In RS the last two IFAD projects were unable to identify any MFI partner and US\$ 4 million credit line funds from RLDP were returned back to IFAD due to non-utilisation. Moreover, financial institutions developed dependency on credit lines for reaching the target group households. Apart from the PFI few other financial institution developed linkages to the target households as their cost of capital at 10-12% (for MFIs) was higher than the interest rate of 3-8% they are expected charge from this target group. Also, credit lines have not been very effective in reaching the target households as the PFIs preferred to select bankable clients with pre-existing market linkages who did not necessarily belong to the project target group.

158. The RCDP design recognised this issue and has proposed alternative approach in the form of financing starter packages. Although RCDP has not yet started, experience of RLDP and RBDP, since the design of RCDP indicates that starter packages are a viable step forward from the credit line approach.

159. *Experience and lessons from production package financing by RLDP and RBDP:* In 2015-16, RLDP piloted co financing production package (starter package) by partnering with a raspberry buyer and three municipalities to co-finance raspberry production costs of 300 producers in 2 dunums of land in these municipalities. The project contributed 40-50% of costs; municipalities, 10-20% and the buyer, 40-50%. The

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<sup>16</sup> RLDP PCR: 13.

contribution of the buyer was treated as advance payment to the producers, recoverable from the value of raspberry sold by the producers to the buyer over three years. The same model was replicated with three more buyers in the following season. Thereafter, in order to increase the outreach of the model RLDP roped in its PFI, to co-finance the production costs of target households with low cost loans (6-8%) from the project credit line. This increased the outreach of the model to 1,500 producers with project contribution of around 30-40%, municipality contribution of 10-20% and PFI loans co-financing 40-50% of the loans. The same model is being replicated by for the RBDP and by the end of 2017 an additional 1,000-1,500 farmers are expected to benefit from it.

160. The project will promote market-based interest rates to increase access to finance for the READP target group. So far the projects have confined the co-financing by financial institutions only to 1-2 PFIs benefiting from RLDP/RBDP credit lines as they are obliged to lend at 6-8% interest to the producers. However, limited participation of the financial institutions lending at subsidised interest rates to the producers is the main challenge for the sustainability of this model. The READP will address this issue by opening the co-financing opportunity to any interested financial institution at market driven interest rates for agricultural loans. However, since the other co-financiers (project, municipalities, buyer) will shoulder almost 75-80% of the production costs, the producer will pay market driven interest rate (around 15%) only on 15-25% of the production costs, resulting in an effective and affordable interest rate of around 3%. Also, RLDP and RBDP did not have dedicated allocations for financing starter packages and they had to use small sums of matching grants for FOs to finance this model which limited the scope of this intervention.

161. **Advisory and Business Development Services (BDS).** Past assessment concluded that constraints in business development services are occurring on both the supply and demand side, thus hindering the coordinated delivery of services and development of new markets. RCDP is also designed to make available appropriate technical and business development services at local level. READP will build on the BDS related provisions of RCDP using various instruments e.g. the voucher scheme proposed in the RCDP design.

162. **Climate resilient public or private rural infrastructure.** 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. The previous IFAD projects have funded the construction of 350 small rural infrastructure schemes. The investments in market infrastructure (e.g. rural roads, small bridges), benefitting an important number of rural households, has also spurred rural growth. The overemphasis, however, on investments in rural infrastructure particularly in roads has 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. Hence, it is important to select infrastructure investments that directly serve the commercial considerations of the value chain actors and are not guided by popular public concerns. READP will facilitate business leaders and FOs to play lead roles in identification and selection of the market infrastructure requirements in their BPs based on relevant physical assessment and potential increase in their business volumes from these investments. Adequate importance will be given to make the infrastructure choices environmentally friendly by assisting the target households to select the appropriate infrastructure and by choosing construction methodology that protects the infrastructure against climate risks.

163. **Implementation arrangement and M and E.** A recurrent bottleneck of IFAD operations in BiH has been the time lapse between project design and implementation and translating into changing conditions at municipalities, sub-sectors and individual households. In addition, the role of the A/PCUs are still evolving as market linkage enablers and heavy emphasis is needed on adaptive management and facilitation skills. To cater for the specific implementation requirement of READP, core A/PCUs staff structure will be complemented by specialized expertise reflecting this newly focused role on brokering partnerships between producers and end markets. The main lessons M&E lessons pertains to its functionality, or lack thereof, to provide effective feedbacks loops to: i) improve projects' steering and ii) support informed decision making. This in turn has affected the project's ability to take timely corrective measures and the overall quality of reporting. The main gaps highlighted in the various M&E related assessments are: fragmented approach relying on service providers with limited capacity and understanding of reporting requirement to prove impact and improve project implementation; inconsistent monitoring of the accrued benefits for each categories of stakeholders, incomparable performance across entities given the lack of harmonisation in the approach to baseline methodology preventing robust comparison and overall poorly defined and measurable indicators.

While the APCUs will maintain ultimate responsibility for M&E and reporting READP will involve stakeholders attached to BPs in the monitoring system and will also draw on BPs monitoring and reporting based on the contractual provisions developed under RCDP.

### **Adherence to IFAD policies**

164. The READP is fully aligned with all relevant IFAD strategies and policies including the Strategic Framework 2016-2025, especially by way of promoting investment in productive capacities and market participation of beneficiaries through the vehicle of 4Ps; Targeting Policy; Gender Strategy; Rural Finance Policy, Climate Change Strategy; Policy on Supervision & Implementation Support. The environmental and social category is considered to be B namely that it does not present any irreversible impacts on the short or long term or during construction and /or operations. The climate risk classification is deemed to be Moderate.

## **III. Project implementation**

### **A. Approach**

165. The entry point for Component 1 will be through the promotion of 4Ps based Business Plans between business leaders, municipalities, project and target households. These BPs will build on institutional arrangements and the lessons learned from the ongoing RCDP. In particular, the READP will make use of the experiences and achievements of RCDP in Business Development Services (BDS) as well as in establishing and operating cluster stakeholder platforms. The project will engage service providers, cluster coordinators and extension officers to support the business plan development process. The responsibilities of the different actors in the BP implementation is described in Section B in “project overview” section.

166. Partnerships. READ will build on the positive experiences of USAID's FARMA I and II projects and the work of CARITAS, OXFAM and RED/LED agencies, GIZ, 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.

167. APCU and PCU will be responsible for coordination and liaison with municipalities, business leaders, FOs and target households in the clusters and implementing partners. Thus, PCU/APCUs will enter into MOU with the relevant business plan partners in implementation of project activities, including project area municipalities, private agribusiness enterprises, producer associations and cooperatives (key mechanism for the participation of the target households). These MOUs will detail the roles and responsibilities of each party in business plan implementation, the modality of allocation and control of project resources and the monitoring and reporting arrangements.

### **B. Organizational framework**

168. **Overall responsibility:** The READP will be implemented by Government and non-government institutions and private sector partners. The The Ministry of Finance and Treasury of Bosnia and Herzegovina(MOFT) will have overall responsibility of READP and will coordinate with the Entity Ministries of Finance and Agriculture.

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

170. **Project Steering Committee (PSC):** A Project Steering Committee (PSC) chaired by the entity Ministry of Agriculture or its designated representative would be set up in each Entity to provide overall guidance to the Project at Entity level. It is advisable that the READP PSC has the same composition as the PSC for the on-going IFAD supported RCDP. It will comprise 7-10 members draw from relevant ministries and Government departments, as well as representatives from the private, PAs and cooperative sectors. 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 goals, policies and strategies defined at project design (ii) endorse the strategic orientations taken up by the project (iii) review and approve project Entity level Annual Work Plans and Budgets (AWPB) (iv) oversee the transparent selection of service providers and partner institutions (v) ensure

that READP interventions are coordinated with other development programmes and projects and (vi) ensure adherence to the highest standards of financial management and audit.

**171. Project coordination units:** FBiH will entrust the responsibility of coordination and management of project activities to the existing Project Coordination Unit (PCU) in Sarajevo. Likewise, the RS will entrust these functions to the existing Agricultural Project Coordination Unit (APCU) located in Banja Luka. Both, the APCU and the PCU will incorporate responsibilities for the overall project management and monitoring, organizing start-up and annual workshops for participatory annual programming, preparation of AWPBs and bi-annual reporting against the AWPBs, fiduciary management as well as smooth integration of READ into their on-going operations. They will also be responsible for providing logistical and administrative support to IFAD and supervision missions, mid-term review and project completion missions. Detailed responsibilities are described in Appendixes 5, 6 and 7.

**172.** The PCU and the APCU each will be headed by a project director who will also be the secretaries of the PSCs. The READP staffing plan for other positions takes into consideration the parallel implementation of RCDP for two cycles, from 2017-2021 and 2022-2026, and are detailed below.

- (a) PCU: In PCU the staffing for the RCDP already includes the director, two business development officers, M and E/targeting officer, procurement officer, finance officer and translator and driver. For the first two years of READP the salaries of these staff will be financed under RCDP. For the remaining three years of READP these salaries will be financed in 1:2 ratio between READP and RCDP. READP will finance two additional staff positions specifically hired for READP implementation. These two positions will be of Project Manager and accountant to enable the PCU cope with the additional re
- (b) Responsibilities of implementing two projects simultaneously.
- (c) APCU: in APCU the staff for RCDP includes two business development officers, M and E/targeting officer, procurement officer, finance officer accountant, translator, secretary and driver. For the first two years of READP the salaries of these staff will be financed under RCDP. For the remaining three years of READP these salaries will be financed in 1:2 ratio between READP and RCDP. READP will finance two additional staff positions specifically hired for READP implementation. These two positions will be of project manager with substantial VCs and business development experience and an infrastructure engineer to enable the APCU cope with the additional responsibilities of implementing two projects simultaneously.

**173. Field coordination:** READP will require substantial field presence since the project area, selected based on geographical targeting approach, will consist of 10 clusters (five each in FBiH and RS) with an average of 9 municipalities per cluster. In the FBiH, the PCU will contract 5 field officers as cluster coordinators, one for each cluster, to ensure field presence of the PCU and assist quality implementation process. In the RS the APCU will ensure field presence through extension officers deployed in the seven regional extension offices of the Agency of Extension Services in the 5 project clusters.

**174. Knowledge sharing:** One activity to strengthen the knowledge-sharing and learning culture of the program will be the conduct of bi-annual inter-entity knowledge management workshops to provide a forum for PCU's field coordinators and A/PCU's extension officers to exchange experiences, identify implementation constraints and document lessons learned. This field level knowledge sharing platform will directly feed into the work of the two entities' M&E units, notably serving in the identification of common strategies to overcome barriers to accelerate the successful the implementation of inclusive BPs, good practices for dissemination and scaling-up, and the development of harmonised communication and knowledge sharing measures to enhance the outreach and visibility of READP's investment along the following priority areas: i) 4-Ps business plans; ii) FO's management of the starter packages; iii) direct targeting of the youth and women headed households; iv) the youth apprentice support; and v) positive results from the participatory monitoring of the business plan implementation.

**175. Partnership with Service Providers (SP):** In order to manage and coordinate the implementation of two projects READP and RCDP in parallel, both PCU and APCU will rely on considerable increase in support services from service providers and other implementation partners. In general, SPs will be responsible for supporting the A/PCUs in implementing the targeting surveys, conducting sensitisation and consultation workshops prior to launching the business planning initiative, supporting business proposal selection,

assisting business plan development and implementation, ensuring the quality of the final business plans, facilitating negotiations the implementation agreements between different BP implementation partners, providing technical guidance to the business leaders, FOs and target households during BP implementation and assisting the M&E data collection for READP. The selected service provider will possess the required environmental expertise to backstop the project. The SP will closely liaise with the specific READP Project Manager, business development officer and the M&E Officer in the A/PCUs. The specific use of SP by PCU and APCU will be as follows;

- (a) In FBiH, the PCU will initially hire a service provider (company) competitively for business plan development process. The SP will be issued performance-based contracts and PCU will oversee and supervise their work. Depending on performance the SP can be retained for implementing the other sub-components on FO seed capital financing and enabling infrastructure development.
- (b) In the RS, the APCU currently implements its projects in partnership with the Agency for Extension Services but the agency currently does not have experience in the business plan methodology. For implementation of READP, the APCU will partner with the EA and additionally with a SP selected competitively with the key responsibility to conduct ToTs for the capacity building of the extension agency in the areas of BP development and implementation. Thereafter the SP and the extension agency will be responsible for coordinated support to the BP implementation process. The subcomponent on enabling infrastructure will be implemented directly by the APCU using the services of the in-house infrastructure engineer.

## C. Planning, M&E, learning and knowledge management

### Planning

176. **Annual Work Plans and Budgets (AWPB)** and corresponding Procurement Plans<sup>17</sup> will be the project's key planning instruments. The AWPBs will be formulated by the A/PCUs taking into account the Project Design Report, supervision report recommendations and legal agreements, contract and management agreements of SPs and BP implementation partners, the overall project targets, procurement plans and development priorities of target households. The AWPBs will be set against the project log frame and planned activities will have clear financial allocations on the basis of which funds release and financial control will be exercised. The AWPBs will be an essential covenant in the legal Financing Agreement and failure to prepare it on a timely basis may lead to delay or suspension of fund disbursement by IFAD. The first AWPB together with the Procurement Plan for the first 18 months will be presented for discussion during the start-up workshop followed by submission to IFAD for no objection. The AWPBs will be reviewed, approved and validated by the Entity PSCs and IFAD 30 to 60 days before the beginning of the fiscal year.

177. The process for designing AWPB will be participatory, reflecting a bottom-up prioritisation process from the business leaders, the BP implementation oversight committees at cluster level, target households, FOs, SPs, field coordinators, extension officers and municipalities. The AWPB will be a living document with the flexibility to respond to realities. Proposed adjustments to the AWPB should be informed to IFAD and Entity-level PSCs. Failures to meet two consecutive quarterly targets by more than 25% will trigger collective corrective decisions at the level of the PSC, in collaboration with IFAD. The final Project Implementation Manual (PIM) will outline further guidelines and details for the overall format of the AWPB.

178. **A Start-up Workshop** will be conducted at the onset to present the steps underpinning the planning and annual work plan process as well as the monitoring and evaluation system. Under the guidance of the A/PCUs staff a special session on M&E system will be organised to brief participants about the Project Logical Framework, progress reporting and evaluation arrangements. Additionally, IFAD's new RIMS system, performance based contracting system and key performance indicators regarding targeting effectiveness, backward linkages and the impact pathways will be presented.

179. Special sessions will be organised during the start up workshop for orienting the PCU staff, SPs and other stakeholders on the targeting objectives, strategies and methodologies to be adopted by the project. Special emphasis will be given on steps and methodologies for participatory identification of the starter

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<sup>17</sup> See Appendix draft PIM section on procurement.

package beneficiaries. During these sessions targeting issues related to the youth apprenticeship will also be clarified.

## Monitoring and evaluation

180. **M&E system:** The READP M&E system will be established and managed by the A/PCU teams with support from IFAD in accordance with established IFAD procedures. It will be built around the set of selected indicators outlined in the logical framework which have been developed taking into a number of RIMS core indicators, and project-specific indicators (PSIs). The A/PCUs will have the overall responsibility for M&E.

181. READP will use the organisational structure and human resources already in place for implementing the M&E system for RBDP and RCDP. It consists of one M&E officer in each entity. Data collection will be supported by the SPs and extension agency in coordination with the business leaders, BP implementation partners and the READP cluster coordinators and extension officers at the field level.

182. As a core pillar required to effectively support BP implementation, the existing M&E system, will be improved during project start-up to fit the READP requirements. To this end, the M&E officer will be supported to undertake a review geared to accommodate READP M&E requirements in the existing M&E system. The review will follow a three steps approach: i) Program M&E Review; performance assessment and existing level of quality and compliance with IFAD standard; ii) primary data collection with M&E stakeholders to better understand the current needs and expectations of the BPs market actors; specifically, what they value about the information generated by the M&E system; i.e. if the system is helping them to make evidence based decisions; and iii) formulation of clear recommendations on the revisions to be made to improve the key M&E domains of: data collection; data interpretation and use; real time data application for evidence based decision making; and adaptive project management against the READP additional reporting requirement.

183. READP will align, with RCDP's M&E system to enable consistent use of a common set of key performance and management indicators. The structure shall reflect output monitoring & outcomes/impacts result monitoring. Both will be based on participatory process and, like in RCDP, it is expected that stakeholders external to the PCUs will play a key role, including business leaders, SPs, FOs, municipalities, beneficiaries and other private stakeholders/investors.

184. **Output Monitoring:** The AWPB will provide a framework for the immediate physical and financial progress. During the first six months of implementation, a set of performance indicators will be developed to measure components' progress at outputs level. Inclusiveness monitoring will start against the benchmark established at start-up with regard to each category of beneficiaries (very poor, poor, borderline poor).

185. **Outcome indicators:** Outcome indicators will be measured with the project M&E budgets and capacities. Quantitative and qualitative methodologies will be used such as focus groups, in-depth interviews and participatory assessments to triangulate findings and enrich the assessments. The M&E system will ensure that during implementation project management continuously receives clear information on performance and progress towards achieving the development objectives, the most successful interventions and hindering factors.

186. **Impacts assessment:** will focus on the higher level of result defined in the log-frame and include the limited set of development objectives the project intends to achieve. The Impact of READP will be reported in the project completion reports (PCR). Since RIMS impact completion survey are no longer mandatory, READP will determine in consultation with IFAD the project's most appropriate impact assessment need, drawing on combined quantitative, qualitative or mixed methods that reliably measure the project performance including household survey and market assessment surveys. The final evaluation will identify follow-up activities and generate actionable lessons learnt for IFAD and government counterparts.

187. **Baseline studies.** A baseline study will be commissioned as a tool to establish final baseline data and targets for log-frame indicators. It shall be aligned with the key priorities of the project and will refer to key dimension of systemic change READP aims to bring about e.g. productivity efficiencies of rural producers; inclusion of target households, youth and women in value chains; transformation of FOs and their institutional performance and impact associated with production and marketing infrastructure.

188. **Management information system (MIS).** Immediately after the start-up workshop, the A/PCUs should procure a centralised and integrated computerised MIS, designed based on M&E system requirement,



including the log-frame. Associated database will contain all relevant data (project inputs, outputs and outcomes) collected by project stakeholders and consolidated by the A/PCUs. The M&E officers in the A/PCUs will be responsible for maintaining and updating the MIS with assistance of all project team members and implementation partners.

189. **A start-up workshop** will be organized in the six months after entry into force, to establish planning, financial management, governance, procurement, M&E, project organizational and operational modalities, technical specifications and processes.

190. **A Mid-Term Review** will be carried at mid-year of READP's third year. It will cover, among other things: (i) physical and financial progress as measured against AWPBs (ii) performance and financial management of contracted implementing partners (iii) an assessment of the efficacy of technical assistance and capacity building activities (iv) and strategic recommendations for achieving the development objectives.

191. **A Project Completion Review** will be done within the last six months prior to project completion date. It will assess the overall relevance, efficiency, effectiveness, sustainability and impact achieved. A completion rural households survey shall be done prior to the PCR mission. The assessment of project achievements would be in line with IFAD's project completion guidelines and the IOE Evaluation Manual<sup>18</sup>. The PCR will emphasise the lessons learnt. It will 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).

## **Learning and knowledge management**

192. Learning and knowledge management will be a key underlining theme in READP, focusing on the dissemination of project experiences and results to stakeholders and development partners for scaling up and policy impact. In general, READP will focus on increasing competitiveness, strengthening FOs and generating youth employment which are aligned with national development priorities. Success with any of these elements would have a significant potential for scaling up, as significant EU resources are expected to be available for rural sector development. More specifically, some of the priority areas on which KM will concentrate are (i) success in using the 4-Ps business plans as entry points for the project along with targeting survey (ii) development of savings culture in the FOs and their management of the starter packages as revolving funds for financing members to connect to the value chains for the first time (iii) the effect of direct targeting of the youth and women headed households with special youth starter packages (iv) contribution of the apprentice support to the youth jobs in the rural sector and (v) positive results from the participatory monitoring of the business plan implementation through the cluster level BP implementation oversight committees.

193. Learning and knowledge management will focus on the enabling factors for successful implementation of joint business plan. The experiences and 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 for wider policy impact. These activities are harmonised with the knowledge management activities adopted by RCDP. A knowledge-sharing and learning culture will be promoted at all level, including the A/PCUs, business leaders and other stakeholders. All activities related to KM should also be aligned with IFAD's Knowledge Management Strategy<sup>19</sup>. KM and communication responsibilities will be shared among all project staff, with the overall responsibility with the Project Directors in the A/PCUs and the M&E Officers. SPs will prepare case studies and Learning Notes as relevant. More details on planning, M&E, knowledge management and learning is presented in Appendix 6.

## **D. Financial management, procurement and governance**

### **Financial Management**

194. In October 2017, IFAD undertook an FM assessment of the A/PCUs managing the ongoing RBDP project and, in accordance with IFAD guidelines, a Financial Management Assessment at design has been undertaken. The inherent risk of the country is assessed as Medium: BiH is ranked at Medium risk by Transparency International with a Corruption Perception Index score of 39 in 2016, and IFC/WB's Ease of Doing Business rank at 81 out of 190 countries and a CPIA rating at 3.3 stable since 2007. The first Public

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<sup>18</sup> Available at <https://www.ifad.org/documents/10180/bfec198c-62fd-46ff-abae-285d0e0709d6>

<sup>19</sup> Available at <https://www.ifad.org/documents/10180/ad197dcd-93f9-4e50-ab3d-d773619a89e5>

Expenditures and Financial Accountability (PEFA) assessment report identified areas in the public management system that require further improvement.

195. **Project risk.** READP will take advantage of the coordination mechanism already in place for the on-going RBDP in both entities. RBDP has been ranked as medium risk during supervision and the suggested mitigating measures has to be implemented to lower the level of the project risk.

196. **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 procedures.

197. **Financial management arrangements.** The A/PCUs are adequately equipped with staff who have been managing IFAD funded projects for many years and are adequate to their role and position. The financial management roles in PCU is managed by a financial manager (FM), a procurement officer and a secretary/assistant. The APCU has a finance manager, procurement officer and an accountant. For internal control purposes and segregation of responsibilities, especially in the oncoming scenario where the same units will simultaneously manage three different IFAD projects, an additional accountant will be recruited at PCU in FBiH. The Financial Manager will be responsible for his/her training on IFAD procedures. All the other arrangements in budgeting, accounting, internal controls, disbursement, financial reporting, flow of funds, external and internal audit will follow the system already in place in the both the units, with the additional mitigating measures which have been suggested. A financial and administrative manual will be developed at the beginning of the project.

#### **Accounts.**

198. Separate bank accounts will be opened and maintained by the borrower for each financing source, and for each entity. Accordingly, there will be one designated account in Euro for each entity to receive IFAD loan. In addition, there will be two separate counterpart accounts for the government contribution (one for each Entity) and separate bank accounts for Beneficiaries contribution where relevant, at each entity's level.

199. **Accounting.** The A/PCUs will maintain a full set of accounts in accordance with IFAD's requirements and internationally accepted accounting standards (IPSAS-cash basis).

200. **Financial reporting.** To ensure efficiency and reliability of reports, the financial reporting mechanism will be improved. Financial monitoring will be done directly through the features of the accounting system in place. Monthly financial report will be extracted from the system by the Financial Manager to closely monitor budget availability. The financial reports prepared will compare the actual versus budget and cumulative versus appraisal. The timeframe for the submission of financial reports to IFAD will be: (i) semi-annual consolidated financial and physical report in the format agreed with IFAD at the beginning (ii) annual consolidated financial statements within four months after the end of a fiscal year prepared in accordance with IPSAS and IFAD requirements (iii) annual consolidated audit report and a management letter within six months after the end of the fiscal year.

201. **External Audit.** In BiH, all externally funded projects are yearly audited by an external private sector auditor appointed for three years at State level through a competitive process. The new auditor for the coming three years will be appointed in 2017. During the competitive process the terms of reference for the audit will be submitted to IFAD for no-objection. The A/PCUs 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) and IFAD Handbook on Financial Reporting and Auditing. The consolidated audit report covering the whole project, together with the separate audit reports for PCU and APCU, 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. Additional details related to financial management are presented in Appendix

#### **Procurement**

202. **Country assessment.** Although BiH has improved public procurement legislation and system of public procurement supervision it is still some weaknesses in that system identified in the COSOP and assessments and reports of international organizations, which indicated that borrower's system for procurement is not still

fully in line with the IFAD requirements, so that procedures, review and supervision on procurement under READP will continue to be carried out following IFAD procurement procedures stipulated in IFAD Procurement Guidelines and other relevant documents.

203. *Implementation arrangement:* The PCU in FBiH and the APCU in RS will be responsible for all procurement, each for the corresponding part of the project. They will pursue procurement in accordance with IFAD Procurement Guidelines and Procurement Handbook, the Project Financial Agreement and the accompanying Letter to the Borrower (LTB). Procurement of particular goods, works or services will be initiated and implemented by applying an adequate procurement method, based on the estimated value of the procurement and thresholds for each methods defined in this PDR and finally confirmed in the LTB. Prior review and approval by IFAD CPM will be obligatory for the first five contracts for procurement of goods, works and services, regardless of value, and for all other contracts above the agreed thresholds.

204. *Procurement planning, reporting and contracting:* The cost of procurement will not exceed the available funds allocated in the financial agreement and procurement will be in accordance with the approved procurement plan as a part of the project AWPB. The first procurement plan will be for the 18 months and succeeding for the next 12 months period. Procurement progress reports will accompany the regular project progress reports as their annex. The competent procurement officer in each of two PCUs will prepare and implement procurement procedures, finalized in the form of the contracts, cooperating with other project team members and external stakeholders. Procurement officers will be report to the project managers and ultimately to the PCU directors, as signatories of all contractual obligations on behalf of the borrower.

## **Governance**

205. The A/PCUs will comply with IFAD's zero-tolerance policy towards fraudulent, corrupt, collusive or coercive actions. They will permit IFAD to inspect their accounts, records and other documents relating to tendering, bid submission and contract performance for all procurement for goods, works and services financed from resources funded or administered by IFAD. All bidding documents and the contracts will include the provision for suppliers, contractors and consultants to ensure compliance with IFAD zero tolerance policy towards fraudulence.

## **E. Supervision**

206. Project supervision will be carried out directly by IFAD with the participation of key partners where relevant. The supervision and implementation support function from IFAD will include (i) start up workshop (ii) review of AWPB and regular monitoring of its implementation (iii) review of withdrawal applications and relevant procurement documents (iv) comprehensive field supervision missions (v) specialized implementation support missions or thematic missions by finance officers, technical staff and consultants to keep the project on track (vi) mid-term review of project implementation to assess overall implementation of stated objectives mid-way to completion for any corrective measure (vii) relevant knowledge events and workshops to capitalize and share knowledge of thematic areas and on performance (viii) support to project completion exercise.

207. The comprehensive field supervision missions will be carried out annually starting 12 months after the start-up workshop. Their objective will be to review progress and assist project partners to improve implementation. The supervision missions will assess overall physical and financial performance, address key issues regarding overall service delivery and BP implementation to meet development objectives, poverty, targeting, gender, job creation, as well as identify implementation constraints and propose measures for addressing bottlenecks. Field supervisions will follow after reviewing the project progress reports and so the A/PCUs will be required to submit their reports ahead of the supervision missions. These missions will end with wrap up sessions at the A/PCUs, debriefing the borrower (State) an aide memoire followed by a management letter articulating the main findings of the missions and actionable recommendations to address the shortfalls. In selecting the supervision team IFAD will balance continuity of team members for consistency as well as variety in team members for infusion of new ideas. National and international expertise will be considered. The national experts will bring local knowledge while international consultants will have a neutral position and bring international experiences.

## F. Risk identification and mitigation

208. The main risks that have affected past projects and are likely to influence READP as well are presented in the table below along with mitigation measures built into the design to address them;

Risk	Mitigation Measures	Rating
- Management and coordination challenges arising from the parallel implementation of two on-going IFAD projects by the A/PCUs	- Dedicated project managers for READP at PCU and APCU. Additional staff for business development and support functions. Field presence increased through 5 cluster coordinators in PCU and 7 extension officers in APCU. Service providers as implementation partners to follow-up and operationalize A/PCUs decisions.	- High
- Diminishing interest of financial institutions in credit lines and delay in selection of PFIs in past project adversely affecting disbursements and performance	- Alternative mechanisms of co-financing starter packages built on recent project experiences, and harmonized with RCDP will encourage participation by financial institution at market rates (not limited to selected PFIs) but will not solely depend on them. Catalyzes co-financing by other partners, e.g. municipalities and advance financing from business leader.	- High
- Strong focus on business leaders and private sector can dilute the poverty focus of the project.	- Targeting survey at the onset of the project to set the theme of the project as poverty reduction. Support to business leaders will be contingent on their commitment to form backward links to the target households identified in the targeting survey. Project resources will be directed primarily to target group financing and not private asset financing.	- High
- Market risks arising from crop-specific approach in past projects, specially promoting perennial crops with limited predictability of prices	- More flexible, demand driven, market led approach to crop selection. Target households, business leaders and other BP partners select crop in participatory manner considering prevailing market conditions. Focus on crop selection from an array of options in each sub-sector instead of locking into a specific crop type from onset.	- Medium
- READP target households and business plan partners can overlap with those of RCDP due to overlapping geographical areas of the two project resulting in duplication.	- There are around 57,000 rural households living below poverty line in the READP clusters. Around 10,500 of them (two-thirds of RCDP target) are expected to benefit from RCDP. This leaves ample scope for selecting the 8,500 READP target households from the remaining 46,500 households without overlapping with RCDP. A/PCUs will maintain clear records of beneficiary households for each project and will easily compare records to avoid duplication as a key criteria for beneficiary selection.	- Medium
- Environment and climate change effects on crops and infrastructure	- The cluster coordinators and extension officers will be capacitated to disseminate climate information to target farmers to guide their choices and timely decision making. They will advise farmers on tolerant crops and measures for crop protection. Improved cultivation practices such as use of organic fertilizers and adoption of climate resilient infrastructure such as drip irrigation will be encouraged. - Incorporate relevant environmental and climate proofing measures to safeguard the infrastructure from natural hazards (such as flooding and landslides) through designs that take into account the climate risks. The aim of the measures is to avoid damages to property and forgone economic activity as a result of damages (e.g. failed bridges, damaged buildings), effects on health and human life, and impacts on environmental services (e.g. erosion, loss of natural capacity to protect from future climate change).	- Medium
- Fragile political system can lead to project management intrusions and implementation level delays	- The CPM will have an active role in the selection of new A/PCU staff members for RBDP. Removal and appointment of projectors will be in consultation with the government.	- Low

## IV. Project costs, financing, benefits and sustainability

### A. Project costs

209. The project costs are based on parameters collected during the initial design mission in July 2017 and final design mission that took place on October/November 2017. The key parameters are presented below:

- **The implementation period** of the Rural Enterprises and Agricultural Development Project is estimated at 5 years.
- **Price contingencies** aim to cover expected price increase between project preparation and project start up as well as throughout the project implementation period. Foreign inflation has been assumed at 2.2% and local inflation at 1.5%.
- **Physical contingencies** aim to cover uncertainties related to units' costs. They are assumed at 5%, and they are applied only in production and infrastructure investments.
- **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 (realized by a service provider) funded with IFAD funds.
- **Exchange Rate.** The exchange rate used in the analysis is fixed at 1 EUR=1.96 BAM.

210. Total Project Cost including physical and price contingencies is estimated at EUR 27.683 million over a 5-year period. Of this EUR 26.184 (94.5%) will be for implementing Component 1 - Enhancement of economic opportunities and smallholder integration in value chains, and EUR 1.499 million (5.5%) is for implementing component 2 - Project Coordination and Management. Physical and price contingencies are estimated at 9% per cent of the total Project costs. The foreign exchange component is estimated only at EURO 2.6 million which represent only 9% of the total Project costs. Taxes and duties make up approximately EURO 4.3 million. Table 1 summarizes the Project costs by components. A complete set of summary and detailed cost tables are attached in Appendix 9.

**Table 1: Project Costs by Components (EUR '000)**

	(EUR '000)			%	% Total
	Local	Foreign	Total	Foreign Exchange	Base Costs
<b>A. COMP 1. Enhancement of economic opportunities and smallholders integration in value chains</b>					
1. Development and Implementation of pro-poor business plan_FBiH	10 267	69	10 336	1	41
2. Development and Implementation of pro-poor business plan_RS	6 857	58	6 914	1	27
3. Farmers organisations development_FBiH	294	478	772	62	3
4. Farmers organisations development_RS	236	322	558	58	2
5. Enabling Infrastructure Development_FBiH	2 491	779	3 270	24	13
6. Enabling Infrastructure Development_RS	1 501	514	2 015	26	8
<b>Subtotal</b>	<b>21 646</b>	<b>2 219</b>	<b>23 865</b>	<b>9</b>	<b>94</b>
<b>B. COMP 2: Project Coordination Management Unit</b>					
Tc 1. Project Coordination Unit_FBiH	725	74	799	9	3
2. Agricultural Project Coordination Unit_RS	550	68	618	11	2
<b>Subtotal</b>	<b>1 275</b>	<b>142</b>	<b>1 417</b>	<b>10</b>	<b>6</b>
<b>Total PROJECT COSTS</b>	<b>22 921</b>	<b>2 361</b>	<b>25 282</b>	<b>9</b>	<b>100</b>
Physical Contingencies	962	103	1 065	10	4
Price Contingencies	1 211	126	1 336	9	5
	<b>25 094</b>	<b>2 590</b>	<b>27 683</b>	<b>9</b>	<b>109</b>

## B. Project financing

211. The total project cost is expected to be around EUR 27.683 million. Out of this the share of FBiH is 60% and RS is 40%. IFAD contribution will be EUR 11.787 million (43%) as loan in ordinary terms. The remaining amount will be co-financed by the Government (15% - totally for VAT), municipalities (9%) and private sector (33%). The breakdown of the private sector contribution of includes private enterprises (22%), FOs (1%), and beneficiaries (10%). Moreover, private sector contribution of 33% is related only to its co-financing contribution in the project specific categories. In addition, it will invest in other business plan implementation areas such as financing of private assets and working capital requirements equivalent to at least additional 50% of the READP costs.

212. Detailed tables of costs and project financing are presented in Appendix 9.

**Table 2: Project Components by Financiers (EUR '000)**

	IFAD		Municipalities		Beneficiaries		FO		SME		The Government		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>A. COMP 1: Enhancement of economic opportunities and smallholders integration in value chains</b>														
1. Development and Implementation of pro-poor business plan_FBIH	3 443	30.4	822	7.3	1 647	14.6	12	0.1	3 626	32.1	1 759	15.6	11 308	40.8
2. Development and Implementation of pro-poor business plan_RS	2 328	30.8	548	7.2	1 100	14.5	10	0.1	2 420	32.0	1 160	15.3	7 565	27.3
3. Farmers organisations development_FBIH	526	62.7	55	6.5	-	-	116	13.8	-	-	143	17.0	838	3.0
4. Farmers organisations development_RS	388	64.2	36	6.0	-	-	77	12.7	-	-	103	17.0	604	2.2
5. Enabling Infrastructure Development_FBIH	2 279	62.7	552	15.2	61	1.7	52	1.4	74	2.0	614	16.9	3 632	13.1
6. Enabling Infrastructure Development_RS	1 398	62.5	335	15.0	35	1.6	42	1.9	49	2.2	378	16.9	2 236	8.1
<b>Subtotal</b>	<b>10 361</b>	<b>39.6</b>	<b>2 348</b>	<b>9.0</b>	<b>2 843</b>	<b>10.9</b>	<b>309</b>	<b>1.2</b>	<b>6 168</b>	<b>23.6</b>	<b>4 156</b>	<b>15.9</b>	<b>26 184</b>	<b>94.6</b>
<b>B. COMP 2: Project Coordination Management Unit</b>														
1. Project Coordination Unit_FBIH	801	94.8	-	-	-	-	-	-	-	-	44	5.2	845	3.1
2. Agricultural Project Coordination Unit_RS	625	95.5	-	-	-	-	-	-	-	-	29	4.5	654	2.4
<b>Subtotal</b>	<b>1 426</b>	<b>95.1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73</b>	<b>4.9</b>	<b>1 499</b>	<b>5.4</b>
	<b>11 787</b>	<b>42.6</b>	<b>2 348</b>	<b>8.5</b>	<b>2 843</b>	<b>10.3</b>	<b>309</b>	<b>1.1</b>	<b>6 168</b>	<b>22.3</b>	<b>4 229</b>	<b>15.3</b>	<b>27 683</b>	<b>100.0</b>

## C. Summary benefits and economic analysis

### Benefits

213. Over the 5 years of implementation READP is expected to generate the following benefits

214. **Employment creation:** At least 4,500 full time jobs (or equivalent) created leading to stable income for enhanced food security and sustainable livelihood of target households. These jobs will comprise 350 youth apprentice and at least 50% of the 8,300 beneficiaries of the starter packages and the FO seed capital financing, achieving cash returns equal to at least the minimum net salary earned (BAM 425) from a full time job. They include jobs for at least 1,213 women (50% of the youth apprenticeship and 25% of all other jobs).

215. **Incomes (annual per dunum, 5<sup>th</sup> year):** Increased revenues for some 8,650 target households as direct beneficiaries, who would develop or upgrade their dairy, fruit and vegetable production as well as receive youth apprentice support leading to full time jobs in the rural sector; Net income occurring to the target households will be strawberry US\$ 4,485; raspberry US\$ 4,535; cherry and strawberry intercropping US\$ 5,035; gherkin US\$ 2,628; tomato US\$ 2,139; pepper US\$ 2,606; wild mushrooms US\$ 4,350; Honey (300 hives) US\$ 2,631; Milk production (3-5 cows) US\$ 5,713.

216. **Expansion of acreage, production and revenue from project support activities:** This includes increase in acreage and production of fruits and vegetables and increase of honey and dairy production for domestic and export markets. The promotion of business leader agreements and market linkages would enhance competitiveness of the targeted households and ensure sustainability.

217. Distribution of the 8,300 direct beneficiaries for different crop production activities is estimated as 4,100 farmers engaged in MAPs; 3,400 households engages in fruits and vegetables production; 600 households engaged in milk production with 2 cows and 200 households engaged in milk production with 3 cows.

- (a) MAPs production for targeted group of 4100 farmers is estimated with 2.9 tonnes per year with a value of 8.3 billion BAM.
- (b) Additional production of fruits and vegetables from the targeted groups of the 3,400 farmers within each category is estimated at 10.2 tonnes per year (latest at year 5), with a value of 1.6 billion BAM per year.
- (c) Milk production for the targeted group of 600 farmers with assumption of 3 cow-models is estimated with additional average production of 39 million litres per year with a value of 21 million BAM. Milk production for the targeted group for 200 farmers with assumption of 5 cows is estimated additional average production of 2.2 million litres per year with value of 1.2 million BAM

218. **Import substitution and conservation of foreign currency:** Will occur with increased production and export of food items.

219. **Strengthen farmers' organisations:** Over a period of 5 years; 40 FOs would be supported in terms of institutional capacity building and FO seed capital financing. These significant investments in assets such as production, storage and processing technologies would result in strengthened organisations with improved market linkages providing better services to their members.

220. **Strengthen rural infrastructure:** At municipality level, significant investments in market facilities and further enabling infrastructure would be supported with an outreach to another 5,000 households. Particular attention will be given to support climate change resilience, by favouring environmental friendly technological

investments. READP will finance 16 kilometers of roads which will reduce losses of fruits and vegetables transported by 13% resulting in savings of BAM 620 million. It will also support 11 irrigation systems which will lead to increasing the yield by 10-30% for around 3,000 beneficiaries. Additionally, 10 cold storage and packing facilities will be financed which will result in at least 5% higher crop prices for farmers leading to additional returns of at least BAM 35,000 annually.

## Financial analysis

221. Twelve financial models were developed: (i) strawberry (ii) raspberry (iii) Strawberries intercropped with cherries (iv) pepper (v) gherkin (vi) tomato (vii) honey production (viii) Marigold (ix) mint (x) wild mushrooms (xi) livestock production 3-5 cows and (xii) livestock production 5-10 cows. Additionally, road, irrigation and cold storage models have been developed. Greenhouse production was been considered due to the high initial investment cost needed per beneficiary. The analysis compares a “without project” and “with project” situation for one dunum (1000 m<sup>2</sup>) of land. Without project” scenario has been calculated based on the prevailing traditional average potato production. Project support includes co-financed starter packages for production on one dunum to 8,300 non-commercial target households. Most smallholders are supported to produce between 1 and 2 dunum of fruits and vegetables, depending on the type of product, market access and availability of family labour and suitable land.

222. Based on NPV analysis, the most promising berries and fruit trees are intercropping mechanism of cherries and strawberries, raspberries and strawberries. Production of cherries and strawberries intercropping mechanism generates net income of 5,035 BAM per dunum; raspberries generate 4,535 BAM per dunum and strawberries 4,485 BAM per dunum. The revenues models for gherkin is the highest among vegetables. Still, among the vegetables cultivated in the open field, paprika has the highest NPV of 9,553 BAM per dunum due to the low investments inputs/prices. The investment on roads infrastructure is expected to be fully covered in three years mainly based on the savings on losses of fruits and vegetables achieved through the use of road infrastructure by beneficiaries. Similarly, the investment on the irrigation systems is expected to be recovered in 7 years mainly based on incremental yield of 10-30% achieved by beneficiaries from these facilities. Likewise the investment in cold storages are expected to be recovered in 7-8 years based on additional market price of at least 5% fetched by the beneficiaries of these facilities. Detailed description and analysis of the models are presented in Appendix 10.

## Economic analysis

223. **Economic Rate of Return:** On the basis of the above assumptions, the EIRR of READP will be 35%. The high EIRR reflects the ambition and potential leverage of READP, 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 the above results, sensitivity analysis was carried out and the results are presented below. The sensitivity analysis investigates the effect of fluctuations in Project costs, benefits and delays in implementation on the NPV and EIRR. The results shows that the EIRR drops to 31% with an increase in costs of 20% and 26% with increase in costs to 50% still making the project economically viable.

## D. Sustainability

225. The sustainability of READP is linked to the success of the BPs in profitably connecting the target households to the business leaders. The commercial success of these linkages will increase the demand for more products by the business leaders from the target households thereby (i) assisting the already linked households to maintain their partnerships and increase their returns (ii) creating the opportunity for new commercial farmers to join the value chain.

226. The features of the design which will support the institutional sustainability of these linkages are:

- business plan approach, public-private-producer co-financing system, starter packages, agronomic support, participatory monitoring of implementation and enabling infrastructure support to establish and maintain the linkages between business leaders and the target households

- strengthening the FOs so that they can benefit from the increased business opportunities created as a result of (i) more demand for inputs and services by members to increase production and (ii) higher demand for bulking, value addition and supply of produce to business leaders
- assisting municipalities to direct their support to farmers in a manner that makes them more competitive and assists their integration in commercial value chains.

227. Similarly, the design features which will support the technical sustainability of the linkages are product certification, branding, product identification and other market development support; strengthening the extension and advisory services to facilitate access to knowledge, technology and the guidance by target households for timely, quality and quantity production; the involvement of the community of financial service providers as co-financiers of bankable projects and; market driven approach that assists the business leaders and the partnering households to quickly adapt their businesses to changing market demands. The design will assist the linkages to overcome climate change and environmental risks by creating awareness about such threats and supporting mitigation measures through measures such as selection of tolerant varieties, organic farming, drip irrigation; making sure that the construction of enabling infrastructure addresses climate risks such as floods and landslides.

228. The complementary relationship with the RCDP will also support READP sustainability. The success stories and the lessons learnt by READP will be replicated by RCDP over a wider geographical areas even after the close of READP; the policy measures and regulatory support required to sustain the FOs supported by READP will be addressed by RCDP; follow-up needed at the relevant municipalities level to ensure the effective management of the enabling infrastructure investments by READP, will be handled by RCDP.



## Appendix 1: Country and rural context background

1. **Governance and administration:** Prior to 1991, Bosnia and Herzegovina was a republic in the Yugoslav Federation. Following the Bosnian war from 1991-95 it became a sovereign country under the terms of the Dayton Peace Agreement in 1995. However, a complex multi-tiered governance structure was adopted starting with the State level Government of Bosnia and Herzegovina (BiH) at the top followed by a second tier of governance with two Entities, the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS), plus the self-governing Brčko District (BD). The third tier of governance is unique to the FBiH and consists of 10 cantons. The fourth tier comprises 143 municipalities, 79 in FBiH and 64 in RS. The municipalities are extremely variable in terms of socio-economic development, size and population. BiH is highly decentralised and many public services are delivered at the municipality level.
2. **Demography:** BiH has an ethnically diverse population of 3.52 million, with 58% of it living in rural areas<sup>20</sup>. The share of the rural population living in rural area has remained constant in recent decade; from 60.5% in 1991 to 58% in 2015. It ranks among the fastest shrinking and aging populations in the world due to continued emigration and low fertility. According to the World Bank country partnership framework (2016-20) these demographic dynamics create challenges for public service delivery, especially in rural areas.
3. **Economy:** After sustained Growth Domestic Product (GDP) averaging 5.1% between 2000 and 2008, the BiH's economy was negatively affected by the global financial crisis between 2009 and 2012, altering BiH's post-conflict economic recovery<sup>21</sup>. While the country began to rebound in 2013, when GDP reached 2.5%, progress was interrupted by devastating floods in May 2014 which dragged growth to only 0.8%<sup>22</sup>. Real growth resumed with GDP growth of 3.2% in 2015. In 2016<sup>23</sup> the GDP growth was 2.8%, valued at USD 16.19 billion and ranked 109 out of 194 countries. It is projected to reach 4% by 2019.
4. At the end of 2016 the Gross National Income (GNI) per capita was US\$ 4,880<sup>24</sup> qualifying BiH as an upper middle income country. Yet it is the third poorest country in south-eastern Europe. Agriculture comprised 7.5%, services 65.1% and manufacturing and industry 27.3 % of the GDP. The GDP per capita at US\$ 4,802 was equivalent to 38% of the world's average GDP per capita. In 2016, the service sector was the largest contributor to employment, with 50.8%, followed by the industrial sector, 31.3%, and the primary agriculture with 18.0%. The economy relies heavily on the export of furniture, wood, footwear, minerals and metals.
5. The overly complex institutional set-up has resulted into a growing and largely inefficient public service, where inter-entity fragmentation has led to an absence of common vision and objectives, lack of coordination mechanisms and cooperation between the entities' specialised agencies to spearhead development. A highly decentralized government provides scope for frequent political obstruction and gridlocks and has hampered economic policy coordination and reform, while excessive bureaucracy and a segmented market has discouraged foreign investment. BiH ranked 81 out of 190 countries in the World Bank ease of doing business rankings 2017, which was the lowest amongst the former Yugoslav republics.
6. This post-war economic landscape has been further hindered by an incomplete privatisation process in key sectors and weak rule of law, translating into an unfriendly business environment where the private sector is faced with high labour taxes, inflexible labour market policies, poor

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<sup>20</sup> World Bank 2016

<sup>21</sup> "Poverty among those working in agriculture and construction increased between 2007 and 2011, consistent with the macroeconomic indicators of sectoral growth during this period, which show declining output in both sectors (Figure 2.11)" (WB SCD: 22)

<sup>22</sup> The estimated cost of the floods in terms of lost output and damages was equivalent to 15 percent of GDP; WB GCPF: 3.

<sup>23</sup> WB at a glance 2017.

<sup>24</sup> World bank 2016

transport infrastructure, energy inefficiency and other structural constraints to economic growth. Thus, a key economic challenge faced by BiH is the imbalance of the country's economic model: public policies and incentives are skewed towards the public sector rather than the private sector; consumption rather than investment; and imports rather than exports. Government spending remains high at around 50% of the GDP. Foreign direct investment steadily declined from USD 529 million to USD 285 between 2014 and 2016. The engine of growth and employment creation must shift to the private sector while simultaneously downsizing the public sector.

7. **Foreign trade:** BiH is characterised by high dependence on imports, resulting in a rather high commodity foreign trade deficit<sup>25</sup>. The country remains a net food importer. In 2015, agricultural products only represented approximately 10% of exports, but account for 18% of total imports<sup>26</sup>. The trade deficit of agricultural products and foodstuffs is equivalent to about 1% of the total deficit in the balance of payment<sup>27</sup>, and reveal the low competitiveness of Small and Medium Enterprises (SMEs) operating in the agri-food sector which require a set of concerted and collaborative actions across the public (government and research, extension) and private sector at all level to address innovations gaps and up-coming EU integration challenges; from research and innovation, business development services, internal quality and safety system, process of business/production process documentation, obligatory and voluntary standard adoption, green technology transfer, compliance requests, internal management and marketing improvement to capital investment.

8. **Constraints for SME Development.** The World Bank Doing business 2017 has identified a number of area constraining private sector development which if addressed would improve the business climate and enhance agricultural manufacturing and exports. BiH which ranked 81, behind most other economies in the South-Eastern Europe.

9. The growth of agribusiness and SMEs suffer from various institutional and regulatory measures characterising a poor business environment:

- (a) Compliance with the legal framework are high pushing the least productive farms out of business;
- (b) Rigid labour market regulations and tax burden on jobs are preventing competitiveness gains of the most productive sectors in the economy; lower employment costs would make successful investment more likely, including in agriculture;
- (c) Differences in currencies, laws and regulations, safety standards (e.g. in agriculture or transport) as well as increased border crossing times are some of the recent challenges facing BiH exporters
- (d) High costs associated with property rights registration and its implications for a well-functioning land markets;
- (e) Poorly targeted and inefficient subsidies schemes.

10. With the recent adoption of structural economic reform agenda 2017-2021 and the on-going EU accession path, there are strong indications that the business might improve steadily over the next few years.

11. **Poverty profile:** According to the Household Budget Survey in FBiH (HBS) from 2011<sup>28</sup>, one in six households live in poverty and approximately 15% of BiH population does not have a public social security<sup>29</sup>. The poverty headcount of BiH in 2015 stood at 16.9% of the population<sup>30</sup>, and as in many other countries in transition, poverty incidence is much higher in rural area at 19%, compared to 9% in

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<sup>25</sup> BiH Economic Reform Agenda: 16

<sup>26</sup> *Commercial S/article. Bosnia and Herzegovina (BiH) 2016 Country Commercial Guide.*

<sup>27</sup> In 2015, imports of foodstuffs were about four times the amount exported from a 15:1 ratio in 2000; WBS CSD: 54; FAO STAT.

<sup>28</sup> This represent the latest available data

<sup>29</sup> BiH Economic Reform Program 2017-2019: 61.

<sup>30</sup> UNDP 2015; BiH Economic Reform Program 2017-2019: 109.

urban areas<sup>31</sup>. There are many rural households are living in or near poverty. In 2015, 19%<sup>32</sup> of households suffer from chronic material poverty and between 22% to 27% are at the risk of falling into material poverty, and thus living in a precarious situation, a rate higher than all European countries except Bulgaria.

12. Among the critical reasons for poverty has been the high rate of unemployment, stagnating at 25.4%. High unemployment and inactivity rates (45.5%) significantly challenge the entity governments' ability to reduce poverty. Unemployment among youth (62.3%) and women (30.7%) is extremely high, and significantly higher than for men (25.2%)<sup>33</sup>.

13. The level of inequality in BiH is one of the highest in the Western Balkans with a Gini index at 33.4<sup>34</sup>. Poverty in BiH is defined by social exclusion and a lack of access to basic services and economic opportunities. The 2011 Extended Household Budget Survey (EHBS) reveals that the poor and the most vulnerable are most at risks of being socially excluded. Poverty levels are similar in both entities (FBiH and RS) but a larger share of the RS population falls within the bottom 40 percent income group, notably because of a higher rural population.

14. Between 1990 and 2015, BiH progressed well with the Millennium Development Goals (MDGs) increasing life expectancy at birth (+5.7 years), mean years of schooling (+1.6 years) and expected years of schooling (+2.6 years). However, it performed poorly in employment, gender and youth and across the three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living; ranking 81 out of 188 countries and territories, below most of its neighbouring countries.

15. In effect since January 2016, partnerships between governments, private sector, civil society and citizens lie at the heart of the Sustainable Development Goals (SDGs) implementation. An SDG roadmap for the country needs to get adopted. The next key milestones include: creation of the institutional SDG mechanism for implementation oversight and leadership; nomination of technical institutions for advancement of SDGs in the country; assessment of statistical/measurement needs and establishment of SDG baselines and targets and financing plan for SDG implementation.

16. **Youth unemployment:** it ranks among BiH's biggest challenges. Labour market structural inefficiency have been identified as a key obstacle to growth and competitiveness. These include rigid labour market regulations, high tax burden, unfair competition and insufficient control of unregistered labour, and specifically penalize the youth which suffer from a much higher unemployment rates, 62.3%, more than double the overall unemployment rate, 25.5%<sup>35</sup>. Young people often do not manage to enter into in the labour market for years. A large number of young people have no qualifications (31%) or inadequate knowledge and skills for the labour market (90%)<sup>36</sup>. Consequently, there is a high rate of youth migration<sup>37</sup>, thus making it difficult to project how many additional youth will enter the labour market in the medium term. In recent years, and against the magnitude of the phenomenon, reducing structural unemployment has gained traction in policy circles. Addressing this challenge is at the heart of the Government's reform program. A state level Sector Planning Document (SPD) entitled Employment, Education and Social Policy was elaborated in 2016 and propose interventions which will ensure an increase of the number of employed persons through activities in the area of education and creating inclusive employment, as well as mitigating the effects of decrease of the number of existing jobs.

17. Unemployment bureaus in both entities have been coordinating employment generation programs aimed at increasing the share of youth in the formal private sector and reduce employment

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<sup>31</sup> Almost 90 % of households in the rural household survey declared a monthly income below the calculated "family consumption basket" of 1,370 KM; UNDP Rural Household Survey 2013.

<sup>32</sup> BiH Statistic Agency 2015,  
<sup>33</sup> WB 2017.

<sup>34</sup> WB CPF: 7.

<sup>35</sup> The Labour Force Survey for 2016 issued by the Agency for Statistics of BiH

<sup>36</sup> Bosnia Economic Reform: 105.

<sup>37</sup> According to the World Bank, the net migration of BiH was 10 000 between 2008- 2010.

in the 'grey economy' (informality) and inactivity. Their responsibilities include verifying beneficiaries' eligibility, reviewing all supporting documents, maintaining job seeker database, interfacing with employers and job seekers and vice versa, and regular reporting on progress. One such state program implemented by the Employment Bureau and its branch offices include subsidizing social security contributions for companies willing to employ youth; from 100% in the first to 25% in the third year. The retention rate companies is low, questioning the sustainability of these publicly funded programs.

18. The majority of donor programmes are focusing on unemployed young people up to 30 years of age and without work experience. The World Bank has been financing large employment program, including a recently approved EUR 50 million loan aiming to help the governments in both entities to scale up and improve the effectiveness of their Active Labor Market Programs (ALMP) and Public Employment Services intermediation to increase formal job placements in the formal private sector for selected target groups of job seekers, such as youth, unemployed with low skills, long-term unemployed, unemployed 40 years of age or older, women, and other disadvantaged groups.

19. Other supply side labor market interventions aimed at increasing the employability of young people (mainly by strengthening the capacities of the public employment services) include the U.S. Agency for International Development GOLD project, the Swiss Agency for Development Cooperation Youth. Program promoting the creation of decent job opportunities for young women and men are less frequent. The evidences of such program in the agricultural sector are thin, including the pilot from the Swiss funded MarketMaker in the agri-food sector.

20. **Agriculture:** Agriculture is one of the most important sectors of the BiH economy and a major contributor to food and nutrition security. The poor, more likely to work in agriculture than wealthier groups, are concentrated in rural areas where rural poverty rates are higher than urban. Half of the rural-urban poverty gap can be explained by educational differences. BiH is still a predominantly rural country, and as such well performing agricultural value chains are critical elements of rural citizens' livelihoods. Improving agricultural productivity, marketing and trade would accelerate rural poverty reduction.

21. Agricultural land covers 2.1 million hectares, of which 46.5% is arable and as much as half of arable land remains unused. Cultivable land amounts to 1 million ha. However, less than 20% of agricultural land is suited to intensive agriculture, for the most part located in lowlands and river valleys. The main agricultural crops are corn, wheat and barley. Agricultural exports by value mainly consists of fruits and nuts, animal or vegetable fat and oils and fish. These are mainly exported to Turkey (27%), Serbia (15%) and Croatia (11%).

22. Although the share of agriculture in GDP is constantly decreasing, from 11% in 2003 and 7% in 2016, agricultural production is a backbone of the rural economy and generates significant economic value, provides for 10% of the country's exports, generates 8% of GDP and generate employment for about 18% of the national labour force<sup>38</sup>, representing 147,000, of which 65% men and 35% women. In 2015, this number of employees rose by 8,000 or 6% compared to the previous year<sup>39</sup>.

23. Several productivity constraints are hampering the development of the agricultural sector, including: poorly developed transport networks and marketing channels, unreliable wholesale linkages for processing and bulking, low rate of mechanisation and the very low share of land under irrigation, about 1%. The fragmentation of land ownership into small agricultural parcels and limited access to affordable credit represent additional major challenges in strengthening the competitiveness of agricultural production and food industry.

24. Approximately 600,000 smallholder farms continue to dominate the agricultural sector in BiH, 50% own less than 2 ha and 89% own less than 5 ha while only 4% have areas beyond 10 hectares<sup>40</sup>.

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<sup>38</sup> See BiH Economic Reform Program 2017-2021: 84.

<sup>39</sup> 2015 Labour Force Survey, carried out by the Agency for Statistics of BiH in collaboration with the Institute of Statistics of Republika Srpska and the Institute for Statistics of the Federation BiH.

<sup>40</sup> WBG Systematic Country Diagnostic 2015: 27.

Farming system are characterised by low landholding size (4.7 ha/farm), and in most cases farms are formed from small parcels, often dislocated from each other, which makes the production more costly and less efficient. Formal holdings registration gives access to direct support but due to the minimum threshold to qualify as a farm, less than 20% benefit from direct subsidies. Land consolidation, greater financial inclusion and agricultural information system would support productivity efficiencies.

25. Private sector stakeholders are present along the agricultural value chains and include agro processors, traders, buyers, wholesalers and exporters. Previous IFAD projects have developed various models in facilitating linkages and increasing supply chains for private lead buyers, notably by channelling inputs through the lead buyers and other forms of pre-financing arrangements. These arrangements are based on win-win producers-buyers partnerships and can also involve in some instances the municipality which will provide public infrastructure to leverage greater private sector commitment.

26. **Fruit and vegetable.** Production of fruits and vegetables is one of the most important sub-sectors in agriculture in BiH. During the last couple of years there has been an introduction of new cultivars and varieties in primary production across the country. Fruits such as plums, raspberries, strawberries, cherries, forest fruits and vegetables such as cucumbers and gherkins, tomatoes and peppers are attractive for fresh markets as well as processing. 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. Annual production of the main fruit and vegetables in BiH from 2013-2015 was between 815,736 and 955,821 tons (refer appendix 1).

**Table 1: Production of Fruit and Vegetables in BiH**

Main F&V Products	Year		
in tons	2013	2014	2015
Potato	371,140	300,408	351,216
Plums	226,898	74,075	117,565
Apples	85,117	44,795	91,471
Cabbage and cauliflower	69,622	59,972	62,536
Tomato	56,030	29,307	41,182
Onion	39,739	33,346	37,718
Peppers	38,524	28,638	37,177
Grapes	31,800	26,221	32,809
Cucumbers	27,876	17,807	30,431
Raspberries	9,075	10,613	13,631
Total	955,821	625,182	815,736

Source: BiH Statistic Agency

27. Due to favourable climatic and economic conditions for berry fruit production (raspberries, strawberries, blueberries, blackberries and chokeberry), the area with berries has increased over the last few years and has reached production above 13,631 tons in 2015. Fruit and vegetable exports from BiH have nearly quadrupled since 2008 to some 125 million BAM in 2015. Worldwide BiH is in 15<sup>th</sup> place with plum production and 10<sup>th</sup> place in raspberry production. The raspberry sub-sector generates exports of BAM 50 million and employs 50,000-60,000 people in production, harvesting and processing. Some 15 companies in BiH are involved berries export.

**Table 2: Main Fruit and Vegetable Export Crops in BiH**

Top 10 export products	2015 (KM)	Share
Frozen raspberries	50,060,476	40%
Fresh apples	13,912,294	11%
Fresh pears	10,748,565	9%
Fresh gherkins	10,612,135	9%
Fresh plums	5,736,496	5%
Frozen blackberries	3,644,729	3%
Processed mixed vegetables	3,087,830	2%
Frozen strawberries	2,009,433	2%
Other jams or marmalades	1,808,094	1%
Pickled gherkins	1,445,064	1%
Other	21,564,682	17%
<b>Total</b>	<b>124,629,799</b>	<b>100%</b>

Source: FTC BiH, BiH Statistic Agency

28. Industrial processing of fruit in BiH involves mainly fruit drying and production of fruit juices (or concentrates), syrups, jams and marmalades. There are approximately 20-25 fruit and vegetable processors in BiH. About one third of processed fruit and vegetables are imported, as a local production cannot meet the local demand.

**Table 3: Export/import of processed fruits and vegetables in 2013, 2014 and 2015**

Year	2013		2014		2015	
Export/import	Export	Import	Export	Import	Export	Import
Production in thousands of tons	7,055	21,902	6,211	25,055	5,151	26,550
In million KM	19,484	59,875	17,540	64,606	15,414	70,481

Source: FTC BiH, BiH Statistic Agency

29. **Dairy:** In the last decades the dairy sector in Bosnia has developed towards increased productivity by reduction of cows alongside increased milk production per animal. At the end of 2015, the total milk production was around 666 million litres from around 243,000 cows (refer table below).

**Table 4: Number of milking cows, average milk production per cow/year and total milk production**

Year	Federation BiH			Republika Srpska		
	No of cows	Milk per cow/liters	Total milk 000 - lit.	No of cows	Milk per cow/liters	Total milk 000 - lit.
2005	157,000	1,947	304,895	141,000	2,232	315,029
2010	145,555	2,178	316,997	124,000	2,969	368,161
2013	135,785	2,433	330,387	109,000	3,021	329,285
2014	135,233	2,577	348,549	108,000	2,938	317,359
2015	135,710	2,587	351,144	108,000	2,932	316,688

Source: USAID/Sweden FARMA II project

30. Dairies collect approximately one third of milk produced by local farmers, which is still low in comparison to other countries such as Slovenia with 80% milk collection). BiH has 100 dairies with total production capacity of 2 million litres/day. Approximately 45 dairies exceed capacity of 1,000 litres/day and 10 dairies exceed capacity of 100,000 litres/day. Six large dairies are market leaders in the country with a market share of more than 70%. BiH currently processes less than one quarter of its total milk production and with demand for dairy products such as cheese, yoghurt and other milk probiotic products are expected to rise by 20% over the next 5 years in the region, the country offers an excellent opportunity for added processing. Therefore, conditions to further improve milk production meeting EU standards in terms of productivity as well as in terms of hygiene and standards are required.

31. **Honey.** Bosnia and Herzegovina (BiH) has good potential for the production of honey due to its varied climate and landscapes. Bosnia, with its continental climate and mountainous terrain, enables the production of several high-value types of mono-floral (chestnut blossom, acacia), forest and

meadow honey; Herzegovina, on the other hand, with its Mediterranean climate, is ideal for the production of other types of honey such as poly-floral honey derived from the nectar of many types of Mediterranean herbs. According to FAOSTAT official data, the number of beehives in BiH nearly doubled within ten years (2004-2014) from 240,723 to 392,348 beehives. Production has rapidly increased and imports have dropped from 270 tons in 2012 to some 180 tons of honey in 2015. However, beekeeping accounts for 1% of the total agricultural production in BiH and cannot cover local market demand.

32. **MAPs/NTFP:** Bosnia and Herzegovina has long tradition in collecting and cultivating of medicinal and aromatic herbs, wild berries and mushrooms. A very rich biodiversity of medicinal and aromatic plants and mushrooms in Bosnia and Herzegovina has the potential to contribute substantially to the national economy. It is assessed that BiH has over 700 species of medicinal and aromatic plants of which around 200 are exploited (balm, immortelle, juniper, chamomile, lavender, mint, rosemary, sage, savory, etc.). The annual harvesting of medicinal and aromatic plants in BiH varies from 1,500 to 9,000 tons. Still, herbs continue to play an important role in the MAPs sector, accounting for about 20% of total exports. Also notable is the recent trend of cultivation, especially for plants such as chamomile, lemon balm, mint, marigold, lavender, basil and immortelle. Some 30-40 companies in BiH are active in MAP export.

33. **Essential oils:** Production of essential oils has dramatically increased over the last 10 years. Most popular oils are immortelle, sage, lemon balm, chamomile, bay laurel, juniper, lavender, heather, chaste tree, mint, wild thyme, prickly juniper and rosemary. Certain number of companies also specialized in essential oils from conifer trees, such as Black pine, Scots pine, Silver fir and Spruce. The United States and France are the key markets for essential oil, with great interest for immortelle oil from Herzegovina. To meet the growing demand, over 1,000 ha are planted with immortelle in Herzegovina, with seeds taken from the wild plants and in areas where immortelle naturally grows. The immortelle oil contains high percentage of alfa-pinene, which is considered to be a broad-spectrum antibiotic. Therefore, this oil is more and more in demand by pharmaceutical industry.

34. **Mushrooms:** Mushrooms are important products within NTFP and mainly collected in the forest. The most popular mushrooms are Porcini (*Boletus edulis*), Chanterelle (*Cantharellus cibarius*), Morel (*Morchela conica*) and Black Trumpet (*Craterellus cornucopioides*). Most of the producers have an organic certificate. The mushrooms from BiH are exported fresh, dried or frozen. Main export markets are Italy, Germany, Slovenia, Switzerland and Austria. For fresh wild mushrooms the season starts in April and ends in November.

**Table 5: Export Value in the MAP Sub-Sector in BiH**

<b>Value of Export in the MAPs Sub-sector 2011 – 2015 in BAM</b>					
	2011	2012	2013	2014	2015
Essential oils	1,193,168	2,247,586	2,284,432	3,174,456	3,208,561
Mushrooms	10,443,098	15,526,441	14,747,969	17,206,307	12,953,397
Forest Fruits	6,261,779	2,463,377	5,406,260	5,096,201	6,392,206
Herbs	4,871,414	4,652,212	5,734,692	6,643,624	6,153,041
Natural Shampoo	No info	No info	No info	782,637	681,877
MAPs					
Transplants	No info	No info	No info	20,552	165,479
<b>T O T A L</b>	<b>22,769,459</b>	<b>24,889,616</b>	<b>28,173,353</b>	<b>32,923,777</b>	<b>29,554,561</b>

**Source: BiH Foreign Trade Chamber**

35. 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 and then expanded to berries which are commercially more important today. MAP and mushroom collection is a sector dominated by around 30,000 rural families as collectors. According to recent studies 20% of the collectors are young people below 25 years, 60% middle-aged (25-45 years) and 30% elderly

collectors. Most collectors belong to rural and unemployed population; 60% of them female. Collection of mushrooms and medicinal herbs are the major source of income of 44% of the collectors; for 38% of the collectors it is additional income and rest use NTFP for own consumption. Under favourable climate conditions, a collector collecting mushrooms within 600 hours (some 100 days) per year, can earn up to BAM 2,620 annually<sup>41</sup>, but NTFP and in particular mushrooms are significantly affected by weather conditions and climate change effects such as droughts. Mushroom exporters report on imports from other regions to fulfil the contracts as well as starting with mushroom cultivation (e.g. shitake). Approximately 93% of NTFP are exported to international markets; sales prices are 2-3 up to 10 times higher than collector prices.

**36. Climatic and environmental challenges:** BiH has experienced frequent weather extremes and natural disasters over the past decade, causing severe economic losses<sup>42</sup>. Individual households working in the agricultural sector are more vulnerable to weather shocks and lacks the resilience to recover from natural disasters and the increasing impacts of climate change, including floods, droughts and harsh winters. Building resilience and ensuring the climate proofing of agricultural value chains is essential for both sustainable economic growth and rural livelihood. The consecutive climatic shocks of 2013 and 2014 revealed an under insured agricultural sector.

**37. Financial inclusion:** Enhancing access to finance and supporting the development of effective rural credit schemes is cornerstone to improve productivity and competitiveness of smallholders agriculture and unleash private sector growth. Recent data published by the Central Bank of BiH revealed that liquidity in the banking sector are high, as exemplified by the deposits against loans ratio, equating to 96.9% by the end of 2015<sup>43</sup>. Despite the high liquidity, a combination of factors from both lenders and borrowers are squeezing much needed investment<sup>44</sup>. On the supply side, commercial banks have traditionally been avoiding rural markets, in part due to limited understanding of agricultural business and persistent views that rural small rural producers are more risky for lending than registered private companies. In assessing loan applications, commercial banks in B&H emphasize the quality of the collateral rather than the business profitability and efficiency, further disadvantaging small agricultural producers. On the demand side, the main constrains for greater borrowing are, in addition to high collateral requirements, high interest rate, and a lack of reliable financial accounting records which would prevent banks to assess risk comprehensively. Commercial banks are seldom engaging with IFAD's target group and the penetration of financial services in poor municipalities remain a challenge. Credit outreach to the agriculture corporate sector, which includes individual farmers, amounts to 2% of their total lending portfolio only. On the other hand, the customer base of Micro-credit organizations (MCOs) is in majority serving IFAD's target group, predominantly coming from the unemployed and other vulnerable groups, women and youth. In recent years, the micro-finance sector has increased its lending to agriculture, from 33% in 2011 to 38% in 2015<sup>45</sup>. High interest rate charged on MCO loans, about 15% higher than commercial rate, continue to hinder access to finance for the poorest segments in rural areas.

**38.** Historically, IFAD's partnerships with the financial sector has mostly revolved around improving access to sustainable financial services through refinancing facility mechanisms, and special credit lines for PFIs, with the objectives to incentivise Commercial Banks to scale up its agriculture lending to agribusiness SMEs while the MCO sector would deal with individual farmers. This financial supply strategy was devised in the post-global financial crisis context. Meanwhile, IFAD's refinancing loans have lost their attractiveness, especially since market borrowing for PFIs have become much more attractive. Total weighted interest rate on bank deposits decreased to less than 1% at the end of

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<sup>41</sup> Source: Sabina Delic et al.: Value chain analysis of NTFP in BiH, published 2017 in Agriculture & Forestry Vol. 63

<sup>42</sup> The estimated cost of the floods in terms of lost output and damages was equivalent to 15 percent of GDP; WBGC PF: 3.

<sup>43</sup> BiH Central Bank Annual Report 2015.

<sup>44</sup> The non-banking financial system is distributed among 25 insurance companies (5% of financial system assets), 8 leasing companies (2%), 34 investment funds, and 18 micro-credit organizations (MCOs<sup>44</sup>) (3% each) and 1 factoring company as of end of 2013; WB Systematic Country Diagnostic 2015: 49 and BiH Central Bank 2016 Annual Report.

<sup>45</sup> Data from data from information of the status in banking and microcredit system in two B&H entities



2016<sup>46</sup>. The regulatory framework pertaining to liquidity risk management has also evolved towards stricter financial supervision regulation in the form of higher reserve requirement to create higher liquidity buffers in the banking system. IFAD projects in BiH have been instrumental in demonstrating the large demand and absorptive capacity for additional resources for the agriculture. Starting with the Livestock and Rural Finance Development Project with lending exclusively to agriculture, there has been a shift, in subsequent projects, from to increase financial inclusion at large). This resulted into a total of 70+ million BAM<sup>47</sup> (excluding the effect of revolving), benefiting 16,150 individuals.

39. **EU accession:** On February 15, 2016, BiH applied for EU membership. Major rural transformation are likely to occur in the agricultural and rural development sector with both the anticipated EU accession and membership to the World Trade Organisation (WTO). Tapping into the potential of the future membership to the common market will be a function of how quickly and effectively BiH can reform the legislative and regulatory environment to comply with the requirements of EU accession. With the recently submitted application for EU candidacy status in 2016 and the subsequent adoption of a Stabilization and Association Agreement, BiH has made a critical step towards EU membership.

40. As the first step to the accession the country received a detailed questionnaire from the European Commission in December 2016 on which its readiness to be granted EU candidate status will be evaluated. At the moment, it is in the process of preparing responses of BiH to the questionnaire received from the EU and, depending on the answer to that questionnaire, the EU will or will not approve the candidate status of BiH. If BiH gets the candidate status, negotiations will begin and agriculture represent one of the important areas of negotiation.

41. Progress is required in several areas of the economy to reach compliance with the EU's Common Agricultural Policy (CAP), which sets standards for participation in the common agricultural market. The EU has placed particular emphasis on (i) the development of a unified administrative structure (ii) data collection (iii) subsidy administration (transparent EU-aligned agricultural payment systems) (iv) food safety (v) veterinary and phytosanitary (plant health) policies and (vi) rural development. BiH's efforts to implement the CAP are impaired by weak coordination and enforcement mechanisms (EU, 2012)<sup>48</sup>.

42. The BiH is currently working to create the required preconditions for the use of pre-accession funds of the European Union. Both Entities are working on establishing paying systems to capture both EU Instrument for Pre-Accession Assistance for Rural Development (IPARD) and Direct Payments. Up to KM 35 million annually have been earmarked to the sector by the commission to support BiH's competitiveness of agriculture in the pre-accession phase.

43. With regard to the WTO's accession, negotiations referring to agricultural provision has been completed. Further work is however required to align measures across all BiH institutional structure in the harmonisation of agricultural incentive policies to comply with open market competition at the global and regional level.

44. **Rural Development Strategy:** National Agricultural and Rural Development Strategy and Plan in BiH are designed at both State and entities level.

45. **State Level strategy:** The State is in the process of formulating its first Strategic plan of rural development of the BiH 2018-2021 and will serve as a road map to adopt EU food security and phytosanitary measures. This single coherent and comprehensive Strategic Plan for Rural Development of BiH compiling the perspective of both Entities vis-à-vis the EU, is a pre-requisite together with the establishment of an effective IPARD coordination mechanism to access the IPA

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<sup>46</sup> According to Central bank of B&H the total deposits continued their upward trend and they increased by BAM 1.15 billion in the end of 2015 compared to the end of 2014, mainly by the continuation of the growth of deposits of private domestic sector, primarily households (BiH Central Bank Annual Report 2015). Large foreign ownership in the can easily and financially lend funds for lending in the event of an increased need.

<sup>47</sup> This exclude the effect of the revolving fund.

<sup>48</sup> FARMA 2016: 2.

funds. Responsible institutions in BiH responsible for agriculture and rural development are currently working on devising a model of nationwide operational structure which will take into account the specificities of the constitutional set up of BiH while meeting the requirements of the European Commission (EC). The future countrywide Strategic Program has to offer solutions to eliminate duplications and lay out a framework for alignment and harmonization.

46. **Entity level strategy:** Apart from entities specific considerations based on their respective landscapes and agro-climatic situation, corresponding strategies of FBiH and RS are substantially similar in terms of broad strategic objectives, and are constructed around 4 convergent focal priorities namely: (i) improving competitiveness of the agricultural and food sector (ii) institutional development and improvement of legal frameworks in order to stimulate agricultural and rural development (iii) sustainable use of natural resources; and (iv) improvement of rural livelihoods and diversification. Entities sponsored subsidies schemes are generally limited and heavily skewed towards direct production rather than investment. Broader social goals and rural development issues remain such as food safety standards, environmental issues, and social problems of rural areas - rural poverty, depopulation, gender and youth issues, and marginalized rural area - remain unaddressed.

47. At FBiH level a new strategic document, the Mid-term Strategy for the Agricultural Development Sector for the period 2015-2019 was adopted by the Parliament in mid-2015 but the corresponding program of work still need to be approved. It builds on the previous cycle which specifically 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.

48. The RS adopted a the 2016 2020 Strategic Plan for the Development of Agriculture and Rural Areas of Republika Srpska, covering agriculture sector and rural development, and the Strategy for forestry Development of the Republika Srpska 2011–2021. 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. Brčko district has also drafted the Strategy of development agriculture, food and rural development for period 2008-2013 which was never officially adopted.

49. **Producers Associations (PAs):** Under BiH State Law on Associations and Foundations adopted in 2001, Producers Associations (PAs) are considered as not for profit membership Civil Society Organizations (CSOs). As such, they benefit from certain exemptions, i.e. taxations on donations, grants, membership fees and on any profits from economic activities directly related to the achievement of the organization's goals. On the other hand, for revenue generating activities, PAs are treated like any other profit-making enterprises under a standard rate fiscal regime for all activities not related to the organization's goal but cannot distribute profits to its members. There could be around 200 PAs in FBiH and around 70 in RS<sup>49</sup>. The interventions have established or supported more than 200 Producer Associations (PAs) and Cooperatives, with a total membership of 18,750 out of which

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<sup>49</sup> A large part of which are dairy or bee-keepers associations as a result of the efforts invested in these sectors during the post-war period.

14,250 were men and 4,500 of women representing 24% of the total membership. The crucial intermediation role of PAs in linking producers with upstream market players have long been supported by IFAD, as a catalyst for more inclusiveness and ensure sustainability. Approach to PAs institutional strengthening has greatly evolved, from providing organisational and technical assistance linked to market and value chain development (REEP) to matching grants<sup>50</sup> to producer associations (PAs) and cooperatives (coops) for small infrastructure, equipment, improved inputs and herd improvements (RLDP). In RBDP, PAs and Cooperatives have proved to be very effective in providing timely finance to small farmers. In the recently closed RLDP, the PCU supported 24 PAs/cooperatives, comprising a total of 2,833 members or assistance with matching grants totalling BAM 269,784. In RBDP, project funds are strictly directed to PAs/cooperatives with functioning management structure and potential for improved competitiveness. The ongoing RBDP has so far partnered with 10 PAs and is expected to cover an additional 50 marketing groups by the end of the project in 2020, with a total membership of 4200. Similarly, under RCDP, 60 PAs and cooperatives will benefit from specialised extension services and productive/value adding assets. Persistent challenges in working with PAs have been their lack of cohesion, commercial mind set still at its early stage, limited outreach to poorest farmers and constraints in accessing finance sustainably.

50. **The cooperative sector:** The role of cooperatives in supporting the growth of the smallholders sector have been widely documented worldwide and BiH, with about 90% of farmers falling in the category of small and medium farmers averaging 2.5ha of land, is no exception. Well-functioning cooperatives can potentially play catalytic role in integrating the smallholders system in profitable value chains, providing market entry for small and medium size farmers and encouraging competitiveness. The country socialist historical legacy characterised by strong state interference and the current complex system of governance have influenced the formal legal and institutional framework pertaining to the establishment of cooperatives.

51. The cooperative sector in BiH is a non-governmental sector. Today, around 400 cooperatives operating in the agricultural sector have formally registered and more than half are considered active, mostly involved in marketing and input supply, exploiting the economies of scale not available to small individual producers.

52. The legal framework governing cooperatives is the 2003 Law on Cooperatives passed at the state level, which created a new regulatory framework for establishing and operating cooperatives based on voluntary membership. In 2009, the RS passed additional regulations with the Law on Agricultural Cooperatives of the Republika Srpska, requiring all RS cooperatives to re-register under the entity-level law, regardless of prior state-level registration. In these regulations a cooperative is defined as a commercial legal entity owned and democratically controlled by its members. It is composed of a number of persons who join together to carry out an economic activity of mutual benefit. Membership is open to anyone who satisfies certain non-discriminatory conditions. Economic benefits are distributed proportionally according to each member's level of economic interest in the cooperative i.e. by a dividend on sales or purchases<sup>51</sup>.

53. Low barriers to entry in the cooperative sector have led some would-be companies to register as agricultural cooperatives and operate as private businesses. In fact, the statutory minimum number of members according to the state-level Law from 2003, is a cooperative with five members (individuals and/or legal entities). Cooperatives are thus relatively easy to establish; five founding members and limited capital are required. As a result, a vast majority of cooperatives are family centred and operate as commercial enterprises, taking advantage of certain cost effective requirements, including reduced registration time, lower operating costs than companies, lower capital and workers requirement and access to government subsidies and donor support, generally unavailable to companies. For example, registering a cooperative costs about 1,300 KM in FBiH and

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<sup>50</sup> Value of the assistance varied according to the size of the PAs, their scope of work and representation but average USD 5'000.

<sup>51</sup> Rural Business Development Project Design Report 2011.

between 1,200 and 1,300 KM in the RS, and the process lasts approximately 30 days. In contrast, establishing a limited liability company cost from 4,000 to 5,000 KM and lasting from 30 to 45 days.

54. It is widely recognised that the operating rules and principles diverge from the EU cooperatives, more specifically as it relates to governance, collective ownership and profit sharing mechanism. The below table present an overview of the financial performance of the cooperative sector in BiH. The table shows that more than a third of the active cooperatives are generating profits averaging almost half a million KM with an average capitalisation value of KM 388,350.

Characteristics of active coops	FBiH	RS	BiH Total
Number of active coops	120	81	201
Number of total coop members	2600	1842	4,442
Number of coop cooperants	9700	4135	13,835
Number of employees/active coop	4.3	6	5
Average number of coop members/active coop	22	23	22
Average number of cooperants /active coop	81	51	69
% of profitable Active coops	60%	75%	67%
Value of Capital/ active coop	KM 416,700	KM 360,000	KM 388,350
Average 2016 revenue/active coop (KM)	KM 500,000	KM 300,000	KM 400,000
Average 2016 profit per coop member	KM 1,150	KM 14,500	KM 7,825

55. Active cooperatives in the two entities have established umbrella federations representing cooperatives members: the Republika Srpska Cooperative Union (RSCU) and the Federation of BiH Cooperative Union (FBiHCU) and Brcko District Coop Union (BDCU). All three entity associations have established a BiH level apex, namely the BiH Cooperative Union which has the mandate to influence domestic policy making process and authority to represent interested stakeholders role viz. external partners, including international organizations.

56. **Rural Advisory Services:** Inclusive agricultural growth potential can only be realised if functioning upstream and downstream services are available to producers, farmers organisations and private sector players. Several categories of service providers co-exists in a fragmented landscape which differ significantly in scope and operational model between the two entities.

57. **Public Extension Services.** In the RS, public advisory services are better functioning with 7 regional branches and a central unit in Banja Luka. In FBiH, the system was originally established at canton level with no centralised coordination unit. Currently, and given the cantons' lack of capabilities, the advising and supportive functions have come down to the municipalities which initiate local initiatives and as a result established small level units headed by an external economic advisers to steer development, tasked with mobilising external resources, recruiting and financing their own extension officers to implement their municipal rural development action. Again, the RS approach differs from the FBiH as the competencies for municipality level development are remaining within the responsibility and under the direct guidance of the municipality. Consequently, there is a marked difference regarding the level of interaction with agricultural advisors, from 15 % in RS compared to 8 % in FBiH – an outcome that might be expected given that RS has a public farm advisory service whilst FBiH does not as yet<sup>52</sup>. In both entities, the public service are underfunded, suffer from lack of equipment and understaffed. The heavily fragmented nature of public service delivery and the absence of adequate legislation and planning documents defining roles of the various government levels have resulted in mostly inefficient extension services.

58. **Public driven BDS.** Established through donor support based on the EU model of regional development, they support to private actors, businesses, NGOs and governments in the field of local economic development, infrastructure and sustainable agriculture development. In the FBiH, these regional semi-public entities are evenly distributed across cantons, and include:

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

<sup>52</sup> Rural Household Survey 2013, Annex 5: 40.

- (b) The Regional Development Agency for Herzegovina (REDAH)
- (c) The Regional Information Centre (RIC)
- (d) The Centre for Rural Development and Agriculture Herzegovina (CRRP).
- (e) The Northeast Regional Development Association (NERDA), based in Tuzla; and
- (f) The Regional Development Agency for Central BiH (REZ RDA), based in Zenica.

59. By contrast, the RS followed a more traditional approach of local subsidiaries to support rural SMEs. The RS created the Agency for Development of Small and Medium Enterprises (RARS) in 2004.

60. These agencies are mostly funded by externally funded programs. The agency currently has 33 staff and is coordinating the work of 13 local development agencies in the RS, including:

- (a) City Development Agency Banja Luka (CIDEA)
- (b) Agency for Economic Development of the City of Prijedor (PREDA-PD)
- (c) Agency for Development of Small and Medium-Sized Enterprises of the City of Bijeljina
- (d) Agency for Development of Small and Medium-Sized Enterprises of the City of Trebinje
- (e) Development Agency of Municipality Modriča
- (f) Agency for Economic Development of Municipality Mrkonjić Grad
- (g) Agency for Development of Small and Medium-Sized Enterprises (APIS) Srbač
- (h) Local Development Agency Kozarska Dubica
- (i) Agency for Development of Small and Medium-Sized Enterprises Doboj
- (j) Agency for Development of Small and Medium-Sized Enterprises Ugljevik
- (k) Development Agency of Municipality Čelinac
- (l) Development Agency of Municipality Ljubinje.

61. **Others.** The above coexist with privately delivered BDS and other stakeholders involve in the value chains, including the chamber of commerce in both entities, the Bosnia and Herzegovina Export Promotion Agency (BHEPA) and other donor supported advisory centres such as the newly established incubation centres in Mostar, Zenica and Banja Luka, under a project funded by the EU.

62. **Activities of other donors.** READ is harmonised with other donor programmes and will develop effective linkages with such donor initiatives both for harmonised implementation as well as for knowledge sharing and dissemination of good practices, replication and scaling up of success stories. The largest agricultural and agribusiness development program in BiH is supported by USAID and Sweden and consist of a grant to foster agricultural market activity (FARMA II), and builds on the achievements of the previous phase. Another important sectoral intervention include the GIZ's ProLocal initiative promoting local economic development and agricultural value chain development. Under the FARMA umbrella, the Czech Development Agency (CDA) is financing a capacity development project aimed at supporting the certification and control of planting material and is currently designing a new integrated project to stimulate value addition in the milk value chain. Local development and remittances focus programs also have implications for the rural economy; including the UNDP Local Integrated Development (LID) and the UNDP Diaspora for Development (D4D).



## Appendix 2: Poverty, targeting and gender

### Poverty context

1. Bosnia and Herzegovina (BiH) has relatively strong social indicators, with most of the population having access to water, sanitation and health care. From 1990 and 2015, BiH progressed well on key indicators such as increasing life expectancy at birth (+5.7 years) and expected years of schooling (+2.6 years). However, it performed poorly in employment, gender and youth and across the three basic dimensions of human development: a long and healthy life, access to knowledge and a decent standard of living.

2. The country is placed 81st in UNDP's Human Development Index (HDI) ranking, with an aggregated score of 0.750 in 2015.<sup>53</sup> Poverty is not so much about absolute destitution but is characterized by social exclusion, a shortage of access to essential basic services and public goods that make up a better standard of living. The poverty headcount of BiH in 2015 stood at 16.9% of the population in comparison to 17.9% in 2011: In the two entities the average poverty rate differed slightly with 17.0% in FBiH and 16.4% in the RS. According to an UNDP survey 2013, the incidence of poverty was lowest in the urban areas of the large cities (10.4%) and highest in rural and semi-urban areas of smaller cities (22.3%).

3. Unemployment ranks among BiH's biggest socio-economic challenges and is hampering poverty reduction efforts. The youth suffer from a much higher unemployment rates, 54.3%, more than double the overall unemployment rate of 25.4%, and women's official or registered unemployment rate in 2016 stands just around 30%. Labour force participation rate of women was 34.4% against male of 58% in 2015.

**Table 1: Greatest Socio-Economic Challenges in BiH (per cent)**

	2013	2014	2015	2016 <sup>54</sup>
Poverty Headcount	17.9	n.a.	16.9 <sup>55</sup>	
Low rate of activity in the labour market	43.6	43.7	44.1	
High unemployment rate	27.5	27.5	27.7	25.4
High rate of youth unemployment	59.1	62.7	62.3	54.3
WB's Ease of Doing Business	131	107	79	
Low rank according to Corruption Perception Index	77	80	76	
Low rank on the UNDP's Human Development Index	81	85	81	

Computed from WB SC 2015 and UNDP HDI, 2015

### Agriculture and rural poverty

4. Agriculture is one of the most important sectors of the BiH economy and a major contributor to food and nutrition security. With 217,061 or 30% of total households in FBiH, and 141,629 or 34% of total households in RS engaged in agriculture, BiH is still a predominantly rural country, and as such well performing agricultural value chains are critical elements of rural citizens' livelihoods.

5. As mentioned earlier, in 2015 the poverty rate in Bosnia and Herzegovina was 16.9%, implying that about 500,000 people were living below the poverty threshold. Rural poverty levels are similar in both entities but according to estimates a larger share of the RS population falls within the bottom 40

<sup>53</sup> UNDP HDI, 2015.

<sup>54</sup> Agency of Statistics webpage [www.bhas.ba](http://www.bhas.ba)

<sup>55</sup> Agency for Statistics of BiH: Household budget survey 2015, publication dated 28.07.2017

percent income group, notably because of a higher rural population. The rural poor can be classified in the following broad categories: (i) unemployed or with limited employment opportunities, mainly rural youth; (ii) households with lack of productive assets and any other income (e.g. pensions) and (iii) female-headed household who earn on average 20% less than male headed. Rural poverty is a function of landholding size, poor access to productive and marketing infrastructure - i.e. irrigation systems, agriculture equipment, etc. and financial exclusion<sup>56</sup>.

6. Public and private marketing infrastructure serving rural producers is still inefficient. Processing capacities such as post-harvest infrastructure such as pre-cooling, cooling, storage and processing are still limited causing post-harvest losses, affecting product quality and reducing market access opportunities; all of which translates to lower net income for farmers. Overall, rural infrastructure, especially in underdeveloped municipalities, is inadequate to provide the necessary services that would enable the required sub-sector growth needed for sustainable rural economic development and lack the required funding to revitalize such infrastructure.

7. Agricultural land covers 2.1 million hectares, of which 46.5% is arable and as much as half of arable land remains unused. Cultivable land amounts to 1 million ha. However, less than 20% of agricultural land is suited to intensive agriculture, for the most part located in lowlands and river valleys. Although the share of agriculture in GDP is constantly decreasing, from 11% in 2003 and 7% in 2016, agricultural production is a backbone of the rural economy and generates significant economic value, provides for 10% of the country's exports, generates 7% of GDP and generate employment for about 18% of the national labour force, representing 147,000, of which 65% men and 35% women.

8. Approximately 600,000 farms continue to dominate the agricultural sector, 50% with less than 2 ha and 89% with less than 5 ha while only 4% have areas beyond 10 hectares<sup>57</sup>. Farming system are characterised by low landholding size (4.7 ha/farm), and in most cases farm land is fragmented, which makes the production more costly and less efficient. Formal farm registration give access to direct support but due to the minimum threshold to qualify as a farm, less than 20% benefit from direct subsidies. Land consolidation, greater financial inclusion and agricultural information system would support productivity efficiencies. The agricultural sector in BiH is experiencing a change in production in the recent years: although cereals and fodder still play an important role in production, industrial crops such as soya are gaining ground with a growth of 92% from 2015 to 2016. Also the production of vegetables has increased by some 20-30%, due to promising export markets in the EU e.g. for gherkins (cornichons) and pepper. The same applies for fruits and in particular the berry sub-sector, where the production of raspberries has grown in 2016 to 22,160 tons annual production, a surplus of 62.6% in comparison to 2015, according to the national statistics. But besides these crops with significant growth in production and exports, the agricultural sector has still low productivity.

9. With regard to extension services for farmers, the two entities follow a different approach. Extension offices were established throughout BiH with EU support. In the RS, the system is still in place and the AESD (Agricultural Extension Service Department) manages 7 regional-based offices in the area of RS, assisted by a central support unit in Banja Luka. Though appreciated, the service is still underfunded. 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.

## Profile of the rural poor

10. Combining income level with land ownership reveal the following typology of rural poor in BiH: (i) the *very poor*, with no productive assets and stable income, heavily reliant on remittances, seasonal casual work and the collection of non-timber forest products; (ii) the *poor*, with landholdings of approximately 0.1 to 0.2 ha, 1 or 2 livestock head, and less than 15% of the production marketed; and (iii) the *borderline poor*, made up of more commercially oriented farmers and owning less than 4 hectares of land.

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<sup>56</sup> UNDP Rural Household Survey 2013

<sup>57</sup> WBG Systematic Country Diagnostic 2015: 27.



11. The poorest rural producers are subsistence non-commercial farm households with low output. Poor and very poor producers face severe constraints to raise productivity, including: barriers to access credit, new technologies such as inputs and improved varieties, and weak marketing linkages. Moreover, they are not included in farmers organizations (FOs), nor in value chains. Agricultural output for poverty categories (i) and (ii) are supplemented with income from social welfare subsidies, thus suffer from high dependency ratio and no or only a single non-farm income-earner in the family. These groups would be able to achieve significant livelihoods improvement through stronger and more equal participation in farmers organizations.

**Table 2: Target group wealth ranking**

Target Group Wealth Ranking			
	Very Poor	Poor	Borderline Poor
<b>Occupation source and livelihoods</b>	Homestead production; heavy reliance on social welfare/transfer and remittances; widows living on pension, and war returnees are significantly marginalized	Subsistence farming with low surplus	Small surplus for commercialisation
<b>Membership based org</b>	None to low	Low to medium, mostly PAs	Medium to high, mostly PAs, and to a lesser extent agricultural coop
<b>Assets availability</b>	Lack or limited access to productive assets such as land, water and finance; often landless and economically marginalised	Land (0,1-0,2 ha) and livestock ownership (1-2 cows); limited access to factors of production, extension services, and finance	Land (0,3-1,5 ha.) and livestock ownership (4-5 cows) with reliable sources of water and regular interface with extension services
<b>Production surplus</b>	Lack of production surplus to sell; poorly integrated into markets and value chains	All surplus marketed through cooperatives or established contractual agreement with enterprises; limited bargaining power	
<b>Proximity to markets and intermediaries</b>	Lives in remote area; suffer from rural infrastructure deficit and isolation to economic activities	Periodic access to rural market or minor urban centers	Limited access to markets as live/operate closer to small urban centers
<b>Access to financial services</b>	None	Microcredit loans	Microcredit loans and commercial loans
<b>Vulnerability</b>	High exposure and sensitivity to climate shocks; low resilience to natural disasters (drought, floods, hail, early frosts), resulting in harvest lost, low yield and quality and higher cost of production.		

12. The third group of small-scale producers include those with larger agricultural landholdings and some level of crop diversification, combining horticulture and fruits with small scale dairy operations. They are integrated into farmers' organizations and benefit from easier access to trainings on farm management best practices, production technologies and credit. Sources of incomes are more diversified, including wage labour in the formal sector and are consequently less risk averse to borrow and invest into farm operations. Further integration in producers associations and agricultural cooperatives with would help securing outputs markets, strengthened relationships with lead buyer, and ultimately result in increased profitability.

### Findings from the design mission focus group discussions

13. Focus group discussions were held in Banja Luka and Sarajevo under the guidance of the two Project Coordination Unit, APCU in RS and PCU in FBiH. The discussions were focussing on the main challenges in developing market linkages for smallholder farmers in agriculture and possible solutions to be included in the READP. Several representatives from various stakeholders' organisations attended the consultation, including: agricultural cooperatives, micro-credit company (MCO), PAs,

Enterprises, Commercial Banks, Municipalities and PCU Field Coordinators. Representatives from the Federation's Brcko District Ministry of Agriculture (MoA) attended.

14. A summary of the most common challenges, constraints and opportunities per stakeholder are presented below:

**Table 3: Outcomes from the stakeholders consultations**

Stakeholders	Challenges/Constraints	Proposed solutions for READP
Producers Associations/Cooperatives	<ul style="list-style-type: none"> <li>Small-scale farmers lack access to appropriate tools and machinery (technologies) which decreases yields</li> <li>High prices of inputs restrict use by small-scale producers</li> <li>Existence of large number of associations without impactful services to members</li> <li>Import taxes on inputs increases producer costs</li> <li>High transportation costs increases the price of cooperatives production</li> </ul>	<ul style="list-style-type: none"> <li>Support and encourage POs to shift their production, diversify and start producing more value added products</li> <li>Create competent sector representatives at municipalities and national level</li> <li>Develop finance schemes for POs (and contracted farmers)</li> <li>Involve representatives of producers and associations in policy roundtable</li> <li>Facilitate study tours/contacts with regional and international associations to attractiveness to its members</li> </ul>
Enterprises	<ul style="list-style-type: none"> <li>Export tariffs increase exporters costs and decreases global competitiveness of the BiH products</li> <li>Lack of specialised Marketing/packaging abilities</li> <li>Lack of technical skills/new technologies knowledge to meet export markets quality requirement, thus limiting opportunities to access higher value markets</li> <li>Unable to finance raw material inputs and purchase large processing facilities</li> </ul>	<ul style="list-style-type: none"> <li>Organize trainings and educative materials for SMEs and producers</li> <li>Facilitate and support local supply chain linkages</li> <li>Support companies' implementation of business plans</li> <li>Exporters have difficulties to access commercial funding and increase their purchases from small-scale producers</li> </ul>
Municipalities	<ul style="list-style-type: none"> <li>Lack of financial and human resources</li> <li>Inadequate production and marketing infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Stronger coordination role at municipal level to increase synergies among development partners</li> <li>Stronger linkages with private sector service providers</li> </ul>
Financial Institutions	<ul style="list-style-type: none"> <li>Lack of collateral and high interest rates at MFIs</li> </ul>	<ul style="list-style-type: none"> <li>Involvement of FIs in value chain financing</li> </ul>

## The Geographic Targeting

15. In Bosnia Herzegovina, the latest census was held in 2013 and the latest household budget survey is dated from 2015. Based on the census in 2013, the overall population in BiH amount to 3.53 million people, whereof 2.22 million live in FBiH and 1.23 million in RS and 83,500 people in Brcko district. The household budget survey 2015 defines the average household size in BiH with 2.9 members: in FBiH 3.0 and in the RS 2.7 members per household. The total number of households in BiH is estimated in 2016 at 1.16 million, in Federation at 0.72 million and in RS at 0.41 million households.

16. The poverty threshold per person defined in the household budget survey 2015<sup>58</sup> is at BAM 390 and for a four-member household at BAM 817. Thus, the relative poverty rate of BiH is 16.9% of

<sup>58</sup> Agency for Statistics of BiH: Household budget survey 2015, publication dated 28.07.2017

individuals (at household level 16.5% of households). Still 58% of the population in BiH lives in rural areas with a lower share in FBiH with 54% and a higher share in RS with 64% and as in many other countries in transition, poverty incidence is much higher in rural area with 19%, compared to 9% in urban areas.

17. According to agriculture related survey results, there are 363,400 households in BiH (31% of the total number of households in BiH) active in agriculture, mostly with subsistence farming. Only 16% of these households are selling their produce to the market (14% in FBiH and 18% in RS).

**Table 4: Demographic data of BiH**

	BiH	FBiH	RS
Total population (2013)	3,531,159 <sup>59</sup>	2.22 million	1.23 million
Number of households (2016) <sup>60</sup>	1,155,736	715,739	413,226
Share of people in rural areas	58%	54%	61%
Relative poverty rate (2015)	16.9%		
Poor households in % (2015)	16.5%	16,05 %	17,4%
HH active in agriculture (2016)	363,400	217,061	141,629
... of which selling to the market (2016)	16%	14%	18%

18. **Project area:** The project area is selected based on geographical targeting approach defining geographical clusters, which are formed according to agro-ecological zones, contiguity of municipalities and production basins etc. The clustering has been done considering a high proportion of municipalities classified as underdeveloped and with a relatively higher proportion of people living out of agriculture.

19. The project area will consist of 10 clusters (five each in FBiH and RS) with an average of 9 municipalities per cluster selected. The overall population in the selected clusters represents 70% of the population in FBiH (1.34 million people) and 60% of the population in RS (0.734 million people).

**Table 5: Structural data of READ clusters**

Cluster RS	No. Of people total	No of PAs	No. Of Coops.	No. Of Enterp.	HH active in agriculture	HH selling agr. products in the market
1	364,544	14	12	18	31,485	4,964
2	108,884	7	4	7	14,946	1,749
3	165,708	11	15	18	19,011	6,646
4	50,100	5	6	5	6,046	1,636
5	44,980	9	7	10	6,937	1,150
<b>In total</b>	<b>734,216</b>	<b>46</b>	<b>44</b>	<b>58</b>	<b>78,425</b>	<b>16,145</b>
Cluster FBiH	No. Of people total	No of PAs	No. Of Coops.	No. Of Enterp.	No. of HH active in agriculture	No. of HH selling agr. products in the market
1	267,639	13	10	10	33,739	3,793
2	273,317	21	8	10	43,945	4,547
3	253,057	14	10	13	31,316	4,979
4	189,014	20	10	17	19,211	3,256
5	358,914	21	13	15	39,874	5,599
<b>In total</b>	<b>1,341,941</b>	<b>89</b>	<b>51</b>	<b>65</b>	<b>168,085</b>	<b>22,174</b>

20. The majority of the municipalities (52 out of 89 municipalities) represented in the clusters are classified as extremely underdeveloped and underdeveloped according to their economic ranking<sup>61</sup>. Furthermore, the share of households active in agriculture is over-proportional in the selected municipalities. In RS, the location of the AESD offices has been taken into consideration as well (Banja Luka, Gradaiska, Prijedor, Doboj, Bijeljina, Trebinje, Sokolac) to support the clusters with field officers from the Agricultural Extension Services Department.

<sup>59</sup> Including Brcko District with a population of 83,500 .

<sup>60</sup> BiH Agency of Statistics 2016

<sup>61</sup> BiH Directorate for Economic Planning: Main criteria for classification: Level of employment/unemployment; number of pupils in secondary schools; share of outmigration since census 1991; tax income per citizen.

21. **Development status.** In total, 89 municipalities (out of a total of 142 municipalities in BiH<sup>62</sup>) are selected for the 10 identified clusters: in FBiH 50 municipalities out of 79 municipalities in total and in RS 39 municipalities out of 63 in total.

- (a) In the 5 clusters in FBiH are 22 municipalities out of 50 selected municipalities are classified as underdeveloped and extremely underdeveloped (44% of the selected municipalities in FBiH) and
- (b) In the 5 clusters in RS 32 of the 39 selected municipalities (82% of the selected municipalities in RS) are underdeveloped and extremely underdeveloped.

**Table 6: Development status of selected municipalities**

	Municipalities					
	<b>Total number in BiH</b>	Semi- and developed in BiH	Under- and extremely underdeveloped in BiH	<b>READ clusters Number in total</b>	Semi- and developed in clusters	Under- and extremely underdeveloped included in clusters
<b>FBiH</b>	<b>79</b>	57	22	<b>50</b>	28	22
<b>RS</b>	<b>63</b>	31	32	<b>39</b>	7	32
	<b>142</b>	88	54	<b>89</b>	34	54

22. As a result of this approach the READP clusters will include 100% of all extremely underdeveloped and underdeveloped municipalities<sup>63</sup> and 40% of semi-developed and developed municipalities in BiH. Some relatively better-off municipalities are also included in each cluster since they offer advantages such as the presence of marketing infrastructure and strong farmers' organisations linked or with potential for linkage to target group members in the underdeveloped municipalities. In these relatively better-off municipalities READP's implementation will be directed to those pockets with relatively higher concentration of target households.

23. The proportion of households in the selected clusters being active in agriculture is significant higher than the average in the two entities:

- (c) in FBiH with an average of 30.3 % of households active in agriculture: the engagement of households in agriculture in the selected clusters ranges from 33.3% to 56.1%
- (d) in RS with an average of 34.2% of households active in agriculture: the engagement of households in agriculture in the selected clusters ranges from 36.2% to 50.8% (including Banja Luka 25.2%).

**Table 7: Selected clusters in RS and FBiH**

<b>Cluster</b>	<b>Entity</b>	<b>Pro-poor crops in the clusters</b>	<b># of municipalities</b>	<b>Municipalities</b>	<b>HH in agriculture</b>
1	RS	Fruit, Vegetable, Dairy, NTFP, honey	13	Krupa na Uni, Istocni Drvar, Ostra Luka, Knezevo, Jezero, Kupres, Kostajnica, Petrovac, Ribnik, Sipovo, Banja Luka, Gradiska, Prijedor	38.7%
2	RS	Dairy, vegetable, fruit	6	Vukosavlje, Pelagicevo, D. Zabar, Petrovo, Samac, Dobo	38.7%
3	RS	Vegetable, fruit	6	Osmaci, Sekovici, Srebrenica, Vlasenica, Bratunac, Bijeljina	36.2%
4	RS	MAP, dairy, fruit, vegetable, honey	6	Berkovici, I. Mostar, Kalinovik, Ljubinje, Nevesinje, Trebinje	37.6%
5	RS	Dairy, berries, NTFP, honey	8	I.S. Grad, Trnovo, Rudo, N. Gorazde, Cajnice, H. Pijesak, Rogatica, Sokolac	50.8%

<sup>62</sup> Brcko not included

<sup>63</sup> Experiences from RLDP have shown that in cooperation with less developed municipalities it is of utmost importance to get at the onset of the cooperation to a joint understanding of the available budgets for co-financing at municipal side.

Cluster	Entity	Pro-poor crops in the clusters	# of municipalities	Municipalities	HH in agriculture
1	FBiH	Fruit,vegetable berries, honey	8	Zavidovici, Maglaj, Olovo, Dobo Istok, Dobo Jug, Zenica, Zepce, Tesanj	38.1%
2	FBiH	Berries, MAPs, vegetables, NTFP, Honey	8	Kljuc, Sanski Most, Velika Kladusa, Buzim, B.Petrovac, B.Krupa, Cazin,Bihac	56.1%
3	FBiH	Vegetable, berries, dairy	11	D.Vakuf, Fojnica, Kresevo, Jajce, Bugojno, Kiseljak, Novi Travnik, Busovaca, Travnik, Gornji Vakuf, Vitez	40.4%
4	FBiH	MAP, dairy, berries,vegetable, honey	12	Foca, Pale, Trnovo, Prozor, Konjic, Jablanica, Kupres, Tomislavgrad, Posusje, Ljubuski, Livno, Gorazde	35%
5	FBiH	Dairy, berries, NTFP, dairy, vegetables	11	Sapna, Domaljevac Samac, Celic, Teocak, Odzak, Kalesija, Orasje, Zivinice, Tuzla, Gracanica, Gradacac	33.3%

## Project target group

24. **Target group:** READ direct beneficiaries will be **rural very poor and poor, both women and men and youth**, organized in Producers' associations (PAs) and Cooperatives active in agricultural value chains, or with the potential to be included in them – both at production or value addition stages. The total direct outreach of the READP will be 8,650 households. This includes 5,500 poor rural households eligible for starter packages; additional 2,000 poor rural youth including 600 poor rural women headed households eligible for benefits through preferential starter packages; 350 youth aged 20-30 years supported with youth employment and 800 rural poor reached through seed capital financing of 40 FOs. An additional 5,000 households will be the indirect beneficiaries mainly from the infrastructure investment.

25. In general, selection of target groups is being performed based on average land plot size and the level of income per household member, following the experiences in RLDP and RCDP. The READP target group will comprise (i) rural households with 0.1-0.5 ha (1-5 donums) land available for cultivation through direct ownership on indirect arrangements such as leasing or renting (ii) households with monthly income less than 817 KM comprising mainly non-commercial farmers (refer table below) (iii) unemployed rural youth (below 30 years<sup>64</sup>) and (iv) poor women headed households in rural areas. Only one member per household will be eligible for direct project support in the areas of standard starter package, youth starter package and youth apprentice support (refer SC 1 and 2 for details about starter packages).

**Table 8: Target Group**

Category	Average monthly income per household member BAM	Per household 4 members in BAM*	Average land size per household (area in ha)
Rural poor	Up to – 389	Less than 817	0.1 – 0.5 ha
Borderline poor	390 – 500	818-1000	0.51 – 1.5 ha
Not poor	501 and above	1000+	and above

\*Based on BiH household survey 2015 stating that 4 member households with income less than 817 KM per month are poor.

26. Applicants that are on one of the criteria (land or income) considered not to be poor will not be included for support through the project. Based on experiences from RLDP, some exceptions have to be made with regard to the land criteria; if it is proven that the land is unused or used with limited results. Nevertheless, the priority should always be given to households that fall in the very poor or

<sup>64</sup> READP is aligned with BiH's youth age classification and existing age categorisation.

poor category by both criteria, with special focus on vulnerable categories such as women and young adults.

27. The targeted population of the project will mainly live in the rural areas of less developed municipalities and being engaged in subsistence farming. In the less developed municipalities (classified as extremely and underdeveloped) in the selected clusters 22,268 households are engaged in agriculture (non-commercial) and in FBiH 40,430 households summing up to 62,698 households active in non-commercial agriculture. It is to be expected that all municipalities can be classified as rural. The ratio of poor households below the poverty line is not known but the rural poverty in these less developed municipalities is significantly higher than the average in BiH. According to UNDP<sup>65</sup> 24% of rural households count as poor, compared to 11% of urban households. Thus, non-commercial households in the less developed municipalities amount to 5,344 households in RS and in to 9,703 HH in FBiH. In total **15,047 rural poor households in the less developed municipalities** are in focus of the project.

**Table 9: Rural poor households in the selected clusters in RS and FBiH**

Cluster RS	Population in total	HH active in agriculture	HH selling agr. products in the market	Non-commercial agricultural households
All clusters	734,216	78,425	16,145	62,280
Less developed municipalities	187,675	28,317	6,049	22,268
Rural poor households (24%)				5,344
Cluster FBiH	Population in total	HH active in agriculture	HH selling agr. products in the market	Non-commercial agricultural households
In total	1,341,941	168,085	22,144	147,368
Less developed municipalities	350,403	47,689	7,259	40,430
Rural poor households (24%)				9,703
<b>Rural poor HH in less devel. municipalities in all clusters</b>				<b>15,047</b>

Sources: Official Gazette of RS 62/16, BiH Cooperative register, BiH Statistic Agency, Census 2013, Federal Development Planning Institutions data for 2016, Ministry of Justice BiH and FBiH, Register of Associations, own research

28. **Institutional actors.** READP will also partner with a range of institutional actors and link them to the target group through profitable business models to ensure the sustainability of the livelihood opportunities created for the target group. These institutional actors will consist of: (i) Farmers' organisations (PAs and Cooperatives); (ii) Enterprises active in pro-poor value chains; (iii) Service providers and (iv) Financial institutions.

29. In the context of defining the clusters, available pro-poor products have been identified as well as the presence of FOs and agricultural enterprises in the clusters (Table 5). The majority of the identified FOs are located in underdeveloped municipalities. A number of PAs, coops as well as enterprises have been involved in previous IFAD funded projects. An overview of potential partners (FOs and SMEs) is attached to Appendix 2.

## Targeting Strategy

30. The inclusion of **rural very poor and poor** non-commercial farmers, women and youth in selected value chains through cluster based business planning is the core target of the project. In order to reach the target group READP will adopt (i) **geographical targeting** measures to reach those areas with higher concentration of targeted households (referring to project area above) (ii) **self-targeting** means by enterprises/FOs offering business opportunities for rural poor in proposed VCs suitable enough and of interest to the target groups (iii) **direct targeting** of youth (youth apprentice) and (iv) other enabling measures to promote greater chance of linking the target group to agribusinesses and inclusive FOs.

<sup>65</sup> UNDP 2013: National Human Development Report

31. **Self-targeting.** The targeting strategy will be driven by self-identification (call for business proposals) of leaders of business ventures (business leader) for specific commodities/produce. The project will seek to promote businesses led by leaders and/or FOs integrating smallholders, clustered into PA/FOs or linked directly to the business leaders. The approach will not be restricted to specific VCs. The self-targeting approach will be based on business proposal presentation and selection and Business Plan implementation. The BP should include details on the outreach to poor and within the BP process the targeting will ensure providing support primarily to rural poor including women and youth. Hence, project targeting will follow a twofold approach: as listed above, rural poor households are the core target groups, to be attracted by provision of starter packages and capacity building. The same applies for rural women and youth: these two groups will be reached through preferential conditions for starter packages and other related measures ensuring their participation in the business plans.

32. READP will promote self-targeting of target households by focusing on mechanisms and activities that has greater involvement of target households. Thus, it will follow a demand driven approach for the selection of the crops instead of restricting to specific VCs. This will allow it to support the VCs of produce such as vegetable and MAPs that can generate reasonable returns in spite of limited initial investments and limited land requirements, therefore enabling higher inclusion of the target households who have limited resources. Additionally, the crops supported by the starter packages mostly require manual labour for their management which will lead to adoption mostly by the target households as is it more common for them to engage in manual labour activities.

33. A major line of co-financing investment by READP will be for starter packages that support the beneficiaries with the cost of first time commercial production of selected VC crops (starter packages are described later in SC1). READP will impose a ceiling of EUR 500 and 800 on the starter packages to ensure that these are attractive only for smallholder farmers/target households. Finally, the FO seed capital financing is expected to stimulate a range of FO level businesses involving on-farm production and processing activities as well as off-farm activities such as tourism and other rural services which will create the demand for manual labour for operations once again promoting the engagement of the target households.

34. **Support to Women and Youth:** As outlined under SC 1 READ provides co-financing to starter packages for 5,500 poor farm households supporting their integration in the proposed business ventures. These starter packages are available exclusively to the target groups described above and in the defined project clusters. The implementation of the starter packages will be accompanied by capacity building measures tailor-made to the needs of rural poor farming households.

35. Build on experiences and support provided under RBDP and RCDP, youth aged from 20 to 30 years and belonging to the target households will be eligible for special initiatives comprising starter packages. Thus, the project will reserve 2,000 starter packages (refer SC 1) as specific quota for supporting eligible youth (70%) and women headed households (30%). The unit size of these starter packages will be higher than the starter packages for rural poor and will finance upto 60% of production costs compared to the standard starter packages financing upto 40% of such costs. Access to the starter package will assist the youth and the women headed households to develop entrepreneurial skills and self-employment. Where relevant specialised youth farmers' organisations, comprising members supported by youth starter packages, will be promoted and strengthened.

36. 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, mentoring etc.). The gender strategy of the project will be based on lessons from past and current projects (RLDP, RBDP and RCDP) regarding interventions that can increase women's incomes, enhance their decision-making and empowerment. In particular, READ will refer to tools developed under RBDP in establishing a mentoring system to empower especially women.

37. **Direct targeting of youth:** The project will assist 350 youth apprentice in the agricultural and rural sector. In order to promote women employment 50% quota will be reserved for young women apprentice. An apprentice will be a person undergoing on the job training leading to a full time job. The target group of youth is defined as rural youth aged between 20-30 years and coming from poor rural

households in the project areas. The selection of the youth will be build on findings from the targeting survey and furthermore requires the involvement of Employment Bureau to assist in identification of suitable candidates as well as potential co-financier.

38. At the end of the apprenticeship period the individual will be absorbed as a regular employee resulting in job creation and increased income for the target group household. The project will finance upto EUR 2,100 for meeting the apprenticeship costs for a maximum of one year<sup>66</sup>. The social contribution costs will be covered preferably by the employment bureau or the employer.

### **Implementation of the targeting approach**

39. IFAD support will promote the partnership among all stakeholders but will exclusively support the direct support to poor smallholders identified in BP. Some soft activities will benefit all stakeholders in the BP, but investment will benefit exclusively the poor. Direct support will be provided through starter packages and related training and advisory services to the target groups and institutional support in form of seed funding support to FOs and FO capacity building.

40. **Targeting survey.** READP will conduct a targeting survey to identify the locations/communities with higher concentrations of the potential target households and to specify the suitable pro-poor products from the project supported agricultural sub-sectors, taking into consideration their prevailing market demand.

41. READP will conduct a targeting survey (see SC 1) guiding the project team in the identification of poverty pockets and to identify where to focus on outreach. The study will identify/confirm the potential poverty areas and the target groups including assessing gender and youth dynamics in designated clusters. The targeting survey will be incorporate experiences from previous projects, in particular started in the pilot projects of RCDP and further elaborated under RBDP and RCDP. The survey will involve (i) consultations with key actors, such as social service centers, employment bureau, heads of the local communities, authorities managing entity level farm registers and financial institutions active in the project area (ii) identification of the broad geographical areas and potential farmers' organisations (FO) with higher concentration of the target households (iii) validation visits to these geographical areas and FOs and (iv) preparation of a verified list of the geographical pockets and FOs with higher concentration of target households.

42. These lists will be used during the stakeholder workshops to promote inclusive business plan preparation. The agribusinesses and other stakeholder will be encouraged to increase their outreach in these poverty pockets. Going forward, the target households identified in the business plans will be drawn mainly from the poverty areas identified in the targeting survey.

43. Furthermore, the study will specify suitable products from the project supported agricultural sub-sectors, taking into consideration their prevailing market demand.

44. **Pre-selection of value chains.** The project will promote high value agricultural production suitable for integrating the target group, which has relatively small land plots, into the value chain and the final market. The products will be characterised by high market demand, high productivity, high returns and utilisation of family labour. These will be selected from the following sub sectors: fruits and vegetables such as berries, cherries and gherkins, medicinal and aromatic plants, non-timber forest products and to a limited extent dairy and other related sectors such as bee keeping/honey production.

45. Although the final selection of VC will be left to the agribusinesses and their business proposals, the project will pre-select suitable pro-poor value chains during the targeting phase based on the clusters identified. In view of recent market distortions (low prices) in the gherkin and berry value chains, the potential impact (negative/positive) of introducing new crops for small farmers and the risk of increasing poverty will be assessed at an initial stage and will be further monitored during the implementation. With reference to RBDP, the process of value chain mapping sub-sector and pro-poor

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<sup>66</sup> In addition to the cost sharing mechanisms, the sustainability of the youth apprentice scheme will be ensured based on the strict selection of the enterprises that demonstrate their strategic labour force requirement for the medium term. Access to regular employment will be subject to performance assessment.



crop pre-selection could be based on principles shown in the table below. This scoring card could be also used to assess the crops proposed in the business proposals.

**Table 10: Overview of the subsector selection criteria**

Criteria	Indicators	Coefficient %
Relevance to target group(s)	<ul style="list-style-type: none"> <li>Large numbers of the target group involved (farmers, women, poor HH, youth)</li> <li>Labour intensive activities</li> <li>Equal distribution of sub-sector activities across the region</li> </ul>	60
Pro-target group growth potential	<ul style="list-style-type: none"> <li>Positive growth trends over past 5 years</li> <li>Good market potential/opportunities</li> <li>Low entry barriers</li> <li>Potential for value-added activities</li> </ul>	20
Intervention potential/feasibility	<ul style="list-style-type: none"> <li>Partner organisations (public and private) to work with</li> <li>Potential intervention areas match with project objectives</li> <li>No overlapping risks with other projects/potential synergies</li> <li>In line with government priorities</li> </ul>	10
Other (cross-cutting) criteria	<ul style="list-style-type: none"> <li>Sector activities have minimal negative environmental impact</li> <li>Potential interventions will particularly benefit women and other vulnerable categories</li> </ul>	10
Total score		100

46. The value chain analysis will also include a performance analysis to identify the opportunities, development potentials and constraints in the VCs. The performance analysis as implemented under RBDP refers to the following parameters: (i) Productivity, efficiency and effectiveness within the value chain to measure the competitiveness; (ii) Economic relations - relations between the actors of the value chain (embedded services, management, competition); (iii) Management in the VC: Identification of main players (leaders) and their requirements / rules for participants in the value chain. (iv) Furthermore, special attention is on performances and limitations of the business activities of associations and cooperatives in selected value chains, in particular in inclusion of the small poor farmers.

47. **Assessment of FOs.** Farmers Organisations will be targeted based on criteria including (i) at least 25 members, which includes at least 20 members from the READP target group households with income less than KM 817 per month (ii) intention to further increase membership particularly from the READP target group (iii) cooperative audit (for cooperatives only), indicating that the cooperative functions in accordance with the BiH Law on Cooperatives, particularly in relation to the organization and management of the cooperative, and maintenance of the cooperative members' ledger; (iv) outreach to a wide base of co-operant and rural poor.

48. In the process of assessing business proposals, relevant criteria for further assessing farmer associations and cooperatives, as successfully applied in RBDP, are described in the following score card (table ). The score card for the assessment of the FOs could be also used as assessment/ monitoring tool for the SMEs.

**Table 11: Assessment criteria of the farmer associations and cooperatives (score card)**

No.	criteria	Description	Max score	Comments
1.	Relevance to target group(s)	<ul style="list-style-type: none"> <li>Numbers of the poor target group involved (farmers, women, poor, youth)</li> </ul>	40	Up to 10 members: 10 points 10 to 20 members: 20 points 20 to 30 members: 30 points >30 members: 40 points
2.	Gender & Youth sensitivity	<ul style="list-style-type: none"> <li>Potential interventions will particularly benefit women and youth (vulnerable categories)</li> </ul>	10	Special interventions, high share of women & youth: 10 points
3.	Pro-target group growth potential	<ul style="list-style-type: none"> <li>Positive growth trends over past 5 years</li> <li>Good market potential/opportunities</li> <li>Potential for value-added activities</li> </ul>	30	If membership grows: 10 points If it is in value chain with growth potential: additional 10 points If it is starter: additional 10 points
4.	Intervention potential/feasibility	<ul style="list-style-type: none"> <li>(Long-term) Partnership (public and private) in business</li> <li>Involvement in value chain</li> <li>Potential intervention areas match with project objectives</li> <li>In line with government priorities</li> </ul>	20	If there are long-term business partnerships in business: 10 points If there is established market channel: additional 10 points
Total score			100	

49. 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.

50. **Targeting of Agribusiness enterprises.** The involvement of exporters, wholesalers and processors 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.

51. The BPs submitted by the enterprises will be assessed against criteria including (i) market prospects (national/export) and overall profitability of the business model (ii) outreach to the target households including youth (iii) potential returns to the target households including youth (iv) prospects for partnerships with municipalities, FOs and other donor initiatives and (v) measures to address environmental and climate change concerns.

52. The number of SMEs engaged in agribusiness in BiH is manageable; thus already previous IFAD funded projects could establish linkages to SMEs in the selected sub-components. An overview of actors and their businesses in the envisaged sub-sectors is attached in the Annex of Appendix 2.

## Gender and Youth

53. **Gender.** Traditional norms about the roles of women and men hinder women's economic empowerment. Gender inequality manifest itself women's position along agricultural value chains and labour market. Women's heavy domestic responsibilities combined with lack of adequate social services such as child care and paid maternity constitute structural constraints in integrating and fully participating in value chain activities.

54. Women do provide substantive labour inputs throughout the value chains, however, they are not remunerated and often considered as family helpers. Women's role as an active agricultural producer contributor is neglected. This situation is compounded by prevailing social norms and the position of women in decision making processes within farming operations. Rural women face numerous economic empowerment obstacles. On average today, rural women receive only half as many years of schooling than urban men.

55. The capacity of women to attend trainings and enhance their skills based on labour market requirement is constrained as extensions services favour the head of the households. This prevent them from competitively engaging in the labour market. On the other hand, private business service providers have limited awareness of the importance of targeting women.

56. 80% of men own property and have control over productive assets resulting in the economic marginalisation of women while they contribute a large share (up to 50%) of the agricultural work. This lead to reduced recognition in monetary terms and lack of protection under labour rights. Though men and women have equal rights for inheritance and property ownership, only 27%<sup>67</sup> of land ownership rights in the FBiH are registered under female names, and while the figure is higher in the RS at 40%, female-owned properties are generally smaller and less productive. Women have limited access to appropriate gender sensitive and time-saving agricultural technology, equipment and machinery, and although some activities women undertake are labour intensive they do not have access to hired labour.

57. The agriculture sector is still highly informal; but also in formalized businesses, women tend not to be well represented (Labour force participation rate of women was 34.4% against male of 58% in 2015) and occupy lower paid jobs while men dominate management positions.

58. **Women in farmer's organizations.** On average, women are significantly less likely to be members of Pas. The number of women cooperatives have increased, however, they are less likely to be vertically integrated into value chains. Female entrepreneurship is very low, explained by women's preference for formal and public employment, lack of availability to child care services, no access to maternity leave and benefits if in self-employment, social attitudes discouraging women to open a business, limited skills and confidence. Female-heads-of-household. The situation is reversed for female headed households; i.e. better participation of women in production as well as marketing functions since the ownership of land and other farms level productive assets are in the name of the women. READP activities will strengthen women-owned PAs through capacity building programs that will include technical assistance, project management, business development and financial management training.

#### 59. Gender targeting strategies

60. Along the sub-sectors value chains, women participate in various production and marketing functions. The share of women along the different functions of the value chains is often very much correlated to the types and volumes of production, as well as amounts of profits generated from the sale of the produces. For example, for agricultural production destined for the market, more than 70% of the workforce is composed of males. Males are also dominating the transport value chains. On the other hand, women are the dominated workforce in manual work commonly believed to require more careful details such as the case of sorting, grading of medicinal herbs, and even in the fruits and vegetables sub-sectors. Education correlated positively with women's participation in decision-making process at the household level.

61. The gender strategy of the project will be based on lessons from past and current projects (RLDP, RBDP and RCDP) regarding interventions that can increase women's incomes, enhance their decision-making and empowerment. Successful participation of women from poor rural households entails an approach that does not add to their workload and requires gender sensitivity to existing household division of work in farms operations.

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<sup>67</sup> UN Socio Economic Situation of Women in BiH, 2015.

62. The empowerment of women in READ will be ensured through a range of strategies: (i) targets will be set for women's participation in all key activities with women and women-headed households receiving priority; (ii) a gender and targeting action plan will be formulated at the implementation stage by the PCUs and partners and reviewed after two years; (iii) the terms of reference for service providers, field officers and technical experts will include responsibilities for following the gender strategy of the project; (iv) the project will be sensitive to arrangements required to enable women to participate – such as organizing women only training events for demonstration; (v) inclusion of women's empowerment training as part of the starter package; (vi) the monitoring and evaluation framework will include indicators disaggregated by sex to track the project's performance in promoting women's empowerment in terms of their capacity-building and benefits; (iv) special studies will address gender issues and disaggregate data collection, analysis and findings by gender and (vii) the A/PCU will encourage to maintain a gender balance in staffing of field officers and service providers; (viii) Gender and Targeting Officers in A/PCU should be constantly informed and trained on gender and targeting related developments.

63. **Youth.** Young people in Bosnia and Herzegovina (BiH) aged 15 to 24 represent 16 % of the 3.8 million population of the country. In Bosnia and Herzegovina the overall unemployment rate in 2016 dropped to 25.4 %, while the youth unemployment rate (15- 24 years of age) increased to around 67% in 2016 (World Bank). According to a study dated 2014<sup>68</sup> the total youth population in the labour force is 10.7 per cent of the overall population. Among the active youth on the labour market, the percentage of active young men is almost double their female counterparts. Both the youth employment and unemployment rate indicate a more favourable labour market situation for young men compared to young women (14.1 compared to 7.5 per cent). Thus, male youth unemployment rate is slightly lower compared to the registered young women.

64. Young people assess their chances to obtain employment in BiH as highly unfavourable. One in four young people holds employment which is unrelated to their field of study. Youth with vocational education have a particularly hard time finding work. According to estimations, young people in general are more likely to find work in the informal labour market, doing menial jobs in poor working conditions, and with almost no security. Many youth have a contract for an undetermined (54%) or determined (18%) period of time and their wage is only partially declared. Also, the less educated and low skilled workers are more likely to be employed informally than higher skilled and better educated workers. Furthermore, a low skilled worker is more likely to remain informally employed for a longer period. In Bosnia and Herzegovina, most informal employment is held by youth in the 15 to 24 age group.

65. Informal employment in this group is more than 30% higher than in older age groups. Employers recruit young people without written contract or any formal engagement to avoid taxes and responsibility for the staff. For example, work in the informal market is particularly prevalent in the Federation of BiH, where 24% of youth have no contracts with employers, while 17% of them lack contracts in the Republika Srpska.

66. The fact that less than half of all employed people below the age of 29 manage to find work in a field in which they were educated, is leading to a high rate of youth migration out of the country. According to the World Bank, the net migration of youth of BiH was 10 000 between 2008 - 2010. The top 10 destination countries for BiH nationals are, in descending order, Croatia, Germany, Serbia, Austria, USA, Slovenia, Sweden, Switzerland, Italy and Canada. A massive exodus out of BiH after the war was affecting the mind-set of the later generations. In 2006, 73% of young people were ready to leave BiH either in pursuit of education or temporary employment, marriage or permanent settlement in a foreign country (World Bank).

67. An important reason for youth unemployment lies in the difficult economic situation, which has a negative impact on the creation of new jobs and employers' hiring plans. But also lack of working experience among young people, represents a problem for employers because they have to invest

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<sup>68</sup> MDG Achievement Fund: Youth employment and migration in Bosnia Herzegovina 2014

additional time and resources to ensure young people have satisfactory level of productivity and skills relevant for job performance.

68. A promising examples for getting youth into employment is reported from Austria with the so-called 'apprenticeship guarantee' (similar to internships) for young graduates<sup>69</sup>. The Government with co-financing the apprentice provides this apprenticeship guarantee. Apprenticeship or internships, paid or unpaid, have not yet gained a foothold in Bosnia, an understanding of the relevance of an internship for young people is not yet well developed in the business sector.

69. IFAD funded READ will follow a comparable approach in supporting employment of unemployed rural youth. READP will assist 350 youth apprentice to find full time formal employment in the agricultural and rural sector. An apprentice is a rural youth up to the age of 30 undergoing in-house training in an enterprise. In order to promote women employment 50% quota will be reserved for young women apprentice.

70. At the end of the apprenticeship period the individual will be absorbed as a regular employee resulting in job creation and increased income for the target group household. The apprentice support will be implemented in partnership between the project, the employment bureau at the canton/municipality level and an employer. The employer can be a project value chain partner including private sector and FOs as well as other enterprises and institutions active in job creation in the rural sector.

71. The project will finance up to USD 2,500 for meeting the apprenticeship costs for a maximum of one year and covering 70% of the employment costs. The employer will bear the remaining 30%. The social contribution costs will be covered preferably by the employment bureau or the employer. The employer will engage the apprentice, selected jointly by the three stakeholders mentioned above, in response to its requirement for a regular full-time employee in the organisation.

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<sup>69</sup> MDG Achievement Fund: Youth employment and migration in Bosnia Herzegovina 2014

### Annex I: IFAD READ Targeting checklist

Targeting checklist	Design
1. Does the main target group – those expected to benefit most – correspond to IFAD's target group as defined by the Targeting Policy (poorer households and food insecure)?	READ targets poor rural producers including women headed households and youth
2. Have target sub-groups been identified and described according to their different socio-economic characteristics, assets and livelihoods – with attention to gender and youth differences (matrix on target group characteristics completed)?	The READP target group have been defined along a typology adapted to BiH's rural landscape, and will comprise (i) rural households with 0.1-0.5 ha (1-5 donums) land available for cultivation (ii) households with monthly income less than 841 KM comprising mainly non-commercial farmers (refer table below) (iii) unemployed rural youth (below 30 years) and (iv) poor women headed households in rural areas.
3. Is evidence provided of interest in and likely uptake of the proposed activities by the identified target sub-groups? What is the evidence (matrix on analysis of project components and activities by principal beneficiary groups completed)?	Given the high level of unemployment, there are great incentives for the project's target group to adopt the technologies promoted and benefit from increased linkages with agribusiness and secure domestic and export. The complementary rural production and marketing infrastructure will facilitate this uptake by providing better access to markets.
4. Does the design document describe a feasible and operational targeting strategy in line with the Targeting Policy, involving some or all of the following measures and methods:	
<b>4.1 Geographic targeting</b> – based on poverty data or proxy indicators to identify, for area-based projects or projects, geographic areas (and within these, communities) with high concentration of poor people;	The programme areas is selected based on geographical targeting approach. It will consist of 10 clusters (five each in FBiH and RS) with an average of 5 municipalities per cluster grouped together on the basis of two main criteria: majority of the municipalities represented in the clusters classified as extremely underdeveloped and underdeveloped by each entity according to their economic ranking and presence of suitable conditions <sup>70</sup> within the cluster for developing and strengthening the value chains of the project supported produce/crops.
<b>4.2 Self-targeting</b> – when good and services respond to the priority needs, resource endowments and livelihood strategies of target groups;	The project is demand-driven and the business plan will represent a common and agreed upon agenda to drive sectoral growth.
<b>4.3 Direct targeting</b> – when services or resources are to be channelled to specific individuals or households;	READP will adopt a set of direct targeting measures for increasing income level of youth with special measures for women headed households. These steps will also provide RCDP with the tools to increase focus on this target group. Youth aged from 20 up to and including 30 years and belonging to the target households will be eligible for special initiatives comprising starter packages and youth apprentice support.

<sup>70</sup> These include: level of existing activity in the selected sub-sectors; labour availability and interest of the farmer organizations to get involved in the selected VCs, etc. (see RCDP: 26).

<p><b>4.4 Empowering measures</b> – including information and communication, focused capacity- and confidence-building measures, organizational support, in order to empower and encourage the more active participation and inclusion in planning and decision-making of people who traditionally have less voice and power;</p>	<p>READP will support youth and women's inclusion in economic opportunities provided gender considerations will be incorporated among the criteria to review partnership proposals and trained field staff will address youth and women's specific needs in production. Particular attention will be placed on exposing both women and men of a beneficiary household to trainings and capacity development opportunities</p>
<p><b>4.5 Enabling measures</b> – to strengthen stakeholders' and partners' attitude and commitment to poverty targeting, gender equality and women's empowerment, including policy dialogue, awareness-raising and capacity-building;</p>	<p>At the beginning of the project, READP will organize cluster level information and sensitisation sessions and field level consultations between agribusinesses and target group and deliver training and advisory services to the target group farmers which will increase their knowledge and skills development and support their integration to the value chains.</p>
<p><b>4.6 Procedural measures</b> – that could militate against participation by the intended target groups;</p>	<p>Attention will be given to costs/contributions, timing and administrative procedures required for effective participation of the various target groups in project activities. Transparency and clarity in procedures for decision-making will be promoted. All members of groups will be encouraged to participate in business ventures. Additional procedural measures to increase the effectiveness of the targeting strategy will further be explored in the final version of the PIM.</p>
<p><b>4.7 Operational measures</b> – appropriate project management arrangements, staffing, selection of implementation partners and service providers.</p>	<p>The gender and youth officer will supervise delivery on gender activities by field agents and service providers dealing in capacity development activities and social mobilization - in particular social mobilizers. These officers will also guide and supervise the approaches to gender mainstreaming and ensuring that provisions for inclusiveness are translated into effective targeting.</p>
<p>5. Monitoring targeting performance. Does the design document specify that targeting performance will be monitored using participatory M&amp;E, and also be assessed at mid-term review? Does the M&amp;E framework allow for the collection/analysis of sex-disaggregated data and are there gender-sensitive indicators against which to monitor/evaluate outputs, outcomes and impacts?</p>	<p>The project M&amp;E system will be based on the logframe; all data, progress reporting and evaluation format will be disaggregated by sex and age, so as to be able to produce information on different target groups and beneficiaries (women, men and youth).</p>

### Annex I: IFAD READ Gender checklist

Gender checklist	Design
1. The project design report contains – and project implementation is based on – gender-disaggregated poverty data and an analysis of gender differences in the activities or sectors concerned, as well as an analysis of each project activity from the gender perspective to address any unintentional barriers to women's participation.	Sex-disaggregated data on poverty and gender have been used to analyze women's role in sub-sector value chain.
2. The project design articulates – or the project implements – actions with aim to: <ul style="list-style-type: none"> <li>Expand women's economic empowerment through access to and control over productive and household assets;</li> </ul>	READ gender strategy promotes women economic empowerment through their inclusion in business plans from which they will benefit as raw materials suppliers. Specific starter packages will be provided to women-headed households.
<ul style="list-style-type: none"> <li>Strengthen women's decision-making role in the household and community and their representation in membership and leadership of local institutions;</li> </ul>	Supported FOs will expand women membership thus creating pathways for women to access decision making bodies and/or other management structure within Pas/Ag Coop.
<ul style="list-style-type: none"> <li>Achieve a reduced workload and an equitable workload balance between women and men.</li> </ul>	The project will promote gender sensitive labour saving technologies; i.e. to facilitate access to water through public infrastructure or automated irrigation scheme on private landholdings.
3. The project design report includes one paragraph in the targeting section that explains what the project will deliver from a gender perspective.	The gender-related and social inclusion aspects of the project are summarized in the section on project area and target group.
4. The project design report describes the key elements for operationalizing the gender strategy, with respect to the relevant project components.	This is summarized in Appendix 2.
5. The design document – and the project implements – operational measures to ensure gender-equitable participation in, and benefit from, project activities. These will generally include:	
<i>5.1 Allocating adequate human and financial resources to implement the gender strategy.</i>	Specialized human resources accountable to ensure compliance with the PDR's gender strategy have been provisioned at the level of the A/PCU. Financial resources specifically addressing gender are spread between sub-components 1/2/3.
<i>5.2 Ensuring and supporting women's active participation in project-related activities, decision-making bodies and committees, including setting specific targets for participation.</i>	The business units in which the business plan will be elaborated shall ensure the inclusion of women at all level in order to be eligible for financing.
<i>5.3 Ensuring that project/project management arrangements (composition of the project management unit/project coordination unit, project terms of reference for staff and implementing partners, etc. reflect attention to gender equality and women's empowerment concerns.</i>	Gender equitable staffing has been proposed for the A/PCU. The overall responsibility for the implementation of the gender strategy lies upon the A/PCU coordinator, supported by a gender and targeting officer. The gender and targeting officer will supervise delivery on gender activities by field coordinators and service providers.



<i>5.4 Ensuring direct project/project outreach to women (for example through appropriate numbers and qualification of field staff), especially where women's mobility is limited.</i>	Adequate training and technical support on gender and youth will be provided to service providers, extensions services and field coordinators.
<i>5.5 Identifying opportunities to support strategic opportunities with government and other development organizations for networking and policy dialogue.</i>	The A/PCU will document and capitalize on the experience of women's participation in FOs and as stakeholder in the business plans. The stakeholders platform developed under RCDP will be used as a vehicle to disseminate lessons learned and influence policy at cluster and national level.
6. The project's logical framework, M&E, and learning systems specify in design – and project M&E unit collects, analyses and interprets sex- and age-disaggregated performance and impact data, including specific indicators on gender equality and women's empowerment.	All data, progress reporting and evaluation format will be disaggregated by sex and age, so as to generate relevant information for each of the different target groups and beneficiaries.

## Annex 2: Overview of Agribusiness Enterprises the BiH

Product Sector/ Value Chain	Name of Private companies – marketing partners	registration (SMEs or Coop)	Entity	Municipality	Main source of raw material (Local/imports)	Type of partner Private companies						
						Grower	Retail/ Super Market	Processor	Exporter	Small Co.	Medium Co.	Large Co.
F&V	Agrodar	Cooperative	FBiH	Cazin	Local			x	x			
F&V	DS&farmer	Cooperative	FBiH	Buzim	Local				x	x		
F&V	Poljo sementi	SMEs	FBiH	Cazin	Local	x						x
Dairy	Meggle	SMEs	FBiH	Bihac	Local			x				x
MAP	Amanita	Cooperative	FBiH	Bosanska Krupa	Local	x				x		
Berries	An Fruit	SMEs	FBiH	Teocak	Local					x		
F&V	Mi Trade	SMEs	FBiH	Celic	Local					x		
F&V	Adriatic group	SMEs	FBiH		Intern.							
F&V	Agrona	SMEs	FBiH	Zivinice	Local			x	x			x
Dairy	Laktalis	SMEs	FBiH	Gradacac	Local			x				x
Dairy	Milkland	Cooperative	FBiH	Kalesija	Local						x	
Berries&NTFP	Heko	SMEs	FBiH	Bugojno	Local			x	x			x
F&V	Bosnaplod	SMEs	Brcko D.	Brcko	Local			x				x
Berries&NTFP	Herbos nature	SMEs	FBiH	Sarajevo	Local			x	x		x	
F&V	Drina	Cooperative	FBiH	Ustikolina	Local	x				x		
F&V	Jaffa Komerc	SMEs	FBiH	Mostar	Local	x		x	x			x
Milk	Agrocentar	Cooperative	RS	Sipovo	Local			x				
Crops	Klekovaca	Cooperative	RS	Drinic	Local	x						
Milk	Podgorina	Cooperative	RS	Krupa na Uni	Local	x						
F&V	Agroposavina Farm	Cooperative	RS	Derventa	Local	x						

Product Sector/ Value Chain	Name of Private companies – marketing partners	registration (SMEs or Coop)	Entity	Municipality	Main source of raw material (Local/imports)	Type of partner Private companies						
						Grower	Retail/ Super Market	Processor	Exporter	Small Co.	Medium Co.	Large Co.
F&V	Donja Japra	Cooperative	RS	Novi Grad	Local	x						
Fruits	Dubicko Potkozarje	Cooperative	RS	K. Dubica	Local	x						
Raspberry	Poljo MG	Cooperative	RS	Mrkonjic Grad	Local	x						
Milk	Poljopodrasnica	Cooperative	RS	Mrkonjic Grad	Local	x						
Crops	Ratkovo	Cooperative	RS	Ribnik	Local	x						
Vegetable	Carl Kuehne	SMEs	RS	K. Dubica	Local			x				x
Berries&NTFP	Gljiva Komerc	SMEs	RS	Banja Luka	Local				x		x	
Berries&NTFP	Mashroom Trade	SMEs	RS	Laktasi	Local				x		x	
Dairy	Mlijekoprodukt	SMEs	RS	K. Dubica	Local			x	x			x
Dairy	Pudja	SMEs	FBiH	Livno	Local			x	x		x	
Berries	Brka	Cooperative	Brcko D.	Brcko	Local				x		x	
Berries	Ekoplod	SMEs	FBiH	Sarajevo	Local			x			x	
Vegetable	Bios	Cooperative	FBiH	Visoko	Local	x			x			x
Berries	Klas	SMEs	FBiH	Sarajevo	Local			x	x			x
Berries	Pronatura	Cooperative	FBiH	Zenica	Local			x	x		x	
Berries	Frutti Funghi	SMEs	FBiH	Visoko	Local	x		x	x		x	
Berries&NTFP	Vrganj promet	SMEs	FBiH	Buzim	Local	x		x	x		x	
Berries&NTFP	Meli Funghi	SMEs	FBiH	Buzim and B.Krupa	Local	x		x	x	x		
Berries&NTFP	Starnet, Frozen Berries	SMEs	FBiH	Bugojno	Local			x	x			x
Berries&NTFP	Rubus	SMEs	FBiH	G.Vakug/Uskoplje	Local			x	x	x		
Berries	Soff	SMEs	FBiH	Celic	Local			x	x	x		

Product Sector/ Value Chain	Name of Private companies – marketing partners	registration (SMEs or Coop)	Entity	Municipality	Main source of raw material (Local/imports)	Type of partner Private companies						
						Grower	Retail/ Super Market	Processor	Exporter	Small Co.	Medium Co.	Large Co.
F&V and Dairy	Rubus	SMEs	FBiH	Sapna	Local	x		x	x	x		
Fruits	Maocanka Commerce	SMEs	Brcko D.	Maoca	Local			x	x		x	
F&V	Adi	SMEs	FBiH	Tuzla	Local	x		x	x		x	
Fruit&MAP	Jukan Eko Hrana	SMEs	FBiH	Tuzla	Local	x		x			x	
F&V and Dairy	Agropromet	Cooperative	FBiH	Tuzla	Local	x					x	
MAP	Perfect Export Bilje	SMEs	RS	Ljubinje	Local	x		x	x		x	
Dairy	Agrocentar	SMEs	FBiH	G.Vakuf/Uskoplje	Local			x			x	
Dairy	Kupres Milch	SMEs	FBiH	Kupres	Local			x			x	
Dairy	Milchprodukt Smajic	SMEs	FBiH	Celic	Local			x		x		
Dairy	Mljekara Nocko	SMEs	FBiH	Zivinice	Local			x		x		
Dairy	Farma Spreca	SMEs	FBiH	Kalesija	Local	x					x	
Dairy	Inmer	SMEs	FBiH	Gradacac	Local			x	x			x
Fruits	Agrostenlly	SMEs	FBiH	Celic	Local	x		x		x		

<b>Producer Associations in Agriculture in BiH</b>	<b>Entity</b>	<b>Municipality</b>	<b>Municipality degree of development</b>	<b># of members</b>	<b>Main commodity</b>
Udruženje proizvođača voća	FBiH	Bužim	Underdeveloped	93	Fruits
Udruženje žena aktiv, Otoka	FBiH	B.Krupa	Underdeveloped	120	Fruits
Udruženje žena poljoprivrednica, Sunčica	FBiH	B.Petrovac	Underdeveloped	30	Fruits
Udruženje žena za održivi povratak, Vakrat	FBiH	B.Petrovac	Underdeveloped	51	Berries
Udruženje poljoprivrednika IGM AGRO	FBiH	B.Petrovac	Underdeveloped	38	Milk
Udruženje proizvođača mlijeka i mesa, Povratnik	FBiH	B.Krupa	Underdeveloped	50	Milk
Udruženje poljoprivrednika, Cincar	FBiH	Glamoč	Extremelly Underdeveloped	35	Milk
Udruženje poljoprivrednika, Fenix	FBiH	Drvar	Extremelly Underdeveloped	40	Milk
Udruženje jagodičastog voća, Miker	FBiH	Teočak	Underdeveloped	78	Fruits
Udruženje poljoprivrednika, Zelena oaza	FBiH	Čelić	Underdeveloped	60	
Udruženje poljoprivrednika, Zdrava malina	FBiH			30	Raspberry
Udruženje voćara, Drina	FBiH	Foca-Ustikolina	Extremelly Underdeveloped	130	Berries
Udruženje za poljoprivredu i ruralni razvoj, Gruda	FBiH	Ravno	Underdeveloped	30	Milk
Udruženje poljoprivrednika Farma Sočanica	RS	Derventa	Developed	13	Milk
Udruženje poljoprivrednika, Posavina	RS	Šamac	Underdeveloped	70	Vegetables
Udruženje žena Batkuša	RS	Šamac	Underdeveloped	8	
Udruženje žena Brvnik	RS	Šamac	Underdeveloped	10	Pasta
Udruženje voćara, Vinska	RS	Brod	Semi developed	10	Fruits
Udruženje žena Đurđevak	RS	Brod	Semi developed	29	
Udruženje uzgajivača ovaca i koza, Kozara	RS	K.Dubica	Semi developed	30	Milk
Udruženje voćara, Novi Grad	RS	N.Grad	Semi developed	40	Fruits
Udruženje kupinara i malinara KIM	RS	Oštra Luka	Extremely Underdeveloped	43	Blackberry
Udruženje Savka MG	RS	Mrkonjic Grad	Developed	20	Plum
Udruženje žena poljoprivrednih proizvođača Agrar Vražići	FBiH	Tuzla	Developed	31	Fruits
Udruženje orhideja	FBiH	Stolac	Semi developed	200	Jams
Udruženje poljoprivrednih proizvođača	FBiH	Foca-Ustikolina	Extremely Underdeveloped	49	Berries
Udruženje primarnih poljoprivrednih proizvođača Vareš	FBiH	Vareš	Extremely Underdeveloped	50	Fruits

<b>Producer Associations in Agriculture in BiH</b>	<b>Entity</b>	<b>Municipality</b>	<b>Municipality degree of development</b>	<b># of members</b>	<b>Main commodity</b>
Udruženje/udruga poljoprivrednih proizvođača	FBiH	Kupres	Semi developed	31	Milk
Udruženje proizvođača sira	FBiH	Kupres	Semi developed	20	Chese
Udruženje za uzgoj bobičastog voća – borovnica Bavar	FBiH	Jajce	Underdeveloped	45	Fruits
Udruženje proizvođača zdrave hrane "Plod"	FBiH	G.Vakuf/Uskoplje	Semi developed	50	Berries
Udruga poljoprivrednih proizvođača STOLISNIK	FBiH	Livno		45	Raspberry
Udruga Hercegovački plodovi mediterana Stolac	FBiH	Stolac	Semi developed	100	Fruits
Udruženje za proizvodnju bobičastog voća Polka	FBiH	Kladanj	Semi developed	40	Raspberry
Udruga Voćar	FBiH	Orašje	Semi developed	30	Fruits
Udruga za poduzetništvo, agroturizam i žene, Attivo - Kupres	FBiH	Kupres	Semi developed	20	
Udruženje za proizvodnju i preradu ljekovitog i aromatičnog bilja ZEM AROMA	FBiH	Stolac	Semi developed	30	MAP
Udruga proizvođača smilja	FBiH	Stolac	Semi developed	11	MAP
Udruženje poljoprivrednika Simental	FBiH	B.Petrovac	Underdeveloped	5	Milk
Asocijacija organskih proizvođača USK-a	FBiH	Bihać	Developed	20	MAP
Udruženje "Povrtlar"	FBiH	Bihać	Developed	35	Vegetables
NVO Udruženje građanki Grahovo	FBiH	B.Grahovo	Extremely Underdeveloped	241	Milk
NVO United Vražići	FBiH	Čelić	Semi developed	150	Berries
Udruženje žena "Emina"	FBiH	Foca-Ustikolina	Extremely Underdeveloped	20	Fruit
Udruženje žena za ruralni razvoj općina Pale-Prača	FBiH	Pale-Prača	Extremely Underdeveloped	20	Fruit
Udruženje poljoprivrednika općine UPOS	FBiH	Sapna	Underdeveloped	66	Milk
Udruženje mljekara općine Odžak - Mliječni put	FBiH	Odžak	Extremely Underdeveloped	43	Milk
Udruženje POVRATNIK	FBiH	B.Krupa	Underdeveloped	50	Milk

## Appendix 3: Country performance and lessons learned

1. IFAD's financial assistance to Bosnia and Herzegovina (BiH) started in 1996, soon after peace was restored following the signature of the Dayton Peace Agreement in December 1995. The overall portfolio comprises six projects valued at US\$ 167 million with IFAD's funding amounting to US\$ 70 million.
2. The IFAD country program in BiH has evolved from emergency relief and rehabilitation in the first two projects to supporting private sector led growth and enterprise development. The first generation of IFAD projects focused on rehabilitating a decimated livestock sector devastated by the war; mostly in the form of directly supply of animals as a mean to reduce the vulnerability of poor rural poor households. It resulted in the introduction of 15,000 high quality dairy cows and 13,000 sheep of improved breeds.
3. The challenges of eradicating rural poverty in BiH are not the same today as they were two decades ago when the war ended. In line with IFAD's special mandate to reduce rural poverty, the second generation of IFAD's investments in BiH aimed at integrating smallholders into pro-poor profitable value chains (VCs), through the provision of basic organizational and technical support to producers and their organisations, Producers Associations (PAs) and Agricultural Cooperatives, both catalytic intermediaries to enable stronger and more equitable market linkages between producers and end markets. The 2008 closed Livestock and Rural Finance Development Project (LRFDP) successfully piloted small-scale commercial livestock operations that resulted in increasing outputs cost-effectively, improving the quality of milk products and developing market linkages along the dairy value chain.
4. The 2005 COSOP gave the impetus for IFAD's renewed strategic focus, shifting towards livelihood diversification and the growth of the off-farm economy, and increased competitiveness in the context of economic transformation and trade liberalisation concurrent to the EU accession process. These third generation projects were the Rural Enterprise Enhancement Project (REEP) from 2008 to 2012, the Rural Livelihoods Development Project (RLDP) from 2010 to 2016 and the on-going Rural Business Development Project (RBDP) from 2014 to 2019 as well as the Rural Competitiveness Development Programme (2017-2027). The three projects LRFDP, REEP and RLDP had a combined outreach of over 116,000 households or some 394,000 people, nearly 18% of the country's rural population and resulted in annual increase income of 30%<sup>71</sup>.
5. As the pace of modernisation and integration with the EU common market require gains in productivity characterised by the transition from non-commercial to commercial agriculture, compliance with plethora of EU's regulations and standards, and alignment with the common agricultural policy (CAP), the current COSOP 2013-2018 two strategic objectives (SOs) focus on Farmer organizations (FOs) and their apex organizations (SO1) and fostering innovations and increased competitiveness through the expansion of technological innovation, business development and financial services to individual producers or institutional partners (SO2). With several on-going interconnected and complementary projects implemented in parallel, IFAD has adopted a country wide approach.
6. **Status of IFAD interventions:** IFAD funded interventions have demonstrated that with adequate technical and organizational support, resource-constrained smallholders have the potential to access and benefit from growing demand for agricultural products, especially in the fruits, vegetables and non-timber forest products (NTFP) subsectors. BiH has a diversity of agro-ecological conditions and enjoys several comparative advantage, including for labour intensive production that require limited area of land to earn a decent family income; for example vegetables, fruits, berries,

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<sup>71</sup> See RLDP Project Completion Report 2016: 13.

dairy and honey. Alternatively, the strong demand from domestic processing industry<sup>72</sup> and potential increase exports of agricultural products implies strong growth potential for smallholders capable of adopting technological innovations, adapting their business model and fully integrate into the European and global market, especially when in compliance with the EU requirement and standards

7. The most recent generation of IFAD projects supported income diversification, strengthening of rural livelihoods in the context of economic transformation and post-conflict stabilization, and preparing to meet the new requirements introduced by the EU accession process. Projects included the Rural Enterprise Enhancement Project (2008-2012), the Rural Livelihoods Development Project (2010-2015), the on-going Rural Business Development Project (2014-2019) and the Rural Competitiveness Development Programme (2017-2027). IFAD's BiH portfolio is valued at US\$ 234.2 million, of which IFAD funding amounts only to US\$ 83.3 million; this proves IFAD's ability to leverage and catalyse ARD investments from other partners e.g. OFID. IFAD projects have directly benefited over 145,000 households or some 480,000 people which is nearly 20% of the country's rural population<sup>73</sup>.

8. In terms of impact these projects have resulted in increased income and livelihood of the rural communities. For example, the Rural Enterprises Enhancement Project (REEP) resulted in an increase in average monthly agricultural income for beneficiary households of over 60% from KM 11,700 in 2008 to 18,720 in 2012, mainly as a result of increased sales of milk, meat and fruits. In 2016, the project completion report of Rural Livelihood Development Project (RLDP) reported an increase of 48% in the monthly income of beneficiary households to KM 1,214 in 2015 in comparison to KM 822 in the baseline survey 2012 and more than 90% of the participating farmers belong to the category of unemployed and 1,500 households in FBiH benefited from the project creating minimum 1-2 'jobs' per household to maintain the production. Overall, partner financial Institutions have disbursed 5,687 smallholder loans (valued at US\$ 22 million) and 146 on-farm and off-farm SMEs loans (valued US\$ 6.6 million) and IFAD funded projects funded the construction of 350 small rural infrastructure schemes (237 feeder roads with a total length 285.5 km, 15 small bridges, 77 village water supply systems and 21 animal watering points), aimed at improving market linkages and rural living conditions. As a result, the overall food security situation has improved and rural livelihoods have become more diverse, strengthening their resilience in dealing with climate change induced variability.

### **Lessons learned from the implementation of IFAD projects in Bosnia and Herzegovina**

9. The proposed Rural Enterprise and Agricultural Development project (READ) builds on IFAD's past and on-going experience and accumulated knowledge over more than two decades of in-country operations. Significant learnings and best practices have emerged from the Rural Enterprise Enhancement Project (REEP, closed in 2013), the Rural Livelihood Development Project (RLDP, closed in 2016) and the implementation of the on-going Rural Business Development Project (RBDP, closing scheduled for 2019). Coupled with other donor funded results and experience active in the agricultural sector, this wealth of knowledge on what works and under which circumstances has fed into the READ design.

10. Lessons learned can be categorised into the following: i) design, implementation and sustainability of value chain development interventions; ii) pro-poor targeting strategy and methodology; iii) institutional strengthening and capacity building of farmers' organisations; iv) fostering sustainable multi-stakeholders (public-private) partnerships, and iii) considering BiH's uniquely decentralised system of governance, implementation arrangement.

11. **Inclusive Value chain development.** With READ, IFAD's value chain development interventions are transitioning from a PA based to a more market-led value chain approach. This

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<sup>72</sup> "BiH imports nearly two thirds of the food it consumes, mainly processed foods, while it exports lower value food commodities" (WB 2015: 59).

<sup>73</sup> The number of indirect beneficiaries is not included in this figure.



approach is grounded into a series of best practices deriving from lessons learned designed to maximise outreach, scalability, impact and sustainability.

12. **Strategic Vision.** The rationale for READ is rooted in a clear strategic vision and is explicitly designed as a pro-poor value chain and inclusive business development project. This strategic focus cut across all project activities and comprehensively provide the enabling conditions for better access to markets and employment generation; two fundamental intermediate outcomes to improve rural livelihoods. To avoid isolated and fragmented efforts, READ will streamline the inclusive VC approach at all levels, facilitating its internalization by all project's partners.

13. **Synergies and interconnectedness.** Older generation projects reflected one-dimensional project design, mostly focused on increasing production as a mean to reduce rural poverty. READ concentrate its resource on the participatory identification, financing and implementation of business plans (BPs) allowing target household to integrate in pro-poor value chains. Involving business leaders, FOs, target households and municipalities in BP development will result in impactful VC development. READ has a sound internal logic to ensure complementarities among sub-components which combined contribute to a more efficient flow of products and increased value addition along targeted VCs. READ will benefit from the anticipated policy, institutional and technical success of RCDP, maximising efficiencies in the allocation of human and financial resources<sup>74</sup>.

14. **Enterprises linkages.** Experiences in RLDP and RBDP have both shown the key role played by institutional actors in driving the inclusion of IFAD's target groups to domestic and export markets. Given their limited capacity, READ will expand the scope of partners beyond PAs and cooperatives to include any commercially driven entities committed to expand its supply chains of raw materials from smallholders. Committed agribusiness Small and Medium Enterprises (SMEs) will therefore be supported and incentivised to intensify business and marketing activities and establish backward linkages with individual producers or their organisations. Initially sceptical about their potential, A/PCU's matching grants piloted under RLDP have proved useful in leveraging private sector investment. In the piloted areas RLDP reached out to some 1.500 target households leveraging a total investment of BAMs 767.706,73 for additional productivity enhancing and processing technologies (mechanisation, irrigation, cold storage facilities) with a 54% contribution of the project<sup>75</sup>. RBDP has further scaled up the matching grant instruments to trigger and deepen private sectors' interest.

15. **Institutional strengthening.** Empowering PAs and agricultural cooperatives has been a cornerstone of IFAD's interventions in BiH. Although challenging, continuous and comprehensive institutional development and technical advisory services in production, business development services and organisational development services to PAs and cooperatives is crucial to enable them expand their memberships base with poorer households, improve management capacities and accountability, mobilise finance, deliver better production and marketing services and effectively play their intermediation role between producers and end markets. READ will thus continue providing sustained support to institutional actors with the aim to assist their transformation into profit making cooperative or SMEs. Based on the recurrent challenges observed, READ will complement the proven tools to assist PAs and cooperatives with supporting seed capital financing necessary for their commercialisation and institutional transformation process.

16. **Access to finance.** The availability of targeted financial services to stakeholders along the value chains is a necessary condition for sub-sectors growth. Recovering from the set backs caused by the international financial crisis starting in 2008, the financial sector in BiH is currently characterized by a large number of banks and MFIs for a country of its size, leading to intense competition for micro and SME clients. However, the benefits of high competition for MSMEs are partly offset by conservative lending policies. Still, the financing sector is well financed offering comparable low interest rates in comparison to previous years. In view of significant delays in recent projects (RLDP and RBDP) to disburse the IFAD loans earmarked for rural finance, and based on

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<sup>74</sup> It is expected that RCDP will be in its 3<sup>rd</sup> year of implementation when READ becomes effective.

<sup>75</sup> RLDP PCR: 13.

extensive consultations with representatives from both entities' Ministry of Finance and a preliminary assessment of IFAD's comparative advantage in rural finance, READ does not incorporate credit lines. However and equally important, it will support linkages between business plans partners and participating financial institutions (PFIs).

17. **Advisory and Business Development Services (BDS).** Professionalising and expanding access to the range of available advisory and BDS to support the emergence of functional PAs, profit making cooperatives, enterprises and individual producers have been a common feature of IFAD funded programs. Past assessment concluded that constraints are occurring on both the supply and demand side, thus hindering the coordinated delivery of services and development of new markets. READ will build on the BDS related provisions taken in both RBDP and RCDP to make available appropriate technical and business development services at local level (using various instruments e.g. the voucher scheme to be set-up by RCDP<sup>76</sup>), and which entails technical assistance to business development and marketing plans encompassing all VCs development strategies: products upgrading, functional upgrading and horizontal and vertical integrations<sup>77</sup>.

18. **Climate resilient public or private rural infrastructure.** While the agricultural sector in BiH is vulnerable to climate change and other natural disasters, sustainable growth will require the construction and rehabilitation of crucial infrastructural facilities for production, processing, value addition and marketing. Unlike privately owned and financed infrastructures (i.e. cold storage capacities maintaining product quality and extending product availability on markets) which directly support value chain development, the experiences with public rural infrastructure is mixed and reveal that investments are not generally targeted at value chain development. The on-going RBDP is addressing the experiences linking rural infrastructure investments to VC development. READ's instrument to prevent discrepancies will be on prioritizing Business Plans (BPs) detailing enabling marketing infrastructure requirements that effectively complements and leverages the development of inclusive value chains, demonstrating impacts through ex-ante feasibility studies. BPs identifying infrastructure financing to achieve mutually benefiting investments in the pursuit of business objectives could be jointly formulated by small-scale producers, collectors and their organisations and agribusiness companies, with concerned municipalities and financial institutions, if needed. READ will ensure mainstreaming climate-change resilience and adaptation in the process of BP development to include climate change resilient and environmentally friendly infrastructure and technologies.

19. **Targeting strategy.** Ineffective targeting has been a major challenge in IFAD's operations, putting at risk the overall development objectives of rural poverty reduction. Several factors has often led to ad hoc selection of beneficiaries, including: i) the distribution of the poor across a wide geographies of municipalities, ii) absence of differentiated criteria across criteria considering farming patterns and seasonality, iii) the joint A/PCU-municipalities selection of beneficiaries based on established and often inaccurate lists, iv) lack of capacity from overstretched service providers, v) lack of expertise within A/PCU and vi) underperforming monitoring enabling taking timely corrective actions

20. In addition, IFAD's missions have consistently highlighted the weak participation of the poor in project-supported PAs and the guiding principles that supported SMEs should be demonstrating effective commitment to establish backward linkages with poor small producers and collectors with a long-term business perspective. The READ design has factored these shortcomings in developing its targeting strategy, essentially built on i) the lessons learnt from the proven RLDP pro-poor inclusive value chain development pilot projects and ii) the minimal eligibility criteria developed under RCDP for project supported PAs, cooperatives and agribusiness companies. Given the limited resources available, READ will not be a nation-wide program but will form clusters of municipalities based on level of socio-economic development. These clusters will include 95% of all extremely underdeveloped and underdeveloped municipalities; in order not to exclude the poor households

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<sup>76</sup> The market driven voucher scheme has been designed to leave beneficiaries with the options to select from a range of pre-selected private sector service providers, for extension as well as business development. The vouchers is subsidized but not free of charge for smallholders.

<sup>77</sup> Eligible activities can include advisory activities and investments.

falling outside these municipalities, READ will incorporate a maximum of 35% of semi-developed and developed municipalities in the country. Specific attention will be paid to include and support women-headed households and youth participation in rewarding VCs.

21. **Value Chain Governance.** Aligned with READ's strategic vision, the cluster-based implementation is a valuable mechanism to address value chain constraints, especially those requiring the transformation of stakeholder relationships. Stakeholders consultations held during the design revealed that potential partners are not conversant with value chain approach to sub-sector development. It is imperative for READ to align incentives of project's partners with the project's strategic vision READ will benefit from the various mechanisms engineered by RCDP to foster the institutional aspect of value chain enhancement, including the cluster stakeholder platforms and (ii) the Subsector Stakeholder Platform to facilitate downstream market linkages with SMEs, exporters and other private sector entities along the value chain. The involvement of local Municipalities and their agencies in the coordination and co-financing of the interventions will contribute to empowerment and sustainability.

22. **Implementation arrangements.** A recurrent bottleneck of IFAD operations in BiH has been the time lapse between project design and implementation and translating into changing conditions at municipalities, sub-sectors and individual households. In addition, the role of the A/PCU continues to evolve towards market linkage enablers. Capacity for effective coordination is not a sufficient condition anymore to succeed in bringing about systemic change: heavy emphasis should be put on adaptive management and facilitation skills. To cater for the specific implementation requirement of READ, core A/PCU staff structure will be complemented by specialized expertise reflecting this newly focused role on brokering partnerships between producers and end markets. READ will provide continuous capacity building of A/PCU and partner institutions, train the team on facilitation techniques, rigorous M&E practices, performance analysis and oversight functions, thus allowing the replications and scaling-up of approaches and experiences gained in previous projects.

23. **Monitoring and evaluation (M&E).** The main lessons learned from project implementation in the field of M&E pertains to its functionality, or lack thereof, to provide effective feedbacks loops to: i) improve projects' steering and ii) support informed decision making. This in turn has affected the project's ability to take timely corrective measures and the overall quality of reporting. The main gaps highlighted in the various M&E related assessments are: fragmented approach relying on service providers with limited capacity and understanding of reporting requirement to prove impact and improve project implementation; inconsistent monitoring of the accrued benefits for each categories of stakeholders, incomparable performance across entities given the lack of harmonisation in the approach to baseline methodology preventing robust comparison and overall poorly defined and measurable indicators. While the APCU and PCU will maintain ultimate responsibility for M&E and reporting READ, In line with the shifting focus of A/PCU as market enablers, READ puts a strong emphasis on shared responsibilities and accountability in the monitoring of subsector performance. Stakeholders attached to BPs shall become part of the monitoring system. BPs monitoring and reporting will be based on the contractual provisions developed under RCDP. READ will develop instruments to guide stakeholders under the overall leadership of A/PCU M&E officer and will strengthen its field presence with field coordinators to ensure adequate follow-up/ monitoring.



## Appendix 4: Detailed Project Description

1. The project has two components: (i) A technical component titled enhancement of economic opportunities and smallholders integration in value chains and (ii) Project management and coordination.

### **Component 1: Enhancement of economic opportunities and smallholders integration in value chains – EUR 26.2 million (95% of project cost)**

2. The expected outcomes of this component are (i) production, productivity, marketing of produce and profitability of target group households improved based on 4Ps models (ii) enhanced FOs for increased integration of farmers in markets (iii) market access of target group households enhanced through improved market infrastructure. The component is supported by three mutually reinforcing sub-components; (i) development and implementation of pro-poor BPs (ii) development of farmers' organisations and (iii) enabling infrastructure development.

#### **Sub component 1.1: Development and implementation of pro-poor business plans**

3. This subcomponent will increase the adoption and implementation of 4-PPs based business models by business leaders along the value chains. Business leaders comprising SMEs and FOs will be the originators of the BPs. The Project will assist around 150 business leaders to develop BPs and will facilitate BP implementation agreements between different partners targeting poor households in the selected project areas. With transparent targeting measures the project will ensure the identification of locations/communities with higher concentrations of the potential target households and the selection of suitable pro-poor sub-sectors and crops. It will co-finance the implementation of standard starter packages (5,500) and preferential starter packages for youth (1,400) and women headed households (600) which will transform 7,500 non-commercial households to commercial households in agriculture by developing their profitable linkages to the business leaders. Additionally, it will provide apprentice support for the employment of 350 youth (50% women) by linking them to employers in the rural sector.

4. The main BP development related activities are (i) selection of service provider (ii) targeting survey (iii) stakeholder awareness and sensitisation workshops (iv) call for proposals and selection of eligible applicants (v) development of detailed BPs and implementation agreements. The main BP implementation related activities are (i) market development assistance (ii) farmers' training, advisory and capacity building services (iii) co-financing starter packages and youth apprentice support (iv) assisting other external linkages e.g. to financial institutions, certification bodies and (v) creating a supportive setting for BP implementation.

#### **Development of pro-poor business plans**

5. **Activity 1 - Selection of service provider:** The A/PCUs will prepare terms of reference for service providers to be selected. The terms of reference of the service provider (SP) will differ between the two entities. The PCU is already experienced in implementing current IFAD projects by partnering with service providers. Whereas in the RS, the APCU implements current IFAD projects by partnering with the Agency for Extension Services (extension agency - EA) which currently does not have experience in the BP methodology. Also, the RCDP, which will start prior to READP, will invest in business development services (BDS) and implement a voucher system for financing advisory services. READP will take the RCDP experiences into consideration both for SP selection and financing arrangements.

6. **SP selection by PCU:** The PCU will competitively hire a service provider company (SP) to support the READP BP development and implementation process. Depending on performance, the SP will be retained for implementing other READP sub-components. The PCU will contract 5 field officers as cluster coordinators, one in each of the five clusters, for field presence and quality implementation of READP. The SP selection criteria will include significant in-house expertise and

experience in the sub-sectors, participatory targeting of individual beneficiaries, BP development, rural area development, environmental protection and climate change mitigation capacities, youth employment, stakeholder coordination, procurement, technical and financial reporting and donor interaction. The SP will (i) implement the targeting survey (ii) conduct sensitisation workshops before call for business proposals (iii) provide technical assistance for developing detailed BPs (iv) facilitate implementation agreements and implementation by BP partners.

7. **SP selection by APCU:** The APCU will also contract a SP for implementation of this sub-component. However, the ToR of the SP will be adjusted to include training and capacity building of the extension agency (EA) to support the implementation of the BPs. Once trained, the SP and the EA will collaborate for implementing subcomponent 1 and 2. The EA will provide field coordination through 7 regional extension officers located in the 5 project clusters.

8. After tendering the SP selection will be done by the A/PCUs in consultation with the IFAD CPM. The PCUs will orient the selected SP/EA to the project objectives, target group, approach and implementation steps. The cluster coordinators and the extension officers will be mandatorily included in the orientation activities. The orientation process will comprise (i) workshops for discussions between the SP/EA, A/PCUs' staff and RCDP BDS providers (ii) field visits to farmers' organisations, business leaders and municipalities.

9. **Activity 2 - Targeting survey:** READP will conduct a targeting survey to identify the locations/communities with higher concentrations of the potential target households and to recommend the suitable pro-poor products from the project supported agricultural sub-sectors, taking into consideration their prevailing market demand. In consultation with the A/PCUs, the SP/EA will develop the questionnaires, checklists and other tools for conducting the targeting survey. These tools will be reviewed and approved by the A/PCUs followed by field level implementation of the survey by the SP/EA in coordination with the cluster coordinators and extension officers.

10. The survey will involve consultations with key actors (social service centers, employment bureau, heads of the local communities, authorities managing entity level farm registers, financial institutions, business leaders active in the project area) and identification of the areas/communities mainly in the underdeveloped and extremely underdeveloped municipalities that have higher concentration of potential target households. A verified list of these geographical pockets will be developed and profiles of these geographical pockets will be developed in terms of (i) crop production experiences of target households and recommendations of potential crops suitable to the conditions and capacities of the target households (ii) current marketing arrangements followed for agricultural produce from these pockets along availability and access to crop production inputs and services by the target households (iii) identification of opportunities and constraints against women and youth involvement in project supported activities (iv) identification of FOs with higher concentration of the target households (v) recommendations of the areas/pockets specially in the underdeveloped municipalities where the business plan implementation should commence (vi) listing of interested enterprises and potential rural sector jobs they can potentially offer that can engage the youth apprentice.

11. These findings will be discussed during the stakeholder workshops (Activity 3) to promote inclusive BP preparation. The business leaders and other stakeholders will be encouraged to increase their outreach in these poverty pockets. Going forward, the target households identified in the BPs will be drawn mainly from the poverty areas identified in the targeting survey (details in activity 7).

12. **Activity 3 - Stakeholder awareness and sensitisation:** Cluster level stakeholder sensitisation workshops will be organised prior to the business planning exercise. The SP/EA in coordination with the A/PCUs will be responsible for organising these. The cluster coordinators and extension officers will be co-facilitators. These workshops will be attended by representatives from target municipalities, business leaders, financial institutions, input suppliers, farmers' organisations and target households.

13. The process of generating eligible pro poor business ideas will be stimulated during these workshops. The participants will be informed about the concept of linking business leaders to target households using the BP methodology. The steps involved in the BP development process will be explained. Sample proposals and the templates for submitting BP proposals will be shared. The multiple criteria against which the business proposals will be evaluated will be transparently communicated.

14. The workshops will clarify that (i) viable BPs are expected to include an array of producers including larger farmers but with strong focus on the project target households (ii) the role of the project is to facilitate and ensure the sustainable integration of target households in the business models and that this is clearly reflected in the BP target and investment projections and to monitor that these target households are actually reached during BP implementation process (iii) the BPs should consider the inclusion of various project promoted social, environmental and business issues such as gender and youth inclusion, climate change adaptation and marketing opportunities (iv) the business plans should incorporate geographical targeting, self targeting and direct targeting measures in line with the READP design along with the incentives for doing so where relevant. Resource person discussions and audiovisual sessions will be held during the workshops to assist full understanding of these concepts, best practices and approaches.

15. **Activity 4 - Call for proposals and selection of eligible proposals:** Every year (for three years) the A/PCUs will announce a call for business proposals (expression of interest), through newspapers and the internet, inviting business ideas from interested business leaders. After the announcement, the SP/EA, along with the cluster coordinators and extension officers will follow up with potential cluster level business leaders and assist them to submit proposals to the A/PCU. It is to be noted that previous IFAD projects have already established linkages to SMEs active in agribusiness who can be potential leaders. An overview of actors and their businesses in the envisaged sub-sectors is attached in the Annex of Appendix 2. These businesses will be encouraged to respond to the call for proposals.

16. These proposals will present (i) background details and rationale (ii) description of the business model/concept (iv) targeting strategy and measures to be adopted specifically for including women and youth (v) the selected produce (vi) raw material supply, production/processing and marketing approach (vii) mechanisms for benefitting and potential outreach to target households (including youth) (viii) estimation of investments required and expected returns and (ix) measures to address environmental and climate change concerns. The produce selected will be demand driven based on consultations between the business leaders, target households and other stakeholders and would not necessarily be limited to one item or commodity.

17. **Selection of eligible proposals:** Screening and shortlisting of the business proposals will be done by a selection committee appointed by the A/PCUs in consultation with IFAD CPM. The committee will include representatives from the A/PCUs, SP/EA and development partners to ensure harmonisation with similar initiatives. The selection process will involve (i) screening and shortlisting eligible proposals (ii) validation visits to the shortlisted business leaders (iii) final selection of proposals.

18. **Screening proposals:** The A/PCUs in consultation with the SP/EA will develop objective criteria and scoring method for reviewing and ranking the proposals. They will organise selection committee meetings and will sensitise the members about the scoring indicators. More weightage will be placed on indicators related to the targeting aspects such as (i) past experience of linkages with target group households directly or through PAs and willingness invest in solving VC related problems of target households e.g. by extending pre-financing support or providing training services (ii) willingness to select crop/produce suitable for production by target households and involving engagement of mainly women and youth as wage labour in the production cycle (iii) bulk of the targets households planned to be drawn from the underdeveloped and extremely underdeveloped municipalities and (iv) plans for new full time jobs in the future (to manage the organisation growth from BP implementation) that can absorb youth through the youth apprenticeship support.

19. The business proposals and subsequently the BPs submitted by the business leaders will be further assessed against criteria including (i) proven know-how and technical expertise in the subsector (ii) willingness to use environmental friendly production practices and compliance with social, labour and gender standards (iii) strategy for on long-term presence and viable business relationships with smallholder producers (iv) market prospects (national/export) and overall profitability (v) targeted outreach to the target households including youth (vi) market prospects (national/export) and overall profitability of the business model (vii) potential returns to the target households including youth (viii) prospects for partnerships with municipalities, FOs and other donor initiatives and (ix) measures to address environmental and climate change concerns.

20. The selection committee will review, score and shortlist around 200 proposals for around 250 proposals received. Out of these around 175 will proceed with detailed BP development and 150 of these will actively implement the business plans (see table below).

Details of phasing	Year 1	Year 2	Year 3	Year 4	Year 5	Total
<b>Business proposals</b>						
No of business proposals received	75	100	75	-	-	250
No of proposals selected	60	80	60	-	-	200
<b>Business plans</b>						
No of business plans prepared	50	75	50	-	-	175
No of new BPs implemented	40	65	45	-	-	150

21. **Validation and final selection:** Final selection of the proposals will be based on field visits to confirm the critical areas presented in the screened proposals. The A/PCUs in consultation with the selection committee will develop the validation checklist for each screened proposal. Validation visits will be carried out by the SP/EA in coordination with cluster coordinators and extension officers with oversight from the A/PCUs. They will visit the business leaders and the proposed business partners such as municipalities, FOs and the target households to confirm their interest and technical and financial ability to participate. Based on confirmations obtained through the validation process the A/PCUs will prepare the final list of eligible business leaders which will receive technical assistance from READP for their development into detailed BPs.

22. **Activity 5 - Development of detailed business plans and implementation agreements:** The SP/EA will deliver technical assistance to the selected business leaders and FOs to develop detailed BPs. The lessons learned and good practices from the RCDP programme in implementing the BP approach will be considered and adopted.

23. **Actions involved:** The SP/EAs will hold detailed consultations, site visits and stakeholder workshops with the business leaders, target households, FOs and municipalities. They will assist the business leaders with (i) data collection and analysis (ii) marketing and profitability assessment (iii) formulation of the targeting strategy, targeting steps and actual target selection (described in the targeting section) with specific focus on the inclusion of women and youth (iv) identification of other business partners (v) outreach and financial target setting (vi) financial planning, identification of financial sources (vii) implementation agreement with other stakeholders. They will also be responsible for writing the BP in coordination and consultation with the business originators.

24. **Main elements of the BPs:** The final BPs will describe how the business will progressively increase the profitability and sustain the inclusion of the READP target households. They will present (i) the nature of business including forward and backward linkages to other value chain actors (ii) ownership and management structure proposed for implementation of the business model (iii) domestic and export market analysis (iv) strategic plan for achieving the business objectives (v) targeting strategy and implementation steps for ensuring target group, mainly women and youth inclusion in the promoted VCs (vi) specific measures to support target household inclusion including advisory, extension, operational measures, partnership agreements and monitoring needs (vii) operational needs including implementation arrangements and partnership requirements (viii) financial plan estimating the total investment and co-financing needs and (ix) enabling infrastructure



requirements such as roads, water supply and bridges expected to be implemented through municipality involvement

25. **Performance target setting:** The BPs will present 5 years projected growth targets in key areas such as market share increase; increase in profitability and return on investment; increase in the quantity of produce purchased from the target households; increase in the number of target households linked to the business; increase in the total returns to the target households and increase in direct and indirect employment of youth in the business.

26. **BP co-financing plan:** The detailed activities in the BPs will be divided into expenditure categories; (i) fixed and working capital needs including producer starter packages and seed capital financing for FOs (ii) market development investments including study tours, trade fair participation, certification (iii) training and advisory needs and (iv) enabling infrastructure necessities. Co-financing plan will be prepared indicating contributions from different partners; business leaders, READP, municipalities, FOs and the producers, according to the guidelines presented below. Contribution of the business originators and the target households will be regarded as self-contribution from their own resources (self-financing), in-kind or from borrowings from financial institutions.

Categories	READP [ceiling in EUR]	Others*
Training and advisory	100%	
<b>Market development</b>		
-Study tours (abroad)	70% [8,000]	30%
-Trade fair participation	40% [4,000]	60%
-Certification	40% [4,000]	60%
-Other marketing support	50% [4,000]	50%
<b>Starter package</b>		
-Standard	Upto 40% [500]	60%
-Youth and women	Upto 60% [800]	40%
<b>Enabling infrastructure</b>	details in subcomponent 1.3	
<b>Assets for FOs</b> (details in subcomponent 1.2)	Upto 70% [17,500]	30%

\*Other cofinanciers include municipalities, business leaders, FOs and beneficiaries

27. **Training and advisory services financing:** The project will bear the costs for BP related training and advisory services to the target households except costs for transport and accommodation. These services will be provided by the READP contracted service providers, field coordinators and extension officers. The cost of domestic study tours for target households will be covered by the project.

28. **Market development costs financing:** BP partners will be eligible for co-financing for READP initiated market development activities such as (i) study tours abroad - 70% of costs to a maximum of EUR 8,000 (ii) trade fairs – 40% of costs to a maximum of EUR 4,000 (iii) international standards and certifications - 40% of costs to a maximum of EUR 4,000 and (iv) other marketing support such as branding, product identification, packaging, promotion material - 50% with maximum of EUR 4,000. The business leaders will be eligible for receiving project financing for these activities only as performance incentives for achieving at least 60% of linkages to target households in underdeveloped and extremely underdeveloped municipalities through BP implementation.

29. **Starter package financing:** Starter package describes the initial size of the investment required by a target household to become a commercial farmers. It is the size of investment required by a target household to produce the quality and the quantity of product required for developing marketing linkage with the business leaders for the first time according to the details in the BP. The estimated starter package requirement for producing the project supported products in 1-2 dunums of land (and with 1-3/3-5 cows) is around EUR 2,500. The starter package will be co-financed by READP, municipalities, advances from the business leaders and self-contribution of the producer in harmony with experiences of the RLDP and RBDP (see lessons learnt). It will also be in harmony with the starter package approach adopted for RCDP and will smoothen its implementation by the A/PCUs.

30. In circumstances where the contributions from the other partners are not sufficient to meet the full financing needs of the starter package, the producer households will borrow from financial institutions (bank or MFI) to meet the gap. It is expected that 40-60% of the beneficiary households may have to borrow from financial institutions. Taking into account the co-financing contributions from other partners the borrowings from banks/MFIs are expected to finance between 15-25% (EUR 700) of the starter package (production costs). Beneficiary households can borrow from any financial institution of their choice based on terms and conditions offered. The project will facilitate the linkage of beneficiary households to financial institutions by actively promoting the financing opportunities offered by READP amongst the banks/MFIs active in the project clusters.

31. READP will promote market-based interest rates. The co-financing from the MFI/banks will utilise existing liquidity in the banking system and will be based on market driven interest rates (currently around 15%) thus avoiding market distortion. However, since other co-financiers will shoulder almost 75% of the size of the starter package the beneficiary household will pay market driven interest rate only on around 25% of the starter package, thus resulting in an affordable, competitive and effective interest rate of around 3% on the full cost of the starter package. These financial linkages will assist the future commercial growth of the target household.

32. The starter packages will potentially lead to the involvement of several MFIs and Banks resulting in competitive services and interest rates. They will also help the A/PCUs to fulfil the demand for lower interest rates for the borrower and faster disbursement of project funds by directly financing input costs for first time commercial farmers. Most importantly, the implementation of the starter packages will involve the A/PCUs directly in target household selection leading to improved targeting performance. Two types of starter package co-financing will be offered by the project.

33. **Standard starter package:** The standard starter package co-financing from READP will be valued at a maximum of EUR 500 and will benefit 5,500 households. It will co-finance up to 40% of production costs in-kind by supplying items such as planting materials, agrochemicals, fertilizers and small equipment. The target households provided with starter packages (i) will be contractually linked to business leaders for selling the produce (ii) would have undergone training and skills development and (iii) will receive agronomic advice from the project during the production cycle in order to meet the quantity and quality standards required by the buyers. These conditions will make these producers bankable and attractive as potential clients of banks/MFIs.

34. **Youth and women starter package:** Project contribution to this type of starter package is valued at maximum EUR 800 and will promote self-employment of 2,000 youth (30% women headed households). It will co-finance up to 60% of production costs in kind as described above. The starter packages for youth will offer financial institutions with the opportunity to get access to a large number of young farmers by contributing a small share of the starter package and thereby developing linkages to a new segment of the microfinance market. Their support towards the future growth of youth as commercial farmers will significantly increase their portfolio and long-term profitability.

35. **Continuous appraisal of the business plans:** The BPs will be developed over a period of 3-6 months and the process of their development will be subjected to continuous appraisal. The A/PCUs will organise biweekly BP progress review meetings with the SP/EA. During these meetings the BPs under preparation will be continuously divided into three categories, strong, moderate and borderline, based on criteria including (i) commitment of the businesses leaders in terms of time and resources devoted to the BP development exercise (ii) commitment of the business leaders in terms of their willingness to discuss and develop the partnership ideas and implementation arrangements (iii) business leaders' acceptance of activities to keep the BPs focused on inclusion of target households and (iv) ability of the business leaders and other BP partners to supply co-financing in a timely manner. During the review meetings the nature of the challenges facing the moderate and borderline BPs will be discussed along with mitigation measures. The SP/EAs will be responsible for follow-up and implementation of these measures to ensure that majority of BPs get strong rating. The strong BPs will be prioritised for implementation.

36. **BP implementation agreements:** In preparation for the implementation of the BPs the SP/EA, in coordination with the A/PCUs, will develop templates for implementation agreements/MoUs between the various implementation partners identified in the BPs (municipalities, FOs, financial institutions and the project). These agreements will define (i) financing commitments of the partners in different categories for implementing the business plans guided by the allocations presented in the co-financing table (ii) ownership, management and revenue sharing (if any) roles (iii) targeting roles and responsibilities (iv) monitoring and review responsibilities. The SP/EA will be responsible for organising meetings, facilitating negotiations and ensuring the development of the written agreements between the partners. These agreements will be accompanied by draft action plans indicating implementation responsibilities and time schedules.

#### **Implementation of pro-poor business plans**

37. **Activity 6 - Market development support:** The activities under market development support will be planned in the BPs but project financing for their implementation will be based on performance incentive basis. Therefore, only for the business leaders who have achieved at least 60% of linkages to target households in underdeveloped and extremely underdeveloped municipalities through BP implementation will be eligible for this support.

38. In consultation with the SP/AE the business leaders will identify the specific market linkage and business development areas where they require assistance in order to increase their national and export market share of the BP produce. These will be presented in the BPs. Responding to these needs the SP/EA in coordination with the A/PCUs will provide assistance in the selected areas described below. Strong emphasis will be placed on collaboration with other donor projects providing support in similar areas and well as on coordination with RCDP initiatives in these areas.

39. **Quality assurance and certification support:** The SP/EA will guide the business leaders on importance, mechanisms and process for obtaining different kinds of certification and will also link them to relevant certification bodies where required. The A/PCUs will co-finance eligible business leaders for the introduction of international standards such as HACCP, ISO, Global GAP and HALAL. Eligibility will be based on (i) clear assessment that certification will be an advantage for production and marketing (ii) presence of signed contract between the business leader and a certification company on standards' implementation (iii) higher partnering outreach to target households.

40. **Trade fair participation, study tours, other marketing support:** READP will support representatives from the business leaders to participate in trade fairs and study tours that assist them to understand the market demand for different products as well as develop linkages for the marketing of their existing produce. Participation in local, regional and international trade fairs (e.g. Biofach, Fruit Logistica, ANUGA), regional marketing platforms and business networking activities will be supported along with local and international study tours. Other market development activities such as product identity, certification and brand development initiatives will be supported in collaboration with the BiH Foreign Trade Chamber, RCDP initiatives and other donor programmes.

41. **Activity 7 - Farmers' training, advisory and capacity building services:** The SP/EA will identify the specific areas of farmers' training and advisory services in the BP development stage in consultation with the business leaders and the FOs. These will be clearly reflected in the BPs.

42. **Training for farmers:** Based on inputs from the BPs the SP/EA will draft the annual farmers' training plan which will be reviewed and finalised by the A/PCUs. The SP/AE along with the cluster coordinators and extension officers will be responsible of delivering the trainings and advisory services. Where relevant additional technical specialists will be hired to support training and advice in specific areas. The objective of the training will be assist the target households to timely adopt the different applications for quality and quantity production as agreed with the buyers.

43. Target households will be trained on (i) quality standards (GAP, hygiene, EU quality standards) (ii) production of fruit and vegetables, MAPS/ NTFP, dairy as identified in the BPs (iii) environment training e.g. climate change and pest management (iv) investment related trainings and

(iv) training on organising into FOs. Training will involve on-farm inputs and exposure trips to demonstration farms in the country. Where relevant the training courses will be open to all farmers involved in the BP, including relatively larger farmers to get to larger quantities and economies of scale.

44. **Advisory services:** The SP/AE, in collaboration with the cluster coordinators and regional extension officers in the FBiH and RS respectively will provide production related advisory services and practical guidance to the farmers according to the BP agreements. These will focus on support related to (i) standards implementation, e.g. assistance in application (ii) production, e.g. access to seeds, fertilizer, advice in the field in production (iii) product value addition, e.g. access to processing equipment, packaging and post-harvest handling, bulking including storage (iv) investment regarding equipment to meet BP targets, tender process, installation and implementation and (v) access to finance, e.g. linkage to formal financial sector and agricultural insurance (vi) organising farmers into FOs. These inputs will be delivered through regular on-site visits by service providers as well as cluster coordinators and extension officers to enable real-time solutions to farmers' production related problems. Advisory services will be concentrated mainly on the target households.

#### **Activity 8 – Delivery of starter packages and youth apprentice support:**

45. **Starter package:** Both the standard and the youth starter packages will be implemented in the same way and will be strictly linked to the BPs. The SP/AE will ensure that each BP and implementation agreement clearly reflects the starter package requirements along with estimated outreach, potential co-financing partners, co-financing shares and draft action plan indicating implementation schedule and responsibilities. Eligible production related investments supply and cover by the grant include: planting materials, agrochemicals, fertilizers and small equipment. Prior to implementation the SP/AE will organise cluster level planning workshops. The A/PCUs will invite interested financial institutions to these workshops. In these workshops (i) the inputs/services financed by the starter packages will be finalised (ii) identification of the target households to be linked to the business leaders will commence and (iii) partners including the financial institutions (where relevant) will re-affirm their co-financing commitments and finalise implementation arrangements.

46. The SP/AE will ensure that the above steps are strongly directed towards the inclusion of the targeted households. Identification of target households will start by focusing on the geographical locations with higher concentration of the target households particularly in the underdeveloped and extremely underdeveloped municipalities as identified during the targeting survey. The SP/EA will along with the representatives of the business leader, municipalities and the FOs will visit these communities and conduct awareness and orientation campaigns sensitising the local population about the project and seeking applications from interested households. During these visits the criteria for target household selection already explained during the cluster level workshops will be further explained.

47. The applications by interested households will be collected by the SP and field coordinators in coordination with the municipalities. Participatory poverty/wealth ranking of these applicants will be conducted in focus group discussion with community representatives and FOs active in the areas. This exercise will lead to the participatory classification of the applicants (poor households) into three sub categories - extremely poor, very poor and poor.

48. The applications in the three categories will be screened and shortlisted by the SP/EA in consultation with the business leaders, FOs and municipality representatives according to READP poverty targeting criteria. First priority will be selection of candidates from the extremely poor category followed by candidates from very poor and poor categories. In case there are more applicants than the available number of packages the candidates will be selected based on lower average annual income per family member. The project will conduct household visits for shortlisted candidates to verify and validate the household selection. Thereafter, the SP/EA in coordination with the cluster coordinators and the extension officers will facilitate municipality level discussion workshops between the shortlisted households and the business leaders leading business agreements and contractual

arrangements between them. The quota for youth starter packages and starter packages for women will be respected during the selection process and the bureau of employment at the municipality will be involved in the identification of the target youth beneficiaries for the youth starter packages. The SP/EA will ensure that 30% of the youth starter packages are directed to women-headed households.

49. The SP/EA will assist with the (i) finalisation of the contractual agreements between the target households and the business leaders and BP implementation partners (ii) additional sensitisation of the farmers where required (iii) involvement of FOs in identification and negotiation with input suppliers (iv) coordination between business leader, FOs and final target households leading to compilation of the list of starter package beneficiaries which will be submitted to the A/PCUs for financing.

50. The A/PCUs will assess and approve these proposals based on (i) compliance with the conditions for starter packages contributions by the project (ii) co-financing commitment for the full package by other business partners (iii) presence of buyer contract (iv) completion of initial training and skills development. The A/PCUs, in coordination with the business leaders and the FOs will start the procurement process for the starter package inputs to be co-financed by them. The project will directly pay the selected vendors on evidence of delivery of the inputs to the approved target households.

51. **Youth apprentice support:** READP will assist 350 youth apprentice to find full time employment in the agricultural and rural sector<sup>78</sup>. Thus, it will include jobs which are created as a result of the project supported BP implementation activities by the business leaders as well as jobs offered by any other public or private agency. The project will actively promote the inclusion of youth apprentice in the business proposals and BPs submitted by the business leaders and this will be an important criteria for the selection of these business proposals and plans for READP support. The inclusion of youth apprentice will be promoted in business proposals and plans as response to the need for new full time jobs by the business leaders to manage future organisational growth resulting from the successful implementation of the project supported BPs.

52. An apprentice is a rural youth up to the age of 30 undergoing in-house training in an enterprise. In order to promote women employment 50% quota will be reserved for young women apprentice. At the end of the apprenticeship period the individual will be absorbed as a regular employee resulting in job creation and increased income for the target household. The apprentice support will be implemented in partnership between the project, the employment bureau at the canton/municipality level and an employer. The project will bear the costs of an apprentice for one year to a maximum of EUR 2,100 which can be used for paying both the net salary and the mandatory government contributions for taxes, health and pension funds. The administration of these payments will be done through the employment bureaus.

53. In order to implement the scheme the project in partnership with the employment bureaus will invite expressions of interest from individual youth interested in receiving apprentice support as well as from employers interested in employing such youth. The announcement of the scheme will be done by the project at the cluster level in coordination with the employment bureaus. In order to be eligible the youth must be from the cluster, belonging to a target group household and the job should pertain to delivery or procurement of goods and services in the rural areas.

54. The employer can be a project value chain partner including private sector and FOs as well as other enterprises and institutions active in job creation in the rural sector. They can be headquartered anywhere in BiH but the job offered must be related to supporting the rural operations in the project area. The employer will engage the apprentice in response to its requirement for a regular full-time employee in the organisation. Where there are multiple applicants for a single position the apprentice will be selected competitively and transparently through competitive selection process conducted by panel including the employer, employment and the project. In order to be eligible for

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<sup>78</sup> Access to regular employment will be subject to a transparent performance assessment at the end of the scheme.

apprentice support, the offer of employment by the employer will be for at least three subject to transparent performance assessment at the end of the apprentice period.

55. On pilot basis READP will reserve the appointment of at least 25 young apprentices as coordinators/managers in FOs as a part of management support to promising FOs primarily the PAs which benefit from READP seed capital financing. READP will partner with the agricultural universities for selecting fresh graduates who are ready to serve as young apprentices in the FOs. Where required such apprentices can be guided by the universities during the course of the apprenticeship. Based on transparent performance evaluation at the end of the apprentice period the apprentice can continue working for the FO if so required or receive an apprenticeship certificate from the project/university that can assist the person to secure other rural sector jobs.

56. **Activity 9 – Support to business leaders to develop external linkages:** The SP/AEs in coordination with the A/PCUs will assist the business leaders to develop external linkages in areas such as financial support, certification and sources of business management and operational guidance where needed. For assisting financing needs the project will facilitate their introduction and negotiations with financial institutions by highlighting the role of the project as a co-financier of the BPs. Also, a substantial proportion of credit lines to PFIs from past IFAD supported projects will be repaid by the PFIs to the government in the course of READP implementation. In FBiH, the PCU has initiated the process of pooling these repayments into a special fund for financing agricultural sector projects. In RS, these repayments are already pooled in a central account of the Ministry of Finance referred to as the partner fund. READP will facilitate negotiations with relevant actors to facilitate the investment of these funds for assets and working capital financing of the partner business leaders.

57. **Activity 10 – A supportive setting for BP implementation:** The A/PCUs will develop a supportive setting for BP implementation by (i) establishing BP implementation oversight committees (ii) developing BP implementation monitoring system and (iii) organising BP implementation review and planning workshops. These will support regular consultation, implementation planning and feedback between the BP partners for smoother, target oriented BP implementation.

58. **BP implementation oversight committees:** These will comprise representatives from the municipalities, business partners (PAs, buyers, processors, farmers, municipalities and project), and project– including members from A/PCU teams, SPs, AE and cluster level field officers and extension officers. They will be responsible for planning and implementation review of the BPs. The committees will be headed by selected municipalities and will (i) track the BP implementation progress against the BP targets at the cluster level (ii) identify and address the reasons for gaps in target achievement (iii) support the development and implementation of joint action plans between the different partners and (iv) swiftly resolve partnership issues and conflicts in the collaborative arrangements.

59. **BP implementation monitoring system:** In coordination with A/PCUs, SP and AE the oversight committee will define the reporting needs of the business partners and ensure their regular reporting to the project and the municipalities. The cluster coordinators and the extension officers in coordination with the SP, AE and the M and E specialists at A/PCUs will be responsible for collection and cluster wise consolidation of these reports. The project will organise information and orientation workshops for capacity development of the members of the oversight committee to analyse and interpret the cluster reports.

60. **BP implementation review and planning workshops:** The project will organise regular cluster level BP implementation review and planning workshops attended by the implementation oversight committee and other relevant stakeholders. The oversight committees in coordination with the A/PCUs and the SP/AE will organise these workshops. The SP/AE will co-facilitate these workshops along with the committee members. These meetings will identify and address the reasons for gaps on target achievement by the business partners. They will strengthen the collaboration between the partners, assist conflict resolution and planning for future actions.

## Sub component 1.2: Farmers' Organisations Development

61. This subcomponent will strengthen FOs to increase their outreach to target households and to develop into viable inclusive farmers' institution. The project will also support the transformation of PAs to cooperatives as well as the transformation of owner centric cooperatives into inclusive institutions. Strengthening the FOs will empower them to increase their membership from the target households, become effective partners under business schemes and increase their capacity to take informed decisions about their business. The main activities will be (i) seed capital financing to 40 FOs (FO seed capital financing) and (ii) institutional development training and advisory support. Given the parallel implementation of READP and RCDP, the approach for the two programmes will be harmonized on the basis of lessons learnt of the RBDP implementation. Specifically, the MTR of the ongoing RBDP identified a major challenge for the counterpart financing from FOs for the seed capital financing and modified accordingly the ratio for RBDP funds to FOs mobilized funds to 70:30 ratio. In addition, the support for both seed capital financing and capacity building support will be also aligned as detailed below.

62. The identification of the FOs to be supported by READP will be driven by the BPs call for interest and subsequent selection. In order to avoid the risk of duplicating support, FOs already supported by RCDP (or RBDP) will not qualify for READP assistance unless there is good performance registered by these FOs from previous assistance from RCDP (or RBDP) and there is an increase in the FOs membership following RCDP (or RBDP) support. In such cases FOs that have already benefited from RCDP (or RBDP) support can also benefit from READP support but for activities limited to (i) start up packages for members that have *not* benefited from start-up packages under RCDP (or RBDP) (ii) additional capacity building support for business expansion and consolidation. As a result, the seed capital financing will be directed mainly to the FOs not yet supported by RCDP (or PBDP) to ensure a greater outreach of IFAD supported interventions.

63. **Activity 1 - FO seed capital financing:** The project will provide upto EUR 17,500 as seed capital financing to 40 eligible FOs to finance business assets identified in a profitable BP linked to project target households directly benefitting an average of 20 members per FO<sup>79</sup>. The seed capital financing to FOs is expected to generate outreach to around 800 target households. The co-financing arrangement<sup>80</sup> includes up to 70% READP contribution, while the remaining counterpart funding will be provided by FOs through contribution by members – cash or through loans, contribution from partnering business leaders, and support by Municipalities.

64. In order to be eligible for seed capital financing the FOs should be Producers' Associations (PA) or Cooperatives (coop) with (i) at least 25 members, which includes at least 20 members from the READP target group households with income less than KM 817 per month (ii) intention to further increase membership particularly from the READP target group (iii) cooperative audit (for cooperatives only), indicating that the cooperative functions in accordance with the BiH Law on Cooperatives, particularly in relation to the organization and management of the cooperative, and maintenance of the cooperative members' ledger. The A/PCUs through the SP/EA will provide institutional development training and advice to interested FOs. Consequently, those FOs which are initially not eligible for FO seed capital financing can qualify in later years by fulfilling the above conditions through project training and advisory support.

65. During the targeting survey (SC1) the SP/AE will identify the potential FOs based on the above criteria which may be suitable for seed capital financing. The SP/AE will follow-up to facilitate (i) their participation in the cluster level sensitisation workshops (ii) submission of business proposals (either as Business Leaders or as Business Partners of an Agribusiness Company) in response to the call for proposals (iii) competitive selection (based on criteria described in SC 1) for detailed business plan development assistance from the project.

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<sup>79</sup> This pertains to the additional number of poor members in the FOs who will benefit from the FO seed capital financing support in addition to the members who already benefit from individual starter packages.

<sup>80</sup> The share of co-financing will be a selection criteria; only a lower percentage will be considered for FOs co-financing.

66. The seed capital financing of EUR 17,500 from the project will co-finance productive assets at the FO level such as machinery and equipment, means of transport, small storage facilities, bulk procurement of crop production inputs and value adding equipment such as driers and small processing equipment. These assets will allow the FO to render services to the members such as production, processing and bulking, that will enhance the profitability of these members while simultaneously strengthen their linkage to other business leaders. The BPs should present the management and operational procedures as well as the revenue model for the implementation of these activities. The financial plans for these investments must realistically show that the income earned by the partnering FOs from these services will be sufficient to meet the maintenance and replacement costs of this asset after its productive life as well as can generate surplus towards capital formation and increasing the returns to the members. The SP/EA will provide management advice to the FOs qualifying for seed capital financing so that the BP implementation by the FOs is assisted, full utilisation of the project financed assets are achieved and the BP outreach and financial targets are met.

67. **Activity 2 - Institutional development training and advisory support:** SP/EA in coordination with the A/PCUs will develop training and advisory plans defining the required institutional development training and advisory services for FOs. The project will recruit professional trainers and advisors experienced in cooperative movement and the defined technical areas. Capacity building support packages will be flexible depending on the needs of the FOs and aiming at assisting FOs to (i) increase membership outreach to the target households (ii) strengthen their institutional foundation through better governance, management and operational procedures and (iii) support profitable implementation of their business and hence profitable implementation of their BPs (where relevant). These activities will be targeted at FOs applying for BP support, including the ones that do not immediately qualify for FO seed capital financing. By adopting the recommended institutional strengthening measures the initially non-qualifying FOs can achieve the eligibility criteria and subsequently receive FO seed capital financing.

68. **Training areas:** The training inputs will cover (i) organizational structure (ii) governance and management (iii) tailored women FOs leadership programmes (iv) market intelligence and marketing, standards e.g. GAP, GHP, HACCP, GlobalGAP, ISO, organic, SPS, EU standards and negotiation skills (v) accounting, finance and bookkeeping (vi) BP development, costing and financing (vii) contract development with other chain stakeholders (viii) collective/bulk marketing and procurement of inputs (ix) management of common storage facilities and equipment (x) technology development for agricultural intensification and productivity enhancement (xi) financial literacy and linkages with banks (xii) savings mobilization and approaches to implement internal savings schemes for addressing social needs, business expansion and collateral requirements of the banks (xiii) sustainable adoption of climate resilient crop development that will be accompanied with approaches for sustainable use of natural resources. Trainings programmes will be complemented by exchange and learning visits, within the country and in Europe. These visits will provide exposure and learning for further expansion of FOs business model, to develop environmental sustainable strategies, and to promote market compliance. Promising FOs with limited net margin to cover the recurrent costs during start-up and growth stages will receive management support from READP through the placement of youth apprentice to manage both the commercial and institutional development aspects of these FOs.

### **Subcomponent 1.3: Enabling Infrastructure Support**

69. This subcomponent will improve the profitability of the target households, connect business leaders to the target households and improve the market participation of the beneficiaries. The BPs will identify the full range of infrastructure requirements for their successful implementation including privately owned and publicly owned or co-owned investments. Under this subcomponent the project will support publicly owned or co-owned investments. Public ownership will be considered when a municipality has majority ownership of the infrastructure. READP will support two categories of infrastructure activities (i) publically owned and managed infrastructure such as public water supply, which benefits multiple farmers in a defined area, or the establishment and rehabilitation of feeder



roads, culverts and small bridges which connect business leaders and target households; (ii) publically owned infrastructure, such as irrigation structure, cooling and packing facilities, which is co-managed in partnership between the municipalities, FOs and private sector.

70. The activities in this subcomponent will involve (i) stakeholder sensitisation about infrastructure investments (ii) identification of eligible proposals (iii) selection and prioritisation of infrastructure investments (iv) design, procurement and implementation (v) monitoring, supervision and training. The PCU will implement the infrastructure related activities through the selected SP while APCU will implement these directly through the in-house infrastructure engineer. The A/PCU will orient the SP and infrastructure engineer on the above aspects who will then orient the other stakeholders. The main tasks of the SP and the infrastructure engineer will be technical and financial analysis of screened proposals, review and approval of engineering designs, procurement of civil works and submission of evaluation reports and supervision of civil works. The A/PCU and the SPs will also support stakeholders to identify important social, environmental and climate issues early in the BP process, with adaption and mitigation measures factored in the BP process from the outset.

71. **Activity 1 - Stakeholder sensitisation about infrastructure investments:** This will be done in full coordination with municipalities during the orientation workshops organised before the call for business proposals. The SP and the infrastructure engineer will be responsible to ensure that the BPs clearly present (i) the enabling infrastructure requirements in the geographical locations with higher concentration of target households including potential increase in outreach to target households from these investments (ii) the impact of these infrastructure on the profitability of the business leaders. The A/PCU and the SPs will advise stakeholders to incorporate into the business plans the relevant environmental and climate proofing measures to safeguard the infrastructure from natural hazards as well as to promote measures that reduce the adverse environmental impact of these investments by supporting energy and water efficiencies.

72. **Activity 2 - Selection and prioritisation of infrastructure investments:** The A/PCUs will be assisted by the SP and the infrastructure engineer to coordinate the selection and prioritisation of eligible infrastructure investments. Business leaders will, in coordination with the municipality, identify infrastructure development needs that will enable the implementation of their BPs that are aligned with READP development objectives. Identification will be undertaken in a participatory and demand-driven manner to ensure the investments improve the market access of smallholders and off-farm entrepreneurs through upgraded infrastructure that benefits the rural poor smallholder farmers, women and youth, and strengthen the value chain.

73. The infrastructure selection process will be anchored by the SP and the infrastructure engineer. It will involve (i) long-listing all potential infrastructure items as presented in the BPs (ii) participatory discussion at the municipal/cluster level to shortlist the more important infrastructure items and examine opportunities for harmonization with infrastructure proposals identified in other BPs as well as municipal infrastructure plans, priorities and budgets. Screening criteria will include (i) contribution to increasing the outreach of the BP to the target households (ii) contribution to the profitability of the target households (iii) performance of the business leader in the implementation of the BP (iv) link between infrastructure and value chain development for municipality identified proposals.

74. Final selection will be based on feasibility studies of the shortlisted infrastructure items, which will include mainstreaming and assessments related to environment and climate change. Final infrastructure evaluation will be based on criteria including (i) number of individuals assisted per USD 1,000 of investment (ii) co-financing by other stakeholders (iii) expected Increase in the value and volume of products sold by target households using better infrastructure (iv) technical and financial viability of the project (refer PIM). The selected infrastructure will be ranked based on this assessment and finalised for design and implementation according to the priority.

75. **Activity 3 - Design, procurement and implementation:** The municipalities in coordination and with inputs from the private sector where relevant will be responsible for developing the designs

for the selected infrastructure. The SP and the infrastructure engineer will review the proposal and incorporate relevant environmental and climate proofing measures to safeguard the infrastructure from natural hazards (such as flooding and landslides) through designs that take into account the climate risks. The aim of the measures is to avoid damages to property and forgone economic activity as a result of damages (e.g. failed bridges, damaged buildings), effects on health and human life, and impacts on environmental services (e.g. erosion, loss of natural capacity to protect from future climate change). In addition READP will promote measures that reduce the adverse environmental impact of these investments by supporting energy and water efficiencies.

76. Following the above, the SP and the infrastructure engineer will tender for implementation of the works. The municipality along with the SP and the infrastructure engineer will be responsible for monitoring the implementation process. Following the technical acceptance of the works the SP and the infrastructure engineer will train the actors engaged for the management of the infrastructure where relevant. They will also facilitate the development of management agreements between different actors for operating the infrastructure (refer to PIM). Such agreements will be based on best practices and experiences in Bosnia and elsewhere. In case of irrigation systems, for example, the municipality will establish a mechanism for the collection of fees for irrigation water use, which will be used to cover maintenance and repair costs of irrigation systems. The municipality, in consultation with the project and POs, will determine which entity will be responsible for the collection of water use fees. A Water User Association (WUA) may be formed for this purpose or an existing will be used in case of READP activities that build on the existing World Bank Irrigation Development Project, which has introduced participatory approach to water management and created WUAs. The fees collected will be paid into a municipality bank account established solely for the purpose of accruing funds collected from irrigation water users and will be paid to the municipal utility company, which will be responsible for the maintenance and repairs of irrigation systems.

77. **Activity 4 - Monitoring, supervision and training:** The SP and the infrastructure engineer will conduct periodic monitoring and follow-up visits to the infrastructure sites to assess the quality of implementation and the generation of benefits according to the projections in the BPs and feasibility studies. They will also provide technical assistance to overcome any issues and bottlenecks observed during the follow up visits. READ will provide tailored training to WUAs on organizational aspects of managing WUAs as well as technical aspects of operating irrigation systems to ensure optimum water use, optimum yields and minimum adverse impact on the environment.

78. **Activity 5 - Financing arrangements:** The approved infrastructure investments will be co-financed by READP in partnership with municipalities and, whenever applicable, other entities such as business leaders, FOs, individual farmers. The expected average investment by municipalities and others shall be 25%, however, the eligibility and co-financing proportions expected from municipalities and other entities will vary according to their economic development category. The developed and the semi developed municipalities will not be eligible for project financing for roads, bridges, village water supply and rural markets. Their cost contribution for other infrastructure projects will be higher (50-70%) compared to the less developed municipalities (5-15%) as presented in the table below. However, the actual co-financing commitment to an infrastructure project will be one of the key criteria for the selection of an infrastructure for financing. The expected average investment through IFAD financing is 75% (may vary between 95% and 30% depending on the development category of the municipality) but in all cases IFAD financing in different infrastructure categories will be subject to ceilings (in EUR) as defined in the table below. These ceilings are only applicable to IFAD financing. There is no ceiling on the total size of infrastructure investment as long as the infrastructure development meet READP objectives.

	Minimum contribution from municipality and other entities*				IFAD [ceiling in EUR]
	Extremely Underdeveloped	Underdeveloped	Semi-developed	Developed	
Publically managed infrastructure					
- Rural roads	5%	15%	X	X	[75,000]
- Small bridges	5%	15%	X	X	[75,000]
- Domestic water supply	5%	15%	X	X	[40,000]
Infrastructure co-managed in partnership between the public and the private sector					
- Cold storage and packing facilities	5%	15%	50%	70%	[100,000]
- Small storage and packing facilities	5%	15%	50%	70%	[50,000]
- Rural market	5%	15%	X	X	[75,000]
- Irrigation for agricultural production	5%	15%	50%	70%	[85,000]
- Small marketing infrastructure	5%	15%			[10,000]

\*other entities include SMEs, FOs, individual farmers

## Component 2: Project coordination and Management

79. The expected outcome of this component is efficiently and effectively managed project with knowledge management integrated in all aspects of operations. The The Ministry of Finance and Treasury of Bosnia and Herzegovina(MOFT) will have overall responsibility of READP and will coordinate with the Entity Ministries of Finance and Agriculture. At entity level, the Ministry of Agriculture, Water Management and Forestry (MAWMF) in the FBiH and the Ministry of Agriculture Forestry and Water Resources (MAFWR) in the RS will have the overall responsibility for the implementation as the Lead Agencies. A Project Steering Committee (PSC) chaired by the entity Ministry of Agriculture or its designated representative would be set up in each Entity to provide overall guidance to the Project at Entity level. READP implementation in each of the two Entities will be carried out by the existing A/PCUs that are well-versed with the systems and procedures for IFAD projects implementing. Dedicated project managers, additional staff and technical service providers will be deployed for the core project activities. Service providers and field coordinators will be hired to strengthen the implementation process. Further details on project management and coordination is presented in the in the section "Organisational Framework".



## Appendix 5: Institutional aspects and implementation arrangements

### Institutional Framework and Overall Responsibility

1 The READP will be implemented by Government and non-government institutions and private sector partners. The The Ministry of Finance and Treasury of Bosnia and Herzegovina(MOFT) will have overall responsibility of READP and will coordinate with the Entity Ministries of Finance and Agriculture. At entity level, the Ministry of Agriculture, Water Management and Forestry (MAWMF) in the FBiH and the Ministry of Agriculture Forestry and Water Resources (MAFWR) in the RS will have the overall responsibility for the implementation of the project as the Lead Agencies. FBiH and RS will entrust PCU/APCU respectively with the responsibility of coordinating and managing project activities.

2 A Project Steering Committee (PSC) chaired by the entity Ministry of Agriculture or its designated representative would be set up in each Entity to provide overall guidance to the Project at Entity level. The PSC would meet once or twice per annum. The A/PCUs Project Directors will be the Secretaries of the PSCs. It is advisable that PSC have the same composition as the PSC for the on-going IFAD supported RCDP. 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 and approve 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.

### Project Implementation Arrangement

3 The READP project has two components: (i) A technical component titled **Enhancement of economic opportunities and smallholders integration in value chains** and (ii) **Project management and coordination**.

4 Component 1 comprises of three sub-components: (i) Business plan development and implementation; (ii) Farmer development support and (iii) Enabling infrastructure support. The project will be implemented in close partnership with business leaders (farmer organisations and private agribusiness enterprises); business plans will be the key mechanism for the participation of target group households in the project. Further relevant partners in the business plan implementation process are project area municipalities, providers of technical and business services, financial institutions and relevant private sector market intermediaries.

5 Entry point and mechanism for Component 1 is through the promotion of Public-Private-Producer Partnerships (4P) outlined in Business Plans (BPs) between business leaders and target group smallholder farmers. These BPs will build on institutional arrangements and the lessons learned from the ongoing RCDP. In particular, the READP project will make use of the experiences and achievements of RCDP in Business Development Services (BDS) as well as in establishing and operating cluster stakeholder platforms. The project will engage service providers, cluster coordinators and extension officers to support the business plan development process.

6 **Selection of service provider to support the business plan development:** Service providers will play a key role in implementation together with cluster coordinators and extension officers. 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) single private or public service provider (consulting companies, regional development agencies, NGOs, Universities); or (ii) a consortia of service providers, the latter being needed because the broad range of training and advisory needs (organizational development,

technical and business-related aspects), or a wide geographical coverage may require different service providers.

7 In FBiH, the PCU will hire a service provider (company) competitively to support the business plan development and implementation process. Depending on performance, the company will be retained for assisting the implementation of the other sub-component on FO seed capital financing. The PCU will also contract 5 field officers as cluster coordinators, one for each selected cluster, to ensure field presence of the PCU and assist quality implementation process. In the RS, the APCU currently implements its projects in partnership with the Agency for Extension Services (extension agency) which implements its activities through 7 regional extension offices. For business plan development, the APCU will also contract a service provider competitively for implementation of the relevant sub-components. Field coordination in the RS will be undertaken by the 7 regional extension officers located in the 5 project clusters in RS. The A/PCU and the SPs in both entities will be responsible support stakeholders to identify important social, environmental and climate issues early in the BP process, with adaption and mitigation measures factored in the BP process from the outset.

8 The PCUs will develop detailed ToR for the selection of the service providers (draft ToR are attached to this appendix). As outlined above, the two PCUs use different approaches in project implementation, the TORs for service providers in RS will be slightly adjusted to include training and capacity building of the extension agency to support the implementation of the business plans. The PCUs will launch a public tender (via newspapers and internet) for the selection process of the service providers according to the proven procedures. The evaluation of the tender will follow the set criteria in the ToR such as significant in-house expertise and experience in the sub-sectors, targeting, business plan development, rural area development, youth employment, stakeholder facilitation and coordination, procurement, technical and financial reporting and donor interaction.

9 Once selected and contracted, the A/PCUs will orient the service providers and the extension agency to the project objectives, target group, approach and implementation methodologies, including the social, environmental and climate issues. The coordination units will mandatorily include the cluster coordinators and the extension officers in these orientation activities. The orientation process will be handled through (i) detailed information sessions and workshops for discussion between the service provider/extension agency, the project staff and the business development service (BDS) providers developed through RCDP (ii) field visits to farmers' organisations and municipalities

### **Sub-component 1.1. Business plan development and implementation**

10 The service providers in close coordination with cluster officers and extension service will be responsible for (i) implementing the targeting survey (ii) conducting sensitisation and consultation workshops prior to launching the business planning initiative (iii) providing technical guidance to the business leaders during the detailed business plan development process which includes identifying important social, environmental and climate issues to ensure that adaptation and mitigation measures are factored in the BP process from the outset (iv) ensuring the quality of the final business plans (v) facilitating negotiations the implementation agreements between different BP implementation partners, assisting in BP implementation process including training and advisory services.

11 **The targeting survey** implemented by the service providers, will assist in identifying the target groups present in the clusters. In consultation with the A/PCUs, the service providers and the extension agency will elaborate the methodology for the targeting survey such as questionnaires and checklists for guiding focus group and stakeholder discussions. The A/PCUs will approve these tools followed by field level implementation of the survey by the service providers and the extension agency in coordination with the cluster level field coordinators in FBiH and the extension officers in RS. The targeting study will be implemented in close partnership with project area municipalities. Key sources in the targeting process are local authorities at municipal level such as extension workers, social service centres, employment bureau, heads of the local communities. Cluster coordinators/extension officers will assist the implementation of the study at cluster level.

**12 Business proposal appraisal and development process.** In coordination with the A/PCUs the service provider and the extension agency will be responsible for organising cluster level stakeholder awareness and sensitisation workshops, at least 5 in each Entity. Main goal of the workshops will be to promote the project and explain its approach, guiding principles, target groups, pro-poor and inclusive approaches, strategies and implementation modality, clusters approaches; pre-identified municipalities and clusters of municipalities; sub-sectors, public-private linkages, leverage points etc. These workshops will be co-facilitated by the cluster coordinators and the extension officers in FBiH and RS respectively. To assist full understanding of the BP concepts, the project will distribute informative literature, organise resource person discussions and audiovisual sessions during the workshops. The collection of relevant informative literature (e.g. production manuals, market studies, export information etc) will be in the responsibility of the service providers; if required the A/PCUs will initiate compilation and printing of additional information.

**13** Following the stakeholder orientation workshops the PCUs will launch a call for proposals (expression of interest) inviting business ideas from interested business leaders. The call for proposal will be announced through newspapers and the internet. After the announcement, the service provider/extension agency, in coordination with the cluster level cluster coordinators and the extension officers will follow up with cluster level agribusiness and help assist them to submit their proposals to the A/PCUs.

**14 BP appraisal committees.** For business proposal appraisal the PCUs will assemble selection committees constituted by the PCUs in consultation with the IFAD CPM. The committees will involve also development partners. READP will benefit from experiences and institutional set-ups of RCDP in which also establish a technical committee for business proposal appraisal is foreseen. In RCDP, 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.

**15** The A/PCUs in consultation with the service provider and the extension agency will develop objective criteria and scoring method for ranking the proposals. The A/PCUs will organise selection committee meeting and sensitise the members about the scoring system. The committee will review the viability and the pro-poor nature of each BP and provide a written technical opinion to the APCU/PCU. The A/PCUs in consultation with the selection committee will develop a validation checklist with the points to be addressed during further validation visits. Validation visits will be carried out by the service providers and the extension agency in coordination with cluster coordinators and extension officers with oversight from the A/PCUs.

**16** The service providers and the extension agency will deliver technical assistance to the business leaders to develop the selected proposals into detailed business plans. The process will involve consultations, site visits and stakeholder workshops involving the business leaders, target households, farmers' organisations and municipalities. The business plans will be developed over a period of 3-6 months. The A/PCUs will organise monthly business plan preparation progress review meetings with the service providers and the extension agency. The service providers and the extension agency will be responsible for follow-up and implementation measures.

**17** In preparation for the implementation of the business plans the service provider and the extension agency will facilitate agreements/MoUs between the different implementation partners identified in the business plans (municipalities, farmers' organisations, financial institutions and the project). The service providers and the agricultural agency will be responsible for developing the templates for these agreements in coordination with the A/PCUs. They will be responsible for organising meetings, facilitating negotiations and ensuring written agreements between the partners.

**18 Business Plan implementation.** The business plan will be implemented using 4Ps arrangement involving partnership and contractual arrangements between the business leaders

enterprises (Private), the project (Public), the municipalities (Public), target households (Producer) and farmers' organisations (Public/Private) to fulfil the following responsibilities.

19 *Agribusiness/business leader responsibilities (Private)*: The business leaders will be responsible for organising all its marketing aspects, private infrastructure, working capital investments and operational requirements. Where relevant they will also supply quality planting material and other production inputs, including advance financing support to the target households. They will also be responsible to ensure the inclusion of the target households in the business models.

20 *Municipality responsibilities (Public)*: The municipalities will collaborate in the identification of the target households. They will provide an enabling setting for the implementation of the business plans by (i) supporting discussions between different business plan partners to foster development of synergies between different BP, including infrastructure, proposals (ii) co-financing the individual starter packages, FO seed capital financing and enabling infrastructure needs and (iii) overseeing the overall project implementation (e.g. quality of construction, regulatory compliance – including environmental) and ensuring proper management and maintenance of the developed infrastructure.

21 *Beneficiary responsibilities (Producer)*: The target group households will be responsible partners in the business planning and implementation process. They will (i) co-finance the starter packages and produce the selected crops (ii) supply the agreed quantities and qualities to the business leader and (iii) participate in strengthening the farmers' organisations by lobbying and advocating for more inclusive approach.

22 *Farmers' organisations responsibilities (Public/Private)*: Farmers organisations will be aggregators in the linkages between the target group farmers and the business leaders. They will assist members to meet the quality and quantity requirements of the final buyer by (i) providing the members with access to advisory assistance and (ii) relevant machinery and agronomic inputs.

23 *Project responsibilities (Public)*: The project will assist (i) market development activities (ii) training and advisory services to develop the agronomic knowledge of the target group households and (iii) support mainly to non-commercial farmers through starter packages to assist their first time linkage to the business leaders.

24 **Market development activities**. Service providers will guide the business partners in the process of introducing international quality standards and certifications and will also link them to relevant certification bodies where required. Participation in local, regional and international trade fairs (e.g. Biofach, Fruit Logistica, ANUGA) will be supported along with local and international study tours. The service providers and the extension agency will be responsible for the coordination and implementation of these activities with guidance and oversight from the A/PCUs.

25 **Farmers' training, advisory and capacity building services**: The project will provide training and advisory services to the target group households, business leaders and the farmers' organisations present as business intermediaries. The service provider and the extension agency will be responsible of drafting the annual work plan including an annual training plan. The training plan will be reviewed and finalised by the A/PCUs. The service provider and the extension agency along with the cluster coordinators and the extension officers will also be responsible of delivering the trainings. Where relevant additional technical specialists will be hired to support training and advice in specific areas. Training costs will be included in the tendered packages of the service provider.

26 The service provider and the extension agency along with the cluster coordinators and the extension officers will also be responsible of the provision of the advisory services. The A/PCUs will harmonise the implementation with the RCDP approach for BDS. Thus, advisory services could be financed through a voucher system (as foreseen in RCDP) or directly contracted through the PCUs.

27 **Delivery of starter packages**. In coordination with the A/PCUs the service provider and the extension agency will organise and facilitate cluster level implementation planning workshops for the partners to re-affirm their commitments for financing the starter packages and to discuss implementation arrangements. The service provider and the extension agency will be responsible for



organising and facilitating the implementation planning workshops and for providing technical inputs to support the discussions in these workshops. They will facilitate the negotiation process between the partners in the workshop and secure written co-financing and other implementation related commitments by the end of the workshop. They will assist the business leader to secure contracts with the target households and to compile the list producers eligible for READP starter package financing. The A/PCUs will then start the procurement process in coordination with the business leaders and the farmers' organisation leading to the identification of the vendor to supply the project financed inputs to the linked households. The A/PCUs will complete the payment for these packages directly to the selected vendors on evidence of delivery of the inputs to the approved households. Finally, the service provider, cluster coordinators and the extension officers will assist the delivery and verification of the delivery of the starter package inputs to the target groups and prepare reports based on which the project will disburse the starter package contribution.

**28 Business plan oversight committees.** A/PCUs will establish cluster level business plan oversight committees responsible for planning and implementation review of the business plans. The committees will comprise representative from the municipalities, business partners (PAs, buyers, processors, farmers, municipalities) and project including members from A/PCUs teams, service providers, extension agency and cluster level cluster coordinators and extension officers. These committees will be headed by selected municipalities. The project will organise regular cluster level business plan implementation, review and planning workshops which will be attended by the BP oversight committee and other READP target group representatives. The A/PCU in coordination with the service providers will facilitate the organisation and guide the implementation of these workshops.

**29** The oversight committee will also ensure follow-up monitoring visits in coordination with the cluster coordinators and extension officers, especially with regard to the supported investments. Monitoring forms should be created and door-to-door visits to a representative sample of target groups and FOs should be performed. As lesson learnt from the RLDP pilot projects the PCUs have to ensure active communication on phone as well as through regular (or ad hoc) meetings with the stakeholders (municipalities, business leaders, FOs) to resolve critical issues.

#### **Youth apprentice support:**

**30** In order to implement the scheme the project in partnership with the employment bureaus will invite expressions of interest from individual youth interested in receiving apprentice support as well as from employers interested in employing such youth. The announcement of the scheme will be done by the project at the cluster level in coordination with the employment bureaus. In order to be eligible the youth must be from the cluster, belonging to a target group household and the job should pertain to delivery or procurement of goods and services in the rural areas.

**31** The employer can be a project value chain partner including private sector and FOs as well as other enterprises and institutions active in job creation in the rural sector. They can be headquartered anywhere in BiH but the job offered must be related to supporting the rural operations in the project area. The employer will engage the apprentice in response to its requirement for a regular full-time employee in the organisation. Where there are multiple applicants for a single position the apprentice will be selected competitively and transparently through competitive selection process conducted by panel including the employer, employment and the project. In order to be eligible for apprentice support, the offer of employment by the employer will be for at least three subject to transparent performance assessment at the end of the apprentice period.

**32** On pilot basis READP will reserve the appointment of at least 25 young apprentices as coordinators/managers in FOs as a part of management support to promising FOs primarily the PAs which benefit from READP seed capital financing. READP will partner with the agricultural universities for selecting fresh graduates who are ready to serve as young apprentices in the FOs. Where required such apprentices can be guided by the universities during the course of the apprenticeship. Based on transparent performance evaluation at the end of the apprentice period the apprentice can

continue working for the FO if so required or receive an apprenticeship certificate from the project/university that can assist the person to secure other rural sector jobs.

### **Sub component 1.2: Farmers organisations development.**

33 This subcomponent will support around 40 farmers' organisations with (i) Farmers' organisations seed capital financing and (ii) institutional development training and advisory support.

34 **FO seed capital financing:** The project will support up to EUR 17,500 as business grants to around 40 qualifying farmers' organisations which can be used by them to finance assets identified in a business plan. Eligible farmers' organisations for the seed capital financing will be selected competitively following the same steps described in sub-component 1. The selected business proposals will be developed into detailed business plans with technical assistance support from the project delivered through service providers and the extension agency. In all cases the service providers will assure that the business plans are focused on increasing the outreach and income of the target households. The purchase of the selected equipment/assets will follow IFAD procurement regulations under supervision of A/PCUs.

35 **Institutional development training and advisory support:** Training service providers will be contracted for developing the training calendar, organising the institutional development training and advisory activities and for implementing these according to schedule. Trainings programmes will be complemented by exchange and learning visits, within the country and in Europe. These visits will be organised by the service provider in close coordination with A/PCUs.

### **Sub-component 3: Enabling infrastructure support.**

36 READP will support two categories of infrastructure activities (i) publically owned and managed infrastructure such as public water supply, which benefits multiple farmers in a defined area, or the establishment and rehabilitation of feeder roads, culverts and small bridges which connect business leaders and target households; (ii) publically owned infrastructure, such as irrigation structure, cooling and packing facilities, which is co-managed in partnership between the municipalities, FOs and private sector. The activities under this subcomponent will involve (i) stakeholder sensitisation about infrastructure investments (ii) identification of eligible proposals (iii) Selection and prioritisation of infrastructure investments (iv) design, procurement and implementation (v) monitoring, supervision and training.

37 **Implementation arrangements.** The project will be responsible for the implementation of the infrastructure related activities directly or through selected service providers. The implementation arrangements for this component will be slightly different in the two entities as was the case in previous IFAD funded projects.

38 In FBiH, the implementation of schemes will be managed by a competitively selected Service Provider, and executed on the basis of a tripartite Memorandum of Understanding among the PCU and project area municipalities as per the format developed under the previous IFAD projects. The main tasks of the Service Provider will be technical and financial analysis of preliminary screened proposals, review and approval of engineering designs provided by municipalities, incorporation of relevant environmental and climate proofing measures, procurement of civil works and submission of evaluation reports and supervision of civil works. Coordination of the Service Provider activities will be the responsibility of the PCU Rural Infrastructure Engineer.

39 In RS, the implementation of this component will be managed directly by the APCU. The staff involved in the infrastructure component implementation will consist of a Rural Infrastructure Engineer, Procurement Manager and a Financial and Economic Analyst contracted on a short term basis. The tasks of the PCU/APCU are outlined in the Project Implementation Manual. In both cases, the actual construction of the scheme will be contracted out to private sector contractors.

40 **Design, procurement and implementation.** The service provider in close coordination with the PCU respectively the APCU will be responsible for ensuring that the infrastructure items are clearly identified in the business plans along with clear justifications for seeking external investment for supporting their implementation.

41 The municipalities in coordination and with inputs from the private sector will be responsible for developing the designs for the selected infrastructure, which includes independent technical review and environmental assessment as per the applicable laws in BiH, as well as daily supervision of commissioned works following project appraisal and procurement procedure implemented by the A/PCUs.

42 A/PCU's appraisal of the proposed infrastructure will include (i) a site assessment to confirm that engineering design and the project as a whole reflects the situation on the ground, (ii) checking that the design is feasible in the local context (taking into account relevant permits, permissions, as well as environmental and climate change mitigation and adaptation measures) (iii) suggest improvements to the design to ensure best outcomes during operation, including climate resilience.

43 **Final Approval of Schemes:** All the proposals for infrastructure investment co-financing will be approved by the relevant Project Steering Committees (PSC) established in each Entity. The PCU and APCU will review and evaluate applications and provide recommendation to the PSC for competitive grant award. After approval by the PSC a request for review and no-objection for each proposal will be sent to IFAD prior to final decision on grants award.

44 Procurement processes, selection of contractor, construction supervision and final acceptance of works shall follow existing A/PCU-established procedures, which are in line with IFAD procurement procedures. The project will also conduct an internal environmental review to ensure the project will comply with relevant laws in BiH as was all IFAD environmental policies.

45 For most of the enabling infrastructure, municipalities will be responsible for operations and maintenance of infrastructure and these will be financed from their own budgets. In some cases, the responsibility may be transferred to an association - as is the case of irrigation infrastructure which is owned by the municipality but managed by a Water Users Association or cold storages, constructed by the municipality and leased to a FO or private agribusiness enterprise. The A/PCUs facilitate the development of management agreements between different actors for operating the infrastructure according to the mechanisms described earlier.

46 **Supervision and training:** The project will conduct periodic monitoring and follow-up visits to the infrastructure sites to assess the quality construction as well as subsequent use to assess the generation of benefits according to the projections in the business plans and the feasibility studies. Following the technical acceptance of the works, the project will train the actors engaged for the management of the infrastructure where relevant. The project will also provide technical assistance to overcome any issues and bottlenecks observed during the follow up visits. While capacities for maintaining enabling infrastructure in municipalities is generally high, in some cases additional technical assistance is required - for example in operational and technical management of irrigation systems - where capacities of both Water User Associations and municipalities need to be increased.

## **Project Management and Coordination (Component 2).**

47 **Project Coordination Units.** In each Entity, project coordination will be entrusted to the existing Project Coordination Units, the APCU in RS and the PCU in FBiH. These units will demonstrate a clear orientation towards targeting and social inclusiveness in line with the IFAD RB-COSOP (2013-2018). Both, the APCU and the PCU incorporate responsibilities for the overall project management and monitoring, organizing start-up and annual workshops for participatory annual programming, preparation of AWPBs and bi-annual reporting against the AWPBs, fiduciary management as well as smooth integration of READP into their on-going operations. They will also be responsible for providing logistical and administrative support to IFAD and supervision missions, mid-term review and project completion missions.

48 Parallel to READP, the APCU and PCU are implementing the IFAD funded RCDP which is planned for two cycles: (i) from 2017-2021 and (ii) 2022-2026. Thus, salaries of the staff of both units are already financed under RCDP. Accordingly, only supplementary staff specifically hired for READP implementation will be funded by this project. The additional staff to be hired by the APCU and PCU will include for the APCU a Project Manager and Business Development Officer supervising BP implementation, and for the PCU a Project Manager and an Accountant.

49 4P projects aim to involve the private sector more closely. This approach brings with it the requirement for project management arrangements that include skills, capacities and experience of working within such a collaborative framework. With implementation of two projects following a complementary approach, the A/PCUs require strengthened management capacity. As in RCDP, also in READP intensive planning, facilitation and coordination activities are envisaged by the Project. This will 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 service providers and other implementing partners, reflected in agreements and terms of reference, and related contractual arrangements.

50 The two projects in parallel alongside with large numbers of business plans and involved stakeholders calls for a considerable increase in support services for A/PCUs from service providers and other implementation partners. Thus, for the implementation of READP the PCU/APCU will recruit after a competitive process, technical assistance and service providers based on performance-based contracts and oversee and supervise their work. In FBiH, the PCU is contracting service providers for project implementation support. In the RS, the APCU currently implements its projects in partnership with the Agency for Extension Services. For implementation of READP, the APCU will additionally contract a service provider competitively for implementation since the extension agency currently does not have experience in the business plan methodology.

51 The project will require substantial field presence since the project area, selected based on geographical targeting approach, will consist of 10 clusters (five each in FBiH and RS) with an average of 9 municipalities per cluster. With regard to the field presence of the PCUs, in the RS it is expected that the field coordination will be undertaken by regional extension officers based in the 7 regional branches of the Agency of Extension Services. In the FBiH, the PCU will contract 5 field coordinators as cluster coordinators, one for each cluster, to ensure field presence of the PCU and assist quality implementation process.

52 APCU and PCU will be responsible for coordination and liaison with municipalities, business leaders, FOs and target households in the clusters and implementing partners. Thus, PCU/APCUs will enter into MOU with the relevant business plan partners in implementation of project activities, including project area municipalities, private agribusiness enterprises, producer associations and cooperatives (key mechanism for the participation of the target groups). These MOUs will detail the roles and responsibilities of each party in business plan implementation, the modality of allocation and control of project resources and the monitoring and reporting arrangements.

53 **Monitoring.** 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. Monitoring will be coordinated by the PCU/APCU, but should be assisted primarily by the contracted service providers, extension officers and cluster coordinators. Data collection will be actively assisted by the business leader partners; this support from the local stakeholders will foster greater ownership and accountability. The PCUs will harmonize the approach in monitoring with the chosen approach in RCDP to allow synergies and comparison of project achievements. A detailed M&E review will provide recommendation on the measures to take to accommodate READP requirements.

54 **AWPB.** The AWPB represents the key planning document for the Project and its implementation. The APCU/PCU will prepare Annual Work Plan and Budget (AWPB) 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. Service providers 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.

55     **Partnerships.** READP will build on the positive experiences of USAID and SIDA funded FARMA I and II projects, GIZ, 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.

56     **Annexes:** (i) Draft Job Description for Project Manager (APCU and PCU); (ii) Draft Job Description of Business Development Officer (APCU) (iii) draft job description of accountant (iv) Draft ToR for Service providers;

## **Annex II: Draft Job description and ToR**

### **Draft Job Description: Project Manager for READP (PCU/APCU)**

#### **Duties and responsibilities**

The Project Manager for READP will be heading the APCU READP team and will be responsible for READP overall implementation. The Project Manager will report to the APCU Director.

The following draft job description will in particular outline the responsibilities related to the READP implementation complementing the general job description for Project Managers in APCU.

To this end s/he will be responsible for:

- Preparation of the final Project Implementation Manual (PIM)
- Preparation of the Annual Work Plan and Budget (AWPB) including budgeting and submit it to the Director for approval of Project steering committee (PSC) for approval and to IFAD for its non-objection
- Participation in PSC meetings
- Logistics and implementation support to IFAD supervision missions, MTR
- Preparation of the project closing report
- Coordination with other development projects related to READP
- Coordination with APCU project manager responsible for RCDP
- Coordination among the READP team and defining clear responsibilities and tasks.
- Liaising in close coordination with the APCU Director with the Agency for Extension services and prepare ToR for the selected extension officers and contract arrangements.
- Development of ToR and implementation of tender process for contracting service providers to support the implementation of the project and to train the extension officers
- Coordination with cluster based municipalities, especially with regard to their involvement in BP implementation and financing as well as the required support for implementation of enabling marketing infrastructure.
- Coordination, implementation and supervision of in the PIM and AWPB defined activities under Component 1 especially in close coordination with the Business Development Officer in charge for sub-component 1 and sub-component 2 as well as the APCU Rural Infrastructure Officer and the Procurement Officers in charge for for sub-component 1.3.
- Coordination closely with the M&E Officer for the implementation of the M&E system and timely implementation of baseline study and impact study. M&E Officer will especially closely coordinate with the Business Development Officer and the APCU Rural Infrastructure Officer as well as with SP and EO.
- Capacity building of APCU READP team members to further develop the required skills and capacities for READP implementation.

#### **Required Skills and Experience**

- **Education.** Master degree in business administration, economics, agriculture, management or related areas.
- **Experience.** Minimum 10 years working experience in coordination of development projects;
- Proven management and organization skills.
- **Language.** Fluent spoken and written English.

## **Draft Job Description: Business Development Officer for READP (APCU)**

### **Duties and responsibilities**

The Business Development Officer for READP will be a member of the APCU, reporting to the APCU Project Manager and will be the focal point for READP project activities related to component 1 aiming at enhancing economic opportunities and smallholders integration in value chains. To this end s/he will:

- Organise and play an active role in the start-up workshop, promotion/awareness campaign of the READP project as focal point for its Component 1;
- Support preparation of the TOR and the documentation to hire service providers (SP) for implementation of Component 1, sub-component 1.1 and 1.2 on Business Plan Implementation with particular focus on training and advising recruited extension service staff in subject matters related to business plan development and implementation.
- Prepare ToR for the 5 (PCU) cluster coordinators (CC) and (APCU) extension officers (EO) supporting project implementation in the selected clusters
- Briefing of service provider including workshops with RCDP staff and CC and EO.
- Initiate in close coordination with SP, CC, EO the development of a methodology for the targeting study and supervise implementation and reporting.
- Organise in coordination with SP, CC and EO stakeholder sensitization workshops in each cluster of the project areas.
- Develop background information and ToR for 'Call for business proposals', to be published in internet and newspapers.
- Coordinate the follow up field visits of SP, EO and CC to assist stakeholders in application.
- Assist the A/PCUs project manager in establishing BP appraisal committee and furthermore contribute to development of BP screening criteria.
- Follow-up on the process of identification and preparation of Business Proposals through periodic reporting and field visits;
- Supervise the further development of selected business proposals
- Together with the Project manager of the PCU/APCU participate in the BP approval session;
- Update information about sub-sectors and value chains relevant for BP development;
- Coordinate in close cooperation with SP, EO and CC the identification and specification of required starter packages and launch after A/PCUs approval the tender process.
- Supervise the procurement process and distribution of starter packages to the determined target households.
- Coordinate the development and implementation of training plans to be prepared by SP/EO
- Monitor the functioning of the voucher scheme in RCDP and contribute to the decision making process on advisory services;
- Supervise training and advisory services and ensure close communication with all stakeholders including municipalities and private sector partners;
- Initiate, support approval by project manager and follow up/participate in market development activities implemented by SP such as quality assurance/certification processes, trade fair participation and study tours.
- Organise in cooperation with SP; CC and EO BP implementation review and planning workshops in the selected clusters

- Coordinate with SP, CC and EO support to FOs in term of training and advisory services for institutional strengthening.
- Assist the project manager in close cooperation with SP in FO seed capital financing measures such as specification, selection, approval of required investments, coordination with municipalities on co-financing means, establishment of linkages to the finance sector, launching tender processes and support procurement and distribution.
- Liaise with the PCU/APCU M&E officer to set up an appropriate M&E system for systematic data collection and reporting related to all key activities supported by component 1;
- Prepare the TOR and the documentation to re-hire SP, if relevant, to support the implementation of BPs;
- Monitor the performance of approved BPs and progress made against baseline indicators 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 SP and M&E Officer the preparation of Knowledge-sharing products (guidelines, manuals, case studies, lessons learnt) to document and share the results of the component 1.

#### **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



## **Draft Outline of TOR for Accountant (PCU)**

### **1. Activity and Task:**

- Assist the FM in the implementation of a sound financial management system;
- Prepare financial reports, including monthly funds reconciliation, and monthly, quarterly, semiannual and annual expenditure statements;
- Prepare transaction vouchers, and input all transactions into the project accounting system before submission to the FM for approval;
- Opening and closing of the project accounts;
- Timely payment of project liabilities upon verification of the invoices received and ensuring that the project procedures are strictly adhered to;
- Process monthly payroll, salary payment to staff and all project contributions related to salary payments; Ensure registration and deregistration of employees;
- Monitor data on credit disbursements under the credit lines;
- Manage and report on the use of Petty Cash in accordance with the approved procedures;
- Prepare cash flow forecasts as required; Carry out the accounting of the documents in the various project books and journals and/or the accounting software
- Monitoring contracts with all project partners and financial returns from Implementing Partners, if any, including periodic visits to their offices;
- Verify all accounting entries;
- Assist in the preparation and monitoring of annual operational budgets;
- Maintenance of a well-organized and up-to-date filing system for accounting and financial records as well as an fixed asset tagging system;
- Perform physical inventory of project assets each year; Prepare the annual financial statements;
- Assist the FM in the closing of the financial year and the preparatory work for the annual audit and provide assistance to the external auditors as required;
- Prepare monthly bank reconciliation statements of all bank accounts maintained by project
- Assist the FM in the preparation of direct payment requests and withdrawal applications, including statement of expenditures (SOE) in line with IFAD guidelines of expenditures;
- Undertake any other duties as they may be requested by the supervising authorities.

### **2. Profile:**

- 2 year Bachelor's degree or secondary education in the business administration and accounting
- Minimum five (5) years of working experience in accounting of which three (3) in an equivalent position with an information flow equal to that of a project
- Certified accountant license
- Good knowledge of the English language
- Good computer skills and use of accounting software
- Experience in the banking sector is a plus

## **Draft Outline of TOR for Service Providers for READP Business Plan Development (A/PCUs)**

1. **Background.** The main component of the IFAD funded READP project is a technical component titled **Enhancement of economic opportunities and smallholders integration in value chains**. This Component 1 comprises of three sub-components: (i) Business plan development and implementation; (ii) Farmer development support and (iii) Enabling infrastructure support. The project will be implemented in close partnership with business leaders (farmer organisations and private agribusiness enterprises); business plans will be the key mechanism for the participation of target group households in the project. Further relevant partners in the business plan implementation process are project area municipalities, providers of technical and business services, financial institutions and relevant private sector market intermediaries.
2. Entry point and mechanism for Component 1 is through the promotion of Public-Private-Producer Partnerships (4P) outlined in Business Plans (BPs) between business leaders and target group smallholder farmers. The project will engage service providers to support the business plan development process (sub-component 1 and 2 of the project).
3. **Modalities.** Service providers will play a key role in implementation and will be selected through a competitive process. Three modalities of service providers can be selected, according to the specific services required: (i) single private or public service provider (consulting companies, regional development agencies, NGOs, Universities); or (ii) a consortia of service providers, the latter being needed because the broad range of training and advisory needs (organizational development, technical and business-related aspects), or a wide geographical coverage may require different service providers.
4. In FBiH, the PCU will hire a service provider (company) competitively to support the business plan development and implementation process. Depending on performance, the company will be retained for assisting the implementation of the other sub-component on FO seed capital financing. The PCU will also contract 5 field officers as cluster coordinators, one for each selected cluster, to ensure field presence of the PCU and assist quality implementation process.
5. In the RS, the APCU will also contract a service provider competitively for implementation of the relevant sub-components. Field coordination in the RS will be undertaken by the 7 regional extension officers located in the 5 project clusters in RS. The TORs for service providers in RS will include training and capacity building of the extension agency to support the implementation of the business plans.
6. After contracting, the A/PCUs will orient the service providers to the project objectives, target group, approach and implementation methodologies. The coordination units will mandatorily include the cluster coordinators and the extension officers in these orientation activities. The orientation process will be handled through (i) detailed information sessions and workshops for discussion between the service provider/extension agency, the project staff and the business development service (BDS) providers developed through RCDP (ii) field visits to farmers' organisations and municipalities

### **Scope of Work**

7. The Service Provider will be responsible for supporting the A/PCUs in the process of Business Proposal Selection, Business Plan Development and Implementation in the frame of the READP Project. The service provider will closely liaise with A/PCUs READP team, in particular with the Project Manager, READP Business development Officer as well as with A/PCU M&E Officer.
8. The service providers in close coordination with A/PCUs READP team, cluster officers and extension service will be responsible for
  - i. Implementing a targeting survey

- ii. Conducting sensitisation and consultation workshops prior to launching the business planning initiative (iii)
- iii. Providing technical guidance to the business leaders during the detailed business plan development process
- iv. Ensuring the quality of the final business plans
- v. Facilitating negotiations the implementation agreements between different BP implementation partners,
- vi. Assisting in BP implementation process including training and advisory services
- vii. Assist and support the M&E data collection in READP.

**The tasks in detail:**

- **The targeting survey** implemented by the service providers, will assist in identifying the target groups present in the clusters. The main tasks for the SP under this activity are:
  - Elaboration of the methodology for the targeting survey such as questionnaires and checklists for guiding focus group and stakeholder discussions.
  - Implementation of the survey together with the extension agency in coordination with the cluster level field coordinators in FBiH and the extension officers in RS. The targeting study will be implemented in close partnership with project area municipalities. Key sources in the targeting process are local authorities at municipal level such as extension workers, social service centres, employment bureau, heads of the local communities.
- **Business proposal appraisal and development process.** The main tasks for the SP under this activity are:
  - Organisation of cluster level stakeholder awareness and sensitisation workshops, at least 5 in each Entity. These workshops will be co-facilitated by the cluster coordinators and the extension officers in FBiH and RS respectively.
  - To assist full understanding of the BP concepts, the project will distribute informative literature, organise resource person discussions and audiovisual sessions during the workshops. The collection of relevant informative literature (e.g. production manuals, market studies, export information etc) will be in the responsibility of the service providers; if required the A/PCUs will initiate compilation and printing of additional information.
- **Call for BP proposals.** The PCUs will launch a call for proposals (expression of interest) inviting business ideas from interested business leaders. The call for proposal will be announced through newspapers and the internet. The main tasks for the SP under this activity are:
  - Follow up with cluster level business leaders and help assist them to submit their proposals to the A/PCUs.
- **Business Proposal Appraisal and BP Development.** The A/PCUs expect some 150 business plans to be approved over 4-5 years of project implementation. With these 150 BPs it is expected to reach out to some 7,500 target group households including youth. The main tasks for the SP under this activity are:
  - Support development of criteria and scoring method for ranking the proposals.
  - Validation visits of the selected BPs in coordination with cluster coordinators and extension officers with oversight from the A/PCUs.
  - After selection of BPs, technical assistance to the business leaders to develop the selected proposals into detailed business plans. The process will involve consultations, site visits and stakeholder workshops involving the business leaders, target households, farmers' organisations and municipalities. The business plans will be developed over a period of 3-6 months.
  - Monthly business plan preparation progress review meetings with A/PCUs, and the extension agency. The service provider will be responsible for follow-up and implementation measures.
  - Development of templates for MoU agreements in coordination with the A/PCUs to prepare implementation of the business plans

- Facilitation of agreements/MoUs between the different implementation partners identified in the business plans (municipalities, farmers' organisations, financial institutions and the project).
- Responsible for organising meetings, facilitating negotiations and ensuring written agreements between the partners.
- Provision of support to **FO in applying for seed capital financing**: Up to 40 FOs will be supported in seed capital financing based on BPs in line with the overall BP eligibility criteria. The main tasks under this activity are:
  - The selected business proposals will be developed into detailed business plans with technical assistance support delivered through service providers
  - The service providers will assure that the business plans are focused on increasing the outreach and income of the target households.
- **Market development activities.** The main tasks for the SP under this activity are:
  - Guidance of business partners in the process of introducing international quality standards and certifications
  - Linkages to relevant certification bodies where required.
  - Preparation and implementation of participation in local, regional and international trade fairs (e.g. Biofach, Fruit Logistica, ANUGA) in close coordination with A/PCUs
  - Preparation and implementation of local and international study tours in coordination, guidance and oversight from the A/PCUs.
- **Farmers' training, advisory and capacity building services.** The main tasks for the SP under this activity are:
  - Drafting the annual work plan including an annual training plan. The training plan will be reviewed and finalised by the A/PCUs.
  - The service provider and the extension agency along with the cluster coordinators and the extension officers will also be responsible of delivering the trainings. Where relevant additional technical specialists will be hired to support training and advice in specific areas.
  - The service provider will be responsible of the provision of the advisory services. A semi—annual workplan for the implementation of the advisory services will be prepared and approved by A/PCUs
  - Costs for training and advisory services will be included in the tendered packages of the service provider.
- **Institutional development training and advisory support.** In the context FO seed capital financing the selected FOs will be supported with training and advisory services. The main tasks for the SP under this activity are:
  - Developing a training calendar,
  - Organising the institutional development training and advisory activities and for implementing these according to schedule,
  - Preparation and organisation of exchange and learning visits, within the country and in Europe in close coordination with A/PCUs.
- **Delivery of starter packages.** The main tasks for the SP under this activity are:
  - Organisation and implementation of cluster level implementation planning workshops for the partners to re-affirm their commitments for financing the starter packages and to discuss implementation arrangements.
    - Facilitate the negotiation process between the partners in the workshop and secure written co-financing and other implementation related commitments by the end of the workshop.
  - Assistance to the business leaders to secure contracts with the target households and to compile the list producers eligible for READP starter package financing.

- Assistance in delivery and verification of the delivery of the starter package inputs to the target groups and preparation of reports based on which the project will disburse the starter package contribution.
- Organisation of regular cluster level business plan implementation, review and planning workshops
- **Monitoring of READP implementation.** The main tasks for the SP under this activity are:
  - Assistance to the A/PCUs M&E Officer in data collection and coordinating the involvement of BP agribusiness partners in data provision,
  - Preparation of Knowledge-sharing products (guidelines, manuals, case studies, lessons learnt) to document the results of the component 1.
- **Reporting.** The main tasks for the SP under this activity are:
  - Contribution to the AWPB
  - Preparation of reports according to the reporting schemes and cycles of the A/PCUs (still to be defined).

#### **Required Skills and Experience**

- Profound knowledge of business plan development,
- Profound knowledge of targeting, gender and youth issues
- Experiences in implementing targeting studies
- Experiences in rural area development projects, stakeholder facilitation and coordination, procurement, technical and financial reporting and donor interaction.
- Experience in fruit & vegetable, MAPs/NTFP, dairy and honey sub-sectors.
- Significant in-house expertise in the above mentioned areas are required
- Proven organization knowledge.
- **Language.** Fluent spoken and written English



## Appendix 6: Planning, M&E and learning and knowledge management

### A. Introduction

1. This appendix serves as the strategic foundations for establishing an operational Planning, Monitoring & Evaluation and Knowledge Management architecture in the Rural Enterprise Agricultural Development Project (READP), to be positioned within the lead implementing agencies in the respective BiH entities<sup>81</sup>.
2. Alongside the international development community increased focus on measuring and improving results, and particularly since the Paris Declaration on Aid Effectiveness in 2005, IFAD has consistently thrived to improve development effectiveness.
3. This appendix therefore builds on the most recent key corporate and country level requirement, including: i) IFAD's Development Effectiveness Framework<sup>82</sup>; ii) IFAD's corporate Result and Impact Management System (RIMS); iii) IFAD's Knowledge Management (KM) Strategy; and iv) IFAD Result-Based Country Result Management Framework<sup>83</sup>.
4. IFAD's Development Effectiveness Framework aims to facilitate evidence-based decision making and emphasize the following objectives in the design and implementation of project level M&E and KM functions:
  - a. Strengthening the *focus on results* through the project cycle;
  - b. Enhancing self-evaluation and learning for results;
  - c. Fostering the use of evidence in project management;
  - d. Linking project *M&E to corporate result* reporting.
5. The implementation of READP is anchored in the 'Management for Development Result (MfDR)'<sup>84</sup> approach geared to:
  - a. Prove impacts: verifies that IFAD is doing the right things;
  - b. Improve impacts: verifies that IFAD is doing things right.
6. This implies that all activities should be planned with the intention to prove or demonstrate achievements and impacts based on robust results measurement. Equally important is the notion of determining which development interventions are yielding the best results, based on which take corrective actions in resources allocation can be made to improve impacts.

### B. Planning

7. **Result based planning process** consist in a set of complementary instrument meant to ensure annual objectives are set realistically, whilst subsequently human and financial resources are allocated to deliver on outreach targets.
8. **Annual Work Plans and Budgets** (AWPB) and corresponding Procurement Plans<sup>85</sup> will be the project's key planning instruments. The purpose of the AWPB is to provide the PMU with a timetable for implementation of a set of scheduled activities, together with their respective budgets. AWPBs are formulated taking into account the Project Design Report, supervision report recommendations and legal agreements, contract and management agreements of service providers and participating

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<sup>81</sup> In the FBiH, the Program Coordination Unit (PCU) and in the RS, the Agriculture/Program Coordination Unit (A/PCU).

<sup>82</sup> Approved by IFAD Executive Board in December 2016.

<sup>83</sup> As detailed in the Result-Based Country Strategy and Opportunities Program (RB-COSOP).

<sup>84</sup> 'Managing for development results (MfDR)' is synonymous with 'results-based management (RBM)', but as a concept it incorporates the newer ideas inherent in the 2005 Paris Declaration on Aid Effectiveness.

<sup>85</sup> See Appendix draft PIM section on procurement.

partners, the overall project's targets, procurement plans and development priorities of target communities.

9. Set against the project LogFrame, planned activities should have clear financial allocations, which would be the basis for funds release and for financial control. A quality AWPB facilitates the preparation of progress reports and the work of the supervision missions.

10. The AWPB is an essential covenant in the legal Financing Agreement; failure to prepare it on a timely basis may lead to delay or suspension of fund disbursement by IFAD. The first AWPB would be prepared, together with the Procurement Plan for the first 18 months of the project and be presented for discussion during the start-up workshop for submission to IFAD for no objection. Considering that the AWPB has to be review, approved and validated by the Entity-level Project Steering Committees (PSC) and IFAD (review, approval and no objection) before (30 to 60 days) before the beginning of the fiscal year, the elaboration of the AWPB would be prepared, discussed and approved several months before the beginning of the financial year covering the AWPB.

11. The process for designing AWPB will be participatory, reflecting a bottom-up prioritisation process from the business units at cluster level, as per READP's demand-driven nature. A wide array of Business Plans partners and stakeholders found in the business units should be involved, including IFAD's target groups, the private sector, rural producers and their organisation, specialised service providers and municipalities.

12. READP will build on the practices established by RCDP whereby AWPB progress are discussed and review during Annual Stakeholder Review and Planning Workshops, providing input to the Projects' AWPBs for the succeeding year, thus closing a circle of participatory, demand-driven planning and implementation. During the implementation year and considering the AWPB as a living document, 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. Concurrently, failures to meet two consecutive quarterly targets by more than 25% will trigger collective corrective decisions at the level of the PSC, in collaboration with IFAD. 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.

13. A Start-up Workshop will be conducted at the onset to present the steps underpinning the planning and annual work plan process as well as the monitoring and evaluation system. Under the guidance of the A/PCUs staff and with the collaboration of project partners, a special session on M&E system and associated process to brief participants about the Project Logical Framework, progress reporting and evaluation arrangements. A session will also be held to familiarize the participants with IFAD's new RIMS system, performance based contracting system and key performance indicators regarding targeting effectiveness, backward linkages and the impact pathways to foster the development of more inclusive value chains and increase the competitiveness of rural enterprises.

#### **D. Monitoring and Evaluation**

14. The project M&E system and processes would be established and managed in accordance with established IFAD procedures by the project team with support from IFAD, and are built around the set of selected indicators outlined in the logical framework. IFAD's latest procedure for designing log-frame were considered, including the reformed RIMS, and the key provision introduced to enhance results-based management through realigning the log-frame with the findings generated by the Economic and Financial Analysis, especially in the setting of initial, intermediate and final targets and assumptions.

15. The most significant changes introduced by the new IFAD's RIMS framework pertains to the willingness to strengthen linkages between project M&E and corporate results reporting. Now mainstreamed into project management, the log-frame must contain a number of RIMS core



indicators, complemented by project-specific indicators (PSIs), designed to measure specific results that may not be adequately captured by the core indicators<sup>86</sup>.

16. Organisational structure and human resources covering the current projects RBDP and RCDP are already in place: in each entity with one M&E officer. The A/PCUs are accountable for reporting project's progress and achievements and have the overall responsibility for M&E. Reflecting the variations in the implementation arrangements, the APCU and the PCU approach to M&E differs and are not harmonised.

17. The READP M&E system will take advantage of the existing infrastructure and make improvement during the project start-up, building on existing strengths and weaknesses. READP should learn from previous shortcomings<sup>87</sup> and aim to align, where possible, with RCDP's M&E system to enable consistent use of a common set of key performance and management indicators, thus establishing a strong base for comparison<sup>88</sup>. The READP's M&E system will generate qualitative and quantitative information for the A/PCUs and the Ministry of Agriculture on the project's progress and implementation performance.

18. The structure shall reflect the various levels of the result chains and is categorised along two overarching key functions: output monitoring & outcomes/impacts result monitoring. Both are based on participatory process and, like in RCDP, it is expected that stakeholders external to the PCUs will play a key role, including specialised services providers and business plan facilitators, Producers Associations, municipalities, beneficiaries and private stakeholders/investors.

19. The annex below outlines the various levels of the envisioned READP's M&E architecture, and defines stakeholders' roles and responsibilities. Against the outputs to be generated, annual workshop review will assess level of monitoring and result reporting performance across sub-sectors and cluster recommend corrective measures. In particular, the recruitment of additional human resource, i.e. additional field coordinators to strengthen reporting from the business unit level shall be considered.

20. The ToRs of the SPs, cluster coordinator and extension agents contains strong M&E specific deliverables. Performance will be reviewed on annual basis, including the relevance and adequacy of the support provided in the 10 clusters and 90 municipalities.

21. **Output Monitoring.** The AWPB will provide a framework for the immediate physical and financial progress, and orient the PCUs and other stakeholders in continuous monitoring of input delivery and implementation of activities. During the first six months of implementation, a set of performance indicators will be developed to measure components' progress at outputs level. To this end, the PCUs will develop monitoring instruments and associated tools in the form of harmonised templates<sup>89</sup> to track progress during the period from 1st of January to December 31st of a given year, ensuring the collection of disaggregated information. Inclusiveness monitoring will start at this level against the benchmark established at start-up with regard to each category of beneficiaries (very poor, poor, borderline poor).

22. Outcome assessment are concentrated on assessing the intermediate results of the project's combined outputs on targeted households and other project beneficiaries. Progress and likelihood to achieve expected outcomes should be measure at mid-term stage or earlier, and reported to IFAD on annual or biannual basis, depending on the type of indicator and the measurement methodology. Measuring outcome indicators, will be undertaken with the project M&E budgets and capacities, complemented with small-N quantitative surveys and other qualitative methodologies such as focus groups, in-depth interviews, participatory assessments to triangulate findings and enrich overall assessment of project performance. The practices of measuring RIMS 2nd level outcomes through rating based assessments will be discontinued. During implementation, it will provide the management with clear information on performance and progress towards achieving expected

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<sup>86</sup> IFAD will only aggregate the core indicators for corporate reporting.

<sup>87</sup> The most generally identified in previous projects see Appendix III for an overview.

<sup>88</sup> A list of overlapping indicators is found in annex.

<sup>89</sup> See monitoring tools proposed in the annexe.

development objectives, including identifying the most successful interventions and hindering factors. It also represents a critical step towards evaluating the project impact at completion.

23. Impacts assessment will focus on the higher level of result defined in the log-frame and include the limited set of development objectives the project intends to achieve. The Impact of READP will be reported in the project completion reports (PCR). Since RIMS impact completion survey are no longer mandatory, READP will determine in consultation with IFAD the project's most appropriate impact assessment need, drawing on combined quantitative, qualitative or mixed method approach that credibly and reliably measure the project performance to satisfy the five standard impact evaluation criteria defined in the PCR, including impact and sustainability of results, contribution to capacity development and the achievement of global environmental goals.

24. Reporting on the rural poverty impact will require READP to undertake a household survey, complemented with a market assessment survey quantifying READP induced impact in the various sub-sectors it intervened and the wider market system. The final evaluation should identify follow-up activities and generate actionable lessons learnt for IFAD and government counterparts.

25. **Baseline studies.** RIMS baseline survey are no longer mandatory. Instead, implementing units will commission a baseline study as a tool to establish final baseline data and targets for log-frame indicators. The baseline study will be conducted in a selected sample of geographical clusters across representative sub-sectors comprising READP's direct and indirect individual and institutional beneficiaries. It shall be aligned with the key priorities of the project set in the complementary sub-components, and refer to key dimension of systemic change READP aims to bring about:

- Productivity efficiencies of rural producers;
- Level of inclusion in selected subsector in various geographical cluster; with a special focus on youth and women;
- Transformation of Farmers Organizations and their Institutional performance;
- Value chain governance, business environment and the broader enabling environment for pro-poor sustainable growth development;
- Current and existing climate resilient infrastructure to determine the growth impact associated with production and marketing infrastructure.

26. **Management information system (MIS).** Immediately after the start-up workshop, A/PCUs should procure a centralise and integrated computerised management information system. The MIS will be designed based on M&E system requirement. Associated database will contain all relevant data (project inputs, outputs and outcomes) collected by project stakeholders and consolidated by the PCU and APCU. Given READP special emphasis on monitoring business plans' inclusiveness, especially on women and youth, the system will have to provide gender and age disaggregated data on all key indicators. This overall responsibility to maintain and continuously update the MIS will be the respective M&E Officers in the PCU and APCU with assistance of all project team members and project implementation partners.

27. Reporting processes will capture data periodically from different sources and stakeholders about project interventions, which are consolidated at different levels, processed, analysed, classified and presented into customized tables that are used for the preparation of different reports. The set of reports constituting the minimum reporting requirements include: (i) monitoring reports, (ii) (semi) annual progress reports (iii) financial reports; (iv) audit reports; and (v) completion reports. Additionally, at project start-up, the M&E officer will be supported to identify additional reporting requirement providing relevant information for cluster wide steering, trends in business units performance along geographical clusters/sub-sector and joint assessment performance of service providers and field coordinator for stronger accountability.

28. The different reports of the M&E would be categorized by period covered, partners producing them as well as by the Project objective and result chains hierarchy. The M&E Officer would be responsible for running the internal M&E and organizing the baseline and impact assessment survey.

The M&E unit at the PMU would develop formats, questionnaire and other data collection tools that would be used to identify baselines and progress during the course of the Project.

29. **A start-up workshop** will be organized in the six months after entry into force year to establish planning, financial management, governance, procurement, M&E, project organizational and operational modalities, technical specifications and processes.

30. **A Mid-Term Review** will be carried at mid-year of the Project's third year. The review would cover, among other things: (i) physical and financial progress as measured against AWPBs; (ii) performance and financial management of contracted implementing partners; (iii) an assessment of the efficacy of technical assistance and capacity building activities; (iv) and strategic recommendations to ensure achievement of the development objectives.

31. **A Project Completion Review** team will undertake a final evaluation of the project within the last six months prior to the project completion date, going beyond the mid-term evaluation in terms of assessing the overall relevance, efficiency, effectiveness, and sustainability against the impact achieved. Additional evaluation criteria would include gender equality and women's empowerment, innovation potential for scaling up, adaptation to climate change, and targeting. A completion rural households survey shall be done prior to the PCR mission. The assessment of project achievements would be in line with IFAD's project completion guidelines and the IOE Evaluation Manual<sup>90</sup>. The PCR will put an emphasis on lessons learnt which should be significant in that they have a real or assumed impact on operations; valid in that they are factually and technically correct; and applicable in that they identify a specific design, process, or decision that reduces or eliminates the potential for failures and mishaps, or reinforces a positive result. 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 (IOE).

## E. Knowledge Management

32. Given the innovative features of READP, learning and knowledge management would be a key underlining theme in which the dissemination of project experiences and results to stakeholders and other development partners would be crucial.

33. READP focus on increasing competitiveness, strengthening farmers' organization and generating youth employment is aligned with national development priorities. Success with any of these elements would have a significant potential for scaling up, as significant EU resources are expected to be available for rural sector development.

34. Particular emphasis will be put on the enabling factors underpinning the successful implementation of joint business plan, with the view to document the experience and disseminate the results for wider policy impact to scale up. To that end, 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.

35. A knowledge-sharing and learning culture will be promoted at all level, from the A/PCUs to the business units, through the clusters and other stakeholders. KM processes within READP would be to ensure that knowledge generated is systematically identified, analysed, documented, used to improve programme performance; communicated to policy makers to inform Government's policy making process; and shared with key stakeholders. All activities related to KM should also be aligned with IFAD's Knowledge Management Strategy<sup>91</sup>.

36. Knowledge management and communication responsibilities will be shared among all project staff, with the overall responsibility to prove and improve impact through effective KM process belonging to the Project Director and the M&E Officer. Service providers will have a key responsibility for sharing lessons learnt during the Project through preparation of special case studies and Learning

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<sup>90</sup> Available at <https://www.ifad.org/documents/10180/bfec198c-62fd-46ff-abae-285d0e0709d6>

<sup>91</sup> Available at <https://www.ifad.org/documents/10180/ad197dcd-93f9-4e50-ab3d-d773619a89e5>

Notes. Provision would be made in the budget for preparation of case studies of success and failure and for technical and learning notes on key aspects of the programme.

37. During the final year of READP implementation, as part of the preparation of the IFAD-required Project Completion Report/Impact Assessment, the M&E data collected over the Project implementation period will be used as part of a thorough assessment of Project achievements.

**Table 1: READP Monitoring and Evaluation Organisational Framework**

Level	M&E Stakeholders	Responsibilities	Outputs
A/PCU	PCU & A/PCU M and E specialists	Define reporting needs and requirements from business partners & clusters level aggregators	Baseline report/Mid-Term/End line; Evaluation/impact assessment
	Business Development Officer (BDO)	Entity wide consolidation	Monthly/Quarterly/Bi-Annual and Annual progress report
	Rural Infrastructure officer	Data aggregation from business partners & clusters level aggregators	Results Measurements against KPIs
	Service Providers (SPs)	Developing data collection tools; formats/questionnaires	Knowledge-sharing products
		MIS maintenance/updating	
Cluster	Service Providers (SPs)	Data collection	Cluster level consolidated Business Plan progress reports
	Fields/Cluster Coordinators (FBiH; PCU; 5x)	Cluster wise consolidation of business partners' reports	
	Extension officers (RS; REOs)	Primary data collection	
	Municipality		
Business Units	Private Agribusiness	Data provision	Monitoring & Progress Reports
	Farmers Organisations		
	Agriculture Cooperatives		
	M&E Platforms		
Cluster	BP implementation oversight committees	Planning and implementation review of the BPs; and	
		Ensure regular reporting to the project and the municipalities	

## Appendix 7: Financial management and disbursement arrangements

### A. Financial Management Assessment (FMA) of the Project

1. In October 2017, IFAD undertook an FM assessment of the PCU/APCU managing the ongoing RBDP project as per IFAD guidelines and the risk was assessed as low. Additionally an assessment at design of the financial management system has been carried out to verify the conformity of the current system of RBDP with IFAD policies on fiduciary risks.
2. **Country context and inherent risks.** The structure of the country government is composed by two different levels of authorities with the state of Bosnia and Herzegovina (BiH) at the central level and the two entities of the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS) at a lower level, with the addition of a third independent area which is Brčko District (DB). All the three, entities and district, have their own Houses of Parliaments and Governments and interrelations with the state level.
3. Bosnia and Herzegovina with a TI Corruption Perception Index Score<sup>92</sup> of 39 in 2016, ranking as 83<sup>rd</sup> out of 176 countries, is rated as medium risk for perceived corruption. The score has improved from 42 of the year 2013. In the year 2017 IFC/WB's Ease of Doing Business Report<sup>93</sup>, Bosnia and Herzegovina is ranked 81<sup>st</sup> out of 190 countries. The CPIA ratings in public sector management and institutions cluster average<sup>94</sup> (1=low to 6=high) which measures public sector management and institutions cluster including property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilization, quality of public administration, and transparency, accountability, and corruption in the public sector, has been stable at 3.3 from 2007 to 2013. 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. As a result the inherent financial management risk and country risk is rated as Medium.
4. In the COSOP 2013-18 the main country risks with respect to the fiduciary aspects, include: (i) the complex governance structure of the country (dating back to the Dayton Agreement); (ii) the lack of a uniform and consistent budget discipline across the system of public resource management; (iii) a weak compliance with procurement laws; (iv) a weak capacity of internal audit; and (v) widespread corruption. A major risk identified is related to the complex governance structure which results in time consuming intra-entity and state level consultations.

**Table 1: Inherent risk of the country**

	Initial risk evaluation	Mitigating measures	Final evaluation of the risk
1. Index TI	39.0		
2. Note PSR	Medium		
Inherent risk of the country	Medium	Continuation of project management by the current PCU/APCU and strengthening of the capacities of the project units	satisfactory

5. **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-

<sup>92</sup> <https://www.transparency.org/country/BIH>

<sup>93</sup> <http://www.doingbusiness.org>

<sup>94</sup> <http://data.worldbank.org>

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. 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](http://www.ifad.org/governance/anticorruption/index.htm)). The website also provides instructions on how to report any alleged wrong doing 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.

6. **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.

7. **Financial Management Risk Assessment.** In accordance with IFAD's Financial Management Guidelines, a financial management assessment at design was undertaken on the current arrangements of the PCU/ APCU which are managing RBDP project. The detailed findings of the assessment and mitigation actions are summarized in table No. 2. The financial management arrangements and the capacities of the existing PCU/ APCU are adequate to meet IFAD's requirements and the initial risk rating is considered as medium. Given the proper implementation of the mitigation actions, the residual risk will be further decreased to low.

**Table 2: Summary of FM Risks at design and mitigating actions**

Risk Category	Initial FM Risk Rating (H/M/L)*	Proposed Risk Mitigating Measures	Residual FM Risk Rating (H/M/L)*
<b>A. Inherent Risks:</b>			
Country level:			
a) Complicated process of ratification which is the cause of delay of 2-3 years for the entry into force of the agreement	H	b) Follow up on ratification process	
<b>B. Project Control Risks:</b>			
<b>Organization and Staffing:</b>			
a) The steering committee for the PCU has not been nominated by the FBiH	M	b) Nomination of steering committee to be done upon entry into force of the project. The composition of the committee to be clarified with IFAD	L
a) Limited staff for the financial management at PCU considering also that three projects will have to be managed		a) A qualified accountant is recruited from the starting of the project	
<b>Budgeting:</b>			
a) Budget preparation follows an approach follows an approach from top to bottom	M	a) Project budget preparation will follow a participatory approach with the involvement of the different stakeholders of the project	L
b) The budget monitoring is not done through the features of the accounting system by the PCU		c) Interim financial reports showing progress against budgets to be submitted to IFAD semi-annually	
		d) Budget controls to be done in the accounting software	
<b>Funds Flow &amp; Disbursements:</b>			
a) Complexity of the administrative setting of the country with state and entity level	L	a) Funding will be channelled separately for the two entities. Two schedule 2 to be prepared for the financing agreement, two DA and separate designated signatory for the PCU/ APCU	L
b) The process of WA signature at the ministry level takes from 4 to 8 days		b) The MoFT should expedite the signing process of WAs and an alternate signatory system should be put into place to avoid delay for absences of authorized person	
c) The project has no policies/procedures for the measuring and accounting of the in-kind contribution of the beneficiaries		c) A policy for the capturing of the beneficiary contribution will be developed as a section of the financial manual: This section would include also the evaluation of the in-kind contribution	

<b>Internal Control:</b>	M		L
a) The overall internal control system in place is adequate, however the project has not developed a Financial Manual which defines the financial procedures		a) Financial and administrative procedures will be documented within the framework of a financial manual. The preparation of the financial manual will be a condition for first disbursement	
b) The payment order approval from the Ministry delays the flow of the payment process of a week on average		b) The MoFT should expedite the preparation and signing of the payment order and an alternate signatory system should be put into place to avoid delay for absences of authorized person	
<b>Accounting Systems, Policies &amp; Procedures:</b>			
a) The project is equipped with a good customized accounting softwares however the system is not being exploited in the budget monitoring functionality	L	a) FMPCU will start to use the budget monitoring feature of the system	L
b) The contributions from the beneficiaries are not accounted in the accounting system		b) The FM will account the financial and in-kind contributions from the beneficiaries in the accounting system	
c) Accounting is on cash basis, IPSAS standard		c) A formal bank reconciliation will be prepared on a monthly basis and archived in the bank folders	
<b>Reporting &amp; Monitoring:</b>	L		L
a) The FM/PCU is involved in the budget monitoring only for the preparation of the expenditures		a) The FM/PCU will be responsible for the financial budget analysis	
b) Budget monitoring and financial reports will be prepared separately by PCU and APCU on a semi-annual basis		b) Financial reports will be extracted from the Financial system	
		c) Schedule 2 of the Financing agreement and Costab will be prepared with separate categories and budget provision for PCU and APCU	
<b>Internal Audit:</b>	H		M
a) The APCU/PCU are not included in the IA exercise of the LPA		a) The possibility to include the project under the IA of MOA to be explored. Capacity to be developed in this aspect during start up and early implementation.	
<b>Auditing:</b>	M		L
a) The TORs of the Auditor are not cleared by IFAD with No-objection		a) The PCU/ APCU should ensure that during the selection process of the auditor at the state level, the clearance from IFAD for the TORs is provided (following the same process that the WB follows)	
b) All past audit report have been unqualified		b) MoF to provide separate and consolidated audit reports as per current practice	
		c) The procurement process for the new auditor for the years 2017-2018 will be finalized by MoF by the end of 2017	
<b>Project Fiduciary Risk at design:</b>	MEDIUM		
<b>OVERALL FM RISK</b>	LOW		

\* H=High, M=Medium, L=Low

8. **Risk on Financial Management.** Taken as a whole, the risk of the financial management of the project is moderate, considering the mitigating measures which have been suggested. The financial management modalities which have been proposed would allow to satisfy the requirements of IFAD and to provide regular and precise financial information.

## B. Lessons learnt and proposed implementation arrangements

9. The strengths and weaknesses of the implementing mechanism on financial management identified are:

10. Strengths:

- (a) Experience of the PCU/APCU of RBDP in project management;
- (b) Familiarity of the PCU/APCU of RBDP with IFAD procedures;
- (c) Capacity of the PCU/APCU on disbursement and accounting procedures satisfactory;
- (d) Joint will of the government and IFAD to capitalize and transfer the good practices to the new project.

11. Weaknesses:

- (e) The long time taken by the ratification process. The major concern in this regard, which has affected negatively the implementation of the past projects, is the delay which has been experienced in all IFAD projects in the ratification process of the financing agreements, and therefore in the entry into force and starting-up of the projects. Although an improvement has been noted in the ratification of the latest RCDP, however on average the elapse time is of 2 to 3 years (from IFAD board approval to start-up). During the design, meetings have been arranged with difference donors and in particular with the WB, which seems to have managed to reduce the lag to 12-14 months;
- (f) The complexity of the country Government administrative arrangements is often cause of delays in the process of approvals (payment approvals, withdrawal approvals, etc.);
- (g) The delay in the appointment of the Project Steering Committee (PSC) by the FBiH has been cause of lack of strategic planning and guidance for the PCU;
- (h) The financial management functions have been translated merely into accounting and disbursement activities, missing out the broader strategic role of financial management. The financial budget monitoring performed by the FMs is not satisfactory: the accounting system has not been exploited in the features of producing financial reports and the financial manager is not thoroughly involved in the financial analysis of the project performances;
- (i) The project has not developed a separate Financial and Administrative manual for IFAD projects which defines financial and administrative processes and procedures and generates a system which is independent from the managing style of specific persons. The risk is that in case of change of staff and management style the financial management is affected;
- (j) The project has not developed a procedure for monitoring, measuring and capturing in the financial system of all actual beneficiary contributions (both for the financial and the in-kind contributions). The funds received from the beneficiaries might be bigger than what has actually been recorded by the projects so far.

12. An additional source of risk in financial management is the heavy workload which might occur at the time of starting of READ, since at that stage there will be three different IFAD projects managed by the same implementing units. Especially for the PCU where there is only one Financial Manager responsible for all financial aspects, this could be cause of constraints and bottlenecks.

13. **Proposed mitigating measures.** From its start-up, READ will ensure that:

- (i) The MoF at Entity level identifies an alternate system of signatories to avoid delays in the process of approvals (payments, WAs, etc.);
- (ii) The MoF of FBiH will appoint the PSC at the start-up stage of the project;
- (iii) The PCU/ APCU will adopt a Financial and Administrative Manual which will include also a section on the procedure for measurement and accounting of the beneficiary contributions;
- (iv) The FM of both units will shift from a role of mere accounting to a higher level of financial management. They will take full responsibility over the budget spending, the monitoring and the analysis of the budget (together with the M&E officer which will consolidate the financial and physical performances of the project). The FM will carry out periodical field visits to be able to relate to the project performances at the ground level;
- (v) The accounting will continue to be done with the current accounting system, namely FMS for PCU and a customized database from Access for APCU, with an upgrading in its use over the feature on financial report preparation. The APCU may consider the option of adopting a proper financial management software.



14. In this regard it will be necessary:

- To duplicate the results of RCDP approval, IFAD country management will continue to have a close follow up in the ratification process and consider also synergies and collaborations which could be developed with the WB country office to benefit from the advantages and opportunities offered by the availability of a WB country office;
- At PCU level an accountant will be added to the current organogram of the unit and the recruitment process will be initiated at the starting-up of the project. The accountant will be trained by the FM on all IFAD procedures. At APCU level the work time divided between IFAD and WB projects will have to be clearly identified;
- The financial reports will have to be prepared by the FM directly from the accounting system on a monthly basis to have the overall control over the budget availabilities, and on a quarterly basis for the preparation of the financial reports;
- The FM and the Director will ensure that the expenditures incurred by the project are included in the provision of the approved AWPB and if not, the expenditures are supported by no-objection from IFAD;
- PCU/ APCU will have to ensure that at the stage of AWPB preparation all the stakeholders have been consulted and their inputs included in the budget. The participatory approach of the budget performances will include an annual review of the AWPB performances with the all the stakeholders of the project;
- The finalization and adoption of the Financial and Administrative manual will be a pre-condition for disbursement;
- The formats of the financial reports will be agreed with IFAD at start-up.

15. **Implementing arrangements.** The The Ministry of Finance and Treasury of Bosnia and Herzegovina will be the signatory to the financing agreement with IFAD. The State Ministry will, in turn, sign Subsidiary Loan Agreements with the Entity Government of the Federation of Bosnia Herzegovina (FBiH) and Republika Srpska (RS). The Ministry of Finance of the FBiH and RS will sign a project agreement with IFAD to take over their respective responsibilities over the funding and the lending mechanism. The Federation's Ministry of Agriculture, Water Management and Forestry (MAWMF) will be responsible for the Project in the FBiH, and the Ministry of Agriculture, Forestry and Water Management (MAFWM) for the Project in RS. These Ministries will be through their respective Project Coordination Units (PCU and APCU respectively) and will be responsible for the overall financial management of the Project including coordinating all financial reports from implementing partners.

16. **Project Coordination Units.** The proposed project will take advantage of the coordination mechanism already in place for the other IFAD projects in both entities. The current units responsible for the implementation are the Project Coordination Unit (PCU) in FBiH and the Agriculture Project Coordination Unit (APCU) in RS. Both units have an established system and experience in project coordination and monitoring, accounting, managing, disbursement and reporting on IFAD financed projects and the APCU is also managing projects financed by the World Bank. In October 2017, the IFAD APCU/PCU showed moderately satisfactory performances with regards to financial management and according to the risk assessment the APCU/PCU have been rated as low risk. The 2016 project Audit reports have been received in a timely manner and have been unqualified.

## C. Project financing profile

17. **Financing conditions for the IFAD loan.** The IFAD loan will be given on ordinary terms, and denominated in Euro. The currency of the designated accounts and repayments will be in Euro. 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.

**Table No. 3: Allocation of funds by category/ source of funds, in US\$ million**

Expenditure Accounts by Financiers (USD '000)														
	IFAD		Municipalities		Beneficiaries		FO		SME		The Government		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment Costs														
A. Civil Works	4,738	62.3	1,107	14.6	170	2.2	101	1.3	196	2.6	1,293	17.0	7,605	22.5
B. Equipment & Materials	19	83.0	-	-	-	-	-	-	-	-	4	17.0	23	0.1
C. Consultancies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
D. Business Plan	4,649	24.1	1,603	8.3	3,793	19.6	-	-	5,983	31.0	3,283	17.0	19,311	57.1
E. FO Equity	868	40.0	217	10.0	-	-	1,085	50.0	-	-	-0	-	2,169	6.4
F. Technical Assistance	1,629	72.0	53	2.3	-	-	27	1.2	231	10.2	322	14.2	2,263	6.7
G. Training	974	71.8	-	-	9	0.7	27	2.0	292	21.5	54	4.0	1,356	4.0
H. Vehicles	176	83.0	-	-	-	-	-	-	-	-	36	17.0	213	0.6
Total Investment Costs	13,053	39.6	2,979	9.0	3,972	12.1	1,240	3.8	6,702	20.3	4,992	15.2	32,939	97.4
II. Recurrent Costs														
A. Operations and Maintenance	83	83.0	-	-	-	-	-	-	-	-	17	17.0	100	0.3
B. Salaries and Allowances	763	100.0	-	-	-	-	-	-	-	-	-	-	763	2.3
Total Recurrent Costs	847	98.0	-	-	-	-	-	-	-	-	17	2.0	864	2.6
Total PROJECT COSTS	13,900	41.1	2,979	8.8	3,972	11.8	1,240	3.7	6,702	19.8	5,010	14.8	33,803	100.0

18. The duration of the project is of 5 years. The total project cost is US\$ 33.803 million. The total contribution of IFAD will be of US\$ 13.9 million as a loan with ordinary terms. The loan will be divided by the two entities and US\$ 8.468 million will be borrowed to the FBiH and US\$ 5.432 will be borrowed to the RS.

19. The contribution of the Government at entity level is represented by the compensation of taxes and is of a total amount of US\$ 5.01 million, of which US\$ 3.021 for the FBiH and US\$ 1.989 for the RS. The contribution of the municipalities is estimated at US\$ 2.979 million, of which US\$ 1.808 for the FBiH and US\$ 1.171 for the RS.

20. The contribution of the beneficiaries is estimated at US\$ 3.972 million, of which US\$ 2.388 for the FBiH and US\$ 1.584 for the RS. The contribution of the SME is estimated at US\$ 6.702 million, of which US\$ 4.008 for the FBiH and US\$ 2.694 for the RS. The contribution of the farmer organizations is estimated at US\$ 1.24, of which US\$ 0.743 for the FBiH and US\$ 0.497 for the RS.

## D. Financial Management Arrangements

21. **FM Organization.** The project will make use of the experience already developed in the past years and follow the financial arrangements in place for the management of RBDP and the two coordination units of PCU for FBiH and APCU for RS. The project will develop a Financial and Procedure manual (as a pre-condition for disbursement) which will define the financial arrangements in details, including the organization and staffing, internal controls, flow of funds, budgeting, accounting, financial monitoring, financial reporting, and audit procedures. A separate section of the manual will be dedicated in the monitoring, measuring and capturing in the accounting system of the beneficiary contributions.

22. The Project Steering Committee (PSC) has not been appointed by the FBiH, which results in lack of guidance, planning and supervision for the PCU and a non compliance with the provisions of the loan covenant. The elections of 2018 may be cause of further delay in the appointment of the members of the committee. The Director of the PCU will follow up with the MoF and MoAWMF to ensure that the Government order is issued by the start-up of the project.

23. **FM Staffing.** Both the units are endowed with capacitated financial staff with long year of experience with IFAD projects. The Financial Managers are responsible for the financial management and disbursement. However while the FM in APCU in RS is supported by an accountant, the FM of PCU is the only person working on financial activities. For internal control purposes and segregation of responsibilities, to ensure continuity of the project and as a back-up and assistance to the FM, especially in the coming scenario where in the same unit there will be three different IFAD projects to be managed at the same time, an additional accountant will be recruited at PCU. The FM/PCU will be

responsible for his/her training on IFAD procedures. Both the units are also equipped by a Procurement officer, a secretary/assistant and a driver for their respective functions.

24. **Budgeting.** The Annual Work Plan Budget (AWPB) will be prepared by the Project Manager in a fully participatory approach and based on the inputs from the stakeholders, with the collaboration of the Financial Manager, the M&E Officer, the Procurement Officer and the various specialists. The budget will be prepared in a format acceptable to IFAD. The format of the AWPB will indicate at least the expenditure items by activity, components, expenditure categories, implementing entities as well as sources of financing and divided on a quarterly basis. In addition the detailed cost tables should indicate the unit cost and quantity for each item and physical targets/indicators for each activity. The AWPB must be in line with the project description and objectives.

25. The AWPB will be submitted to the PSC for approval and IFAD for no-objection by the Director of the PCU/ APCU at least two months before the beginning of the concerning fiscal year. It is important to notice that for an expenditure to be eligible under IFAD financing, it has to be included in the AWPB approved by the relevant national authority and IFAD (i.e. received the IFAD's no-objection). Therefore proper budget discipline will have to be enforced.

26. **Budget control.** At the beginning of each year the amounts approved in the AWPB will be inserted in the budget module of the accounting/reporting software by the FM to ensure full use of the budget controls features. Monthly reports will be extracted from the system by the FM to have close monitoring and control of the budget facilities. Interim financial reports will be submitted to IFAD on a semi-annual basis.

27. The capacity on budget spending will be monitored closely evaluating the planning, performing capacities and efficiency of the project. From the review of the financial budget results of 2016 (RBDP), for both units, the ratio of project towards operating costs is slightly imbalanced, with an excessive amount of administrative expenditures compared to the project activities implemented. The ratio will have to be closely monitored by the PM and FM to ensure satisfactory level of project performances.

28. **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 from 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. The beneficiary contributions, both financial and in-kind, from the municipalities and BP partners' contributions will be measured and captured by M&E systems, incorporated in the accounting system of both Entities and included in performance reported.

29. **Internal Control.** The project will have to develop a Financial and Administrative Manual which defines roles and responsibilities and will include a specific section on internal control. The procurement for the Financial Manual will be included in the budget of the first year. The FM will be responsible to ensure the compliance with the clause of the Manual. The compliance with the internal control in place will be subject of the supervision missions and the annual audits.

30. In order to guarantee the control mechanism, all payment requests will be prepared by the accountant, certified by the Procurement Officer and the Finance Manager for their respective area of responsibility and approved by the Director. The procurement officer will certify the execution of the activity and compliance with contracts, the FM will be responsible for the verification of budget availability, budget lines to account and financial verification of the expenditure. The requests for payment will be submitted to the MoF of the concerning Entity. Once the request of payment is approved by the MoF, a payment order will be sent back to the PCU/ APCU for the final payment. In order to speed up the process of payment approval, a mechanism of alternate signatories should be arranged at the Ministry level.

31. **Accounting.** The accounting will be done on cash basis following the IPSAS standards. Both the units will continue to use the system already in place, namely FMS for the PCU and a customized database in Access for APCU. APCU may consider an upgrade of the system or a shifting to an accounting software customized to IFAD project requirements.

32. Both PCU and APCU will have to improve the budget control facilities of the accounting system which will be extracted directly from the accounting software. At the beginning of each fiscal year, and upon AWPB approval, the FM will ensure that the approved budget provisions are inserted in the software. The FM will extract financial report from the system on a monthly basis to ensure an overall control over the budget availabilities, and on a semi-annual basis for the preparation of the financial and physical report. The FM will have to ensure the accounting in the system of the contributions, both financial and in-kind, of the beneficiaries.

33. A formal process of monthly bank reconciliation will have to be prepared for all bank accounts managed by the accountant of the PCU/ APCU. Each reconciliation will be verified by the FM and approved by the PM.

34. All fixed assets will be maintained safely and recorded in a register. Each asset will have to be tagged for easy identification and controls. The register will be updated and verified on an annual basis. The procedures will be identified in the Financial Manual. The responsibility for ensuring the update and the verification of the register is at FM level.

35. **Financial Reporting.** In order to have immediate reports with a nullified risk of error and to have analysis of actual versus budget and cumulative versus appraisal provisions, the financial reports will be prepared from the accounting system used at PCU/ APCU by using the reporting feature already available in the software. The responsibility of preparing such reports will be of the FM. At the starting of the project and at the beginning of each fiscal year the FM will ensure that the appraisal amounts and the approved budget amounts will be entered in the system. The report will provide analysis by components and activities, categories and sources of funds. The financial report will be prepared on a semi-annual basis and will be given to the M&E for further analysis and cross-checked verifications with the physical achievements of the project and the preparation of the Financial and physical report.

36. The FM will also be responsible for the preparation of the financial statements of the project, which will be in compliance with the IPSAS- cash and IFAD requirements. The PCU/ APCU will submit them to IFAD, through the Ministry of Finance and Treasury no later than four months after the closing of the concerning fiscal year. The project Financial Statements will include inter-alia: (i) statement of project management responsibilities including a management statement that the project funds have been utilized for the intended purposes as specified in the relevant financing agreements; (ii) statement of cash receipts and payments (by category and by financier); (iii) statement of cash receipts and payments (by component); (iv) statement of comparative budget and actual amount; (v) statement of Designated Account movements; (vi) Statement of Designated Account Reconciliations; (vii) SOE-Withdrawal Application Statement; (viii) cumulative use of funds by category of expenditure for each of the IFAD financing sources, and (ix) Notes to the Financial Statements.

37. A consolidate annual audit report and a management letter, together with separate audit report for PCU and APCU, will have to be submitted to IFAD no later than six months after the completion of the concerning fiscal year.

38. **Internal auditor.** The Supreme Audit Institutions of the country have achieved significant results in a complicated environment and with very limited resources, but their financial independence remains unsecured. Both the MoAWMF at entity level have an internal audit office which is also the representative of the Supreme Audit Institutions (SAIs) at entity level. The capacity of such entity could not be fully evaluated during design. A preliminary assessment was arranged at the Supreme Office for the RS which conducts public audit also on the APCU accounts. The capacities of the office sound good, however in light of the fact that the FBiH office could not be met, a full assessment will have to be conducted at a later stage.

39. **External audit.** The current arrangements in Bosnia and Herzegovina are that all externally funded projects are yearly audited by an external auditor from the private sector appointed for three years at State level through a competitive process. For the years 2013-2016 the auditor selected was Deloitte doo Sarajevo, with an extension of the appointment for the 2016 done on an exceptional basis due to the delay in the starting of the new procurement process. It would be advisable that the appointment of the auditor for the coming three years will be done before the ending of 2017. The TORs of the auditor will have to be submitted to IFAD for no-objection. The Director of PCU/ APCU will have to ensure that in the course of the procurement process the TORs are sent to IFAD for its clearance.

40. The audit report will be submitted to IFAD annually no later than 6 months after the end of the concerning fiscal year. The Audit Report will include the following elements: (i) an opinion on the Project's financial statements; (ii) a separate opinion on the eligibility of expenditures included in the WA /Statement of Expenditure procedure; and (iii) a separate opinion on the compliance of the use of the Designated Account with the financing agreement. The TORs of the auditor will have to ensure that all three opinions will be included in the audit. In addition to the audit report, the independent auditor will prepare a management letter which will include comments and recommendations on the adequacy of the financial management system, and on the system of internal controls. The management letter should also include a follow up section on the status of implementation of previous year's recommendations.

41. 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 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.

## **E. Disbursement procedures**

42. **IFAD Disbursement Procedures.** Three standard disbursement procedures may be used for withdrawal of financing: (i) Advance to the Designated Account (DA); (ii) Direct payment; and (iii) Reimbursement. However, it is expected that most expenditures will be through the designated account using the imprest mechanism. Replenishment of the Designated Accounts from the loan account at IFAD will be by way of Withdrawal Applications (WAs), supported by appropriate documentation or Statements of Expenditure and duly signed by the authorized representative of the Borrower.

43. **Disbursement arrangements and Flow of funds.** Separate bank accounts will be opened and maintained for each financing source and for each entity. Accordingly, there will be one designated account in Euro for each entity to receive the loan facilities from IFAD, and two operating accounts in BAM for each entity (one for each financing instrument by entity) to receive financing from the respective designated accounts. In addition, there will be two separate counterpart accounts for the government contribution (one for each Entity) and separate bank accounts for Beneficiaries contribution at each entity's level. The project bank accounts will be operated under the joint signature of the Project Director, the Financial Manager of the APCU/PCU and the appointed person of the MoF. A detailed flow of funds is shown in the annexed chart.

44. **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);
- IFAD has received documentation evidencing the opening of the bank accounts designated to receive IFAD Loan and in advance;

- An updated Project Implementation Manual and a Financial and administrative procedure manual, have been prepared by the project and approved by IFAD; and
- IFAD has given its no-objection on the first AWPB and procurement plan related to the first 18 months of the project.

45. **Withdrawals (WAs) from the IFAD Loan Account.** After 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 (Authorized Allocation). The ceiling of the authorized allocation will be based on the budgets for six months for each financing source based on the highest peak of projected yearly expenditure. Between the date of entry into force of the Financing Agreement and the Financing Closing Date, the PCU/ APCU may request withdrawals from the Loan Account of amounts paid or to be paid for eligible expenditures. PCU/ APCU should submit a withdrawal for replenishment or reimbursement as soon as the amount of expenditures incurred, but not yet submitted, has reached the 30 per cent of the amount of the initial advance. For the Direct payment procedure the minimum amount for submission of a request of payment is EUR 100,000.

46. **Start-up funds.** To ensure smooth implementation, the project will receive start-up funds to cover expenditures related to start up activities after the date of entry into force and before the fulfillment 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 and Treasury: (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. The start-up funds were estimated to XXXX EUR

47. **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 EUR 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 IFAD supervision missions and the auditors.

## F. Supervision, Implementation Support and Implementation Readiness

48. **Implementation Readiness.** A list of key tasks is summarized below:

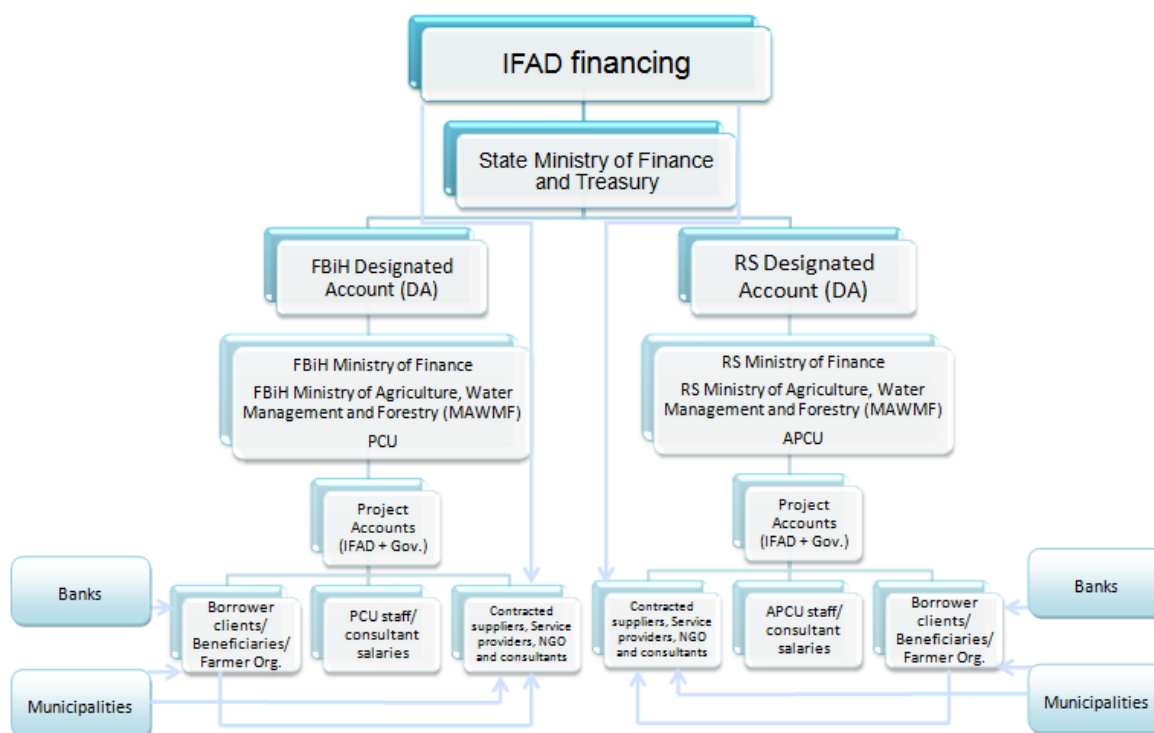
**Table No.4: List of key tasks**

Action	Responsible Party / Person	When	Conditionality
Agree on the Start-up funds (if any)	IFAD and the Borrower	As part of design	Negotiations
Appointment of PSC by the FBiH	MoE of FBiH	Start up	
Financial and Administrative Manual is prepared by the Project	PCU/ APCU	Start up	Disbursement condition
Opening of Designated Accounts	MoE/ PCU/ APCU	Start up	Disbursement condition
Recruitment of an accountant	MoE/ PCU	Start up	
Format of the semi-annual Financial Reports and Annual Financial Statements to be agreed	IFAD and PCU/ APCU	Start up	
Appointment of new auditor	MoE	Within 2017	
The Audit TORs are submitted to IFAD for no-objection			
Finalise LTB	IFAD	As part of design	Negotiations
Prepare first AWPB and PPM of the first 18 months	PCU/ APCU	By start up	Disbursement condition

49. **Supervision and implementation support plan.** The project will be directly supervised by IFAD in accordance with IFAD guidelines. The supervision process will be complemented by desk review of withdrawal applications, progress and financial reports, the annual financial statements, and annual audits. 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 risks. The supervision plan will include:

- Follow-up on the identified mitigation actions identified in the project design;
- Review of fulfilment and adequacy of the staffing requirements for both PCU and APCU, including identification of any need for the strengthening of the PCU/ APCU;
- Review of the Financial and Administrative Manual and procedures in place;
- Review of financial system exploitation and report produced through the accounting software, with a particular focus on the budget monitoring reports;
- Verification of the fixed asset register update and physical verification of assets through spot checks;
- Detailed review of expenditure claimed under the SOEs: eligibility, availability and completeness of the documentation, correctness of calculations and application of threshold;
- Review of disbursement and of the flow of funds, correctness use of the project accounts;
- Review of the calculation of the contribution from the beneficiary and its recording in the financial software;
- Verify the process of the budget preparation and monitoring;
- Undertake at least two on-site visits that will involve visits to the implementing partners, municipalities and co-operatives, etc.

## Flow of Funds Chart





## Appendix 8: Procurement

### I. Country context and IFAD procurement guidelines

#### A. Country Assessment

1. Bosnia and Herzegovina has Law on Public Procurement. The Law on Public Procurement of BiH was adopted in 2004 for the first time, and re-adopted in 2014 (Law with the same title but with changed content). The Law on Public Procurement of BiH is applied to the whole territory of Bosnia and Herzegovina and, unlike many other areas, there are no other Laws that treat the same matter at entity level. There are two public procurement bodies in BiH for enforcement of the Law on Public Procurement: the Public Procurement Agency and the Procurement Review Body. The Public Procurement Agency is an independent administrative authority and its main function is to ensure the proper implementation of the Law, while the Procurement Review Body is responsible for the public procurement review and remedies. However, the implementation of the Law is at every institution that performs public procurements.
2. The first Country Procurement Assessment Report for Bosnia and Herzegovina by The World Bank group (2002) noted that "procurement has not to date been considered to be a core function of government, worthy of specialized staff and dedicated organizational units" and in that time "state does not even have its own law on public procurement". Regarding the Law, the situation was changed because Bosnia and Herzegovina got the first Law on Public Procurement in 2004 and improved the same Law in 2014.
3. The EBRD in its assessment of Commercial Laws of Bosnia and Herzegovina (2014), based on their appraisal of public procurement in BiH in 2010, affirmed the Law on Public Procurement of BiH, but at the same time identified its inconsistencies and shortcomings with the general assessment of "low to moderate compliant with international standards". One of the findings was that it is necessary to establish a specialized procurement function within contracting authorities. Similarly, the EU funded IPA project found that the main problems in public procurement system in BiH is the lack of well-trained staff in contracting authorities responsible for public procurements in BiH. Due to that from the beginning the practice applied in IFAD projects is establishment of specialized project coordination units and permanent engagement of procurement specialist within them.
4. The World bank in the Public Expenditure and Financial Assessment (2014) highlighted that "certain common trends warrant attention, especially related to the principles of competition and transparency in public procurement" and stressed that if open competition is a default method in public procurement "entities seems to use less open competition method". As a country, Bosnia and Herzegovina got lowest score in this assessment for public access to complete, reliable and timely procurement information (rating C) and justification for use of less competitive procurement methods (rating D).
5. New Law on Public Procurement in BiH, because of harmonizing the previous one with the EU directives for this area, was adopted in 2014. The period since its adoption is rather short and there are no serious independent assessments of the efficiency of its application. In its report for BiH from 2016, the European Commission noted in relation to procurement procedures that "some progress has been achieved in the field of public procurement in the last year" and at the same time "procurement is particularly vulnerable to corruption and more efforts are needed to prevent this during the procurement cycle." The public procurement regulations are to a large extent in line with the regulatory framework in developed countries and EU legislation, but the main problem remains in their application.
6. EC in its monitoring report of public administration in BiH (from 2016) concluded that "the legal framework for public procurement remedies in BiH is mainly compliant with the EU remedies directives, except that concessions are not covered. The PRB is not yet working properly, due to weak administrative resources and the absence of key staff in the branch offices. PRB decisions are no longer being published."
7. Therefore, most international donors and creditors retained approach to use their own procurement procedures on the procurements financed by their funds.

8. In the IFAD's Country Strategic Opportunity Programme for Bosnia and Herzegovina (2013) weak compliance with procurement laws has been identified as one of the risks in procurement and concluded that borrower's system for procurement is not still fully in line with IFAD requirements and Procurement Guidelines, so that (following provision of paragraph 7 of IFAD Procurement Guidelines) procurement procedures, review and supervision on procurement within READP will be carried out in accordance with alternative procedures, apropos IFAD procurement procedures.

#### **B. Capacities of project coordination units.**

9. In Bosnia and Herzegovina there are **two project coordination units**, PCU of the FBiH and APCU of the RS, that have years of experience in the implementation of IFAD funded projects in Bosnia and Herzegovina ( the RS APCU deals also with procurement for the World bank projects). Both project units have one **procurement officer each**.

10. The function of procurement in the **PCU** is executed by a procurement officer who has a one-year experience in procurement according to IFAD procedures, but has previous experience in conducting procurement under local procedures. The other members of the PCU team have many years of experience in implementing procurement procedures, so that as a team they have undisputed competencies for conducting procurement according to IFAD procedures.

11. And in the **APCU** function of procurement is executed by procurement officer in cooperation with rest of the APCU team. APCU procurement officer has ten years of experience in procurement in accordance with IFAD and the World bank procurement procedures. At the same time, APCU serves several IFAD and WB funded projects and has three procurement officers which leaves the possibility to exchange opinions among them and combine these human resources in case of need. Other members of the APCU team also have experience in preparation of terms of references, participation in evaluation committees and implementation and monitoring of performing signed contracts.

12. In the last audit reports of the implementation of IFAD projects by both project units there were no objections and mismatches in application of procurement procedures.

13. In general, the existing project units have a **well-developed and recognizable procurement function**, which is carried out by the procurement officers, with the support of other project team members, which all have many years of experience in the implementation of IFAD projects. And with the **prior and post reviews support by the CPM**, following the agreed thresholds in the financing agreements, it can be concluded that the capacities of both project units in terms of performing the procurement function are sufficient and satisfactory for efficient implementation of the new projects without the need to undertake specific institutional or human prerequisites.

#### **C. General Conditions**

14. IFAD General Conditions for Agricultural Development Financing apply to all financial agreements between IFAD and borrowers. The financing from the IFAD loan shall be used exclusively to finance expenditure which, inter alia "is procured in conformity with Fund's Procurement Guidelines". The revised General Conditions (2009) adopted a new approach to procurement financed by IFAD loans and grants in a way that *"procurement of goods, works and services financed by IFAD shall be carried out in accordance with the provision of Borrower/Recipient's procurement regulations, to the extent such are consistent with the IFAD Procurement Guidelines"*. The General Conditions explicitly foresee possibility of suspension rights of loan withdrawals if procurement has not been carried out in according with IFAD Procurement Guidelines which means that application of IFAD Procurement Guidelines is mandatory within IFAD financed projects.

#### **D. IFAD Procurement Guidelines**

15. Obligation of IFAD borrowers is to ensure that the procurement process is carried out in conformity with the **IFAD Project Procurement Guidelines** (available at IFAD web site) and with the procurement plan agreed between IFAD and the Borrower. The IFAD Project Procurement Guidelines are more focused on the general principles, standards and policies and less on details of procurement. More detailed instructions for procurement goods, works and services are prescribed in the **IFAD Procurement Handbook** (available at IFAD web site).

16. Procurement under IFAD funded projects and supplementary funds apply IFAD Project Procurement Guidelines (amended and adopted in 2010), unless otherwise agreed (i.e. use existing national procurement system). The use of Borrowers/Recipient's procurement system is always subject of verification by IFAD. The exception is international competitive bidding when the World bank procurement procedures are always applied.

17. IFAD expects higher degree of transparency and openness within the procurement processes undertaken under READP. IFAD will participate in procurement process by prior and post review of procurement procedures and documents but that supervision role doesn't in any way absolve borrower from its obligation to properly implement IFAD and national procurement regulations. IFAD will review following aspects of procurement process: (1) contract packaging; (2) applied procedures and procurement methods; (3) bidding documentation; (4) composition of bid evaluation committee; (5) bid evaluation and award recommendations and (6) draft contracts.

18. If it is proposed in project design and agreed during loan negotiation some procurement can be undertaken by community (**Community based procurement activities**) or left to intermediaries selected by transparent competitive process and supervised by PCUs and IFAD.

19. In accordance with **IFAD Policy on Preventing Fraud and Corruption** in its activities and operations special attention are dedicated to implementation of high standards of ethics and integrity during execution of procurement.

20. Foreseen **methods of procurement** in IFAD Project Procurement Guidelines are as follows:

- a) International competitive bidding (ICB) is procurement method for high-value purchases which can be interested and performed by international business companies. In case of applying ICB method procurement procedure will be guided in accordance with the World bank guidelines for ICB.
- b) Limited international bidding (LTB) is essentially ICB method with direct invitation of supplier without public advertisement for that purchase and it is used for specific purchases when number of potential suppliers are limited and value of purchase small.
- c) National competitive bidding (NCB) is the preferred procurement method if there are no rational reasons and arguments for applying another method of procurement. This procurement method is applied if goods or works are available locally with prices same or below those on the international market. Regardless of the name, this method does not exclude the right of foreign companies to participate in the bidding process. Procurement needs are publicly announced through newspapers or websites so that they are available to all interested bidders under the same conditions. Bidding document for NCB may be in local language with offering and payment in local currency. The procedure implies reasonable time for bid preparation and submission public bid opening.
- d) International or national shopping is procurement method used for standard small value commodities widely available and ready for delivery or civil works with a small value. It is carried out by collecting and comparing price quotations from several suppliers (usually not less than three). Request for quotations (request for proposal) is sent directly to identified potential suppliers (bidders). Quotations (bids) by invited suppliers can be sent by mail, electronic mail or facsimile and thus do not require procedure of public opening. In case of international shopping purchaser is solicit to quotations from minimum three suppliers from minimum two different countries.
- e) Direct contracting without competition is the least competitive method. Because of that direct contracting by single or sole-source selection is used in exceptional cases with obligatory prior approval of IFAD, based on detailed justification for expectation.
- f) For services, there is only one method of procurement, and attention is put on method of selection of service provider or consultant. There are used two procurement processes – Request for proposal or Request for quotation.
- g) Besides IFAD Project Procurement Guidelines, there is IFAD Procurement Handbook which precisely elaborate when and how some procurement methods (Module F5) will be used.

21. Criteria for determining which of the above methods will be applied to which procurement is the total estimated value of each procurement (regardless of the number of sources from which it is financed) and thresholds are agreed during the loan negotiations. Procurement matters are subject of

negotiation but generally are not included in the Financial Agreement than to Letter to the Borrower as legal obligation of borrower agreed between IFAD and borrower.

## **II. Procurement arrangements under the Project**

22. Procurement activities will be carried out by two project units responsible for project coordination within the country. Procurement under the project will perform using competitive procedures with justified exceptions.

### **E. Implementation arrangements**

23. **Institutional responsibility for procurement.** The Ministry of Finance and Treasury at the state level, representing the borrower, is accountable to IFAD for all actions and decisions in relations to project funded procurement. The practical responsibility for the execution of this obligation will be delegated to existing PCUs at the entity levels. In the procurement process competitiveness will be preferred through competitive bidding procedures. In principle, in every single procurement opportunity to promote competition should be pursued to achieve the best value of the money (wherein best value doesn't compulsory mean the lowest price!). Procurement procedures must be undertaken in a way to satisfy and competitiveness and efficiency which will be satisfied through preparation meaningful procurement plans, by selecting proper procurement method and binding of respective purchases into rational packages. Only in exceptional circumstances, single source and direct contracting can be considered with prior approval of IFAD.

24. **Application of procurement regulations.** Getting in account attitude from country assessment chapter that national procurement system in BiH are still not fully consistent with IFAD expectations and procurement regulations, procurement for READP will be performed in accordance with IFAD procurement procedures defined and elaborated in IFAD Project Procurement Guidelines and IFAD Procurement Handbook following thresholds stipulated in the Letter to Borrower.

25. **Incompatibility of regulations.** Since the loans, which the BiH borrows, are treated as public revenue and are supported by co-financing from entities' budgets, projects with international financing are also subject to certain supervision by in the country public auditors (e.g. the Supreme Office for the Republic Srpska Public Sector Auditing). IFAD encourages the institutions of BiH to monitor and supervise procurement in the framework of IFAD-funded projects and co-financed from public funds through their official independent bodies, but in case of incompatibility and divergence of IFAD and national procurement procedures in that process (for example, because of different thresholds, and therefore different procurement methods) IFAD regulation have advantage and prevail over national regulation. This is in accordance and with the Law on Public Procurement of BiH whose article 10 foresees exemptions of appliance of that Law, inter alia and in the case of "*c) Contracts awarded in accordance with an international agreement according to which a special procedure of international credit or donor arrangements is applied.*"

### **F. Risks in procurement**

26. Potential risks that may affect procurement efficiency within READP and measures for their mitigation can be as it is shown in table 1. Responses to avoiding and mitigation these risks are shown in the column three of the same table.

**Table 1. Summary of potential risk at procurement design and proposed risk mitigating actions**

Potential risk	Risk rating	Proposed risk mitigation measures
<b>Organization and staffing</b>		
a) Delay in defining needs and specifications for procurement.	M	Begin the process of preparing the specifications in a timely manner and use external expert assistance if it is necessary.
b) The overload of procurement officer due to the parallel implementation of several projects.	L	Optimizing the distribution of tasks and, in case of need, hiring additional staff to perform procurement.
c) Insufficient number of technically acceptable bids.	L	Better advertising of bid invitations and greater transparency in procurement procedures.
d) Unclear and non-transparent evaluation criteria that leave space for bidders' complaints.	L	Defining clear and enforceable evaluation criteria in advance.
e) Lack of coordination between all partners in the implementation of complex procurement.	M	Better organization and clear definition of the role of each partner.
f) Conflict in the responsibilities of different institutions regarding the project supervision and audit.	L	Clear division of competences and consistent application of regulations, and in case of conflict of regulations application more valid regulation.
g) The changes in the status of project coordination units and staff.	L	Consistently maintain the status of project units until the end of the project and prevent sudden organizational changes and replacement of staff.
<b>Budgeting</b>		
h) Problems with conditional co-financing of some project interventions (lack of funds and delay).	M	Timely plan the necessary financial contribution and protect it from a reduction in the case of a budget deficit.
<b>Polices &amp; Procedures</b>		
i) Weak and incompetent supervision of contract performances.	M	Mandatory involvement of obligation to monitor and report in contracts for works and services and incentive design of M&E system.

H-high, M-medium, L-low

## G. Staffing

27. The procurement activities and tasks will be performed by two **current procurement officers** in the two existing project coordination units (PCU and APCU), who are qualified and familiar with IFAD procurement procedures. If needed, recruit new staff instead of the existing one, selection of that person should follow a competitive selection process and the candidate must satisfy minimal qualifications and requirements in the term of reference for READP procurement officer described in PIM and the appointment should be subject to IFAD no objection.

28. Although PCU's procurement officers are qualified and experienced, it is necessary to continue building their capacities through occasional attendance on **specific training sessions** for procurement staff of IFAD projects (e.g. on the topic of e-procurement). This is particularly relevant to the procurement officer in the PCU of the FBiH considering her short experience in procurement according to IFAD procedures. It would be useful for procurement staff to **visit the project area** from time to time to get to know more about the conditions and beneficiaries of project interventions for which they carry out procurement.

29. Procurement officers are part of the project teams and their activities and the results are conditioned by the **good cooperation with other team members** in terms of preparation quality and accurate specifications, bills of quantities, and job descriptions that are the subject of contracting.

## H. Bidding documents

30. Both project units will use already developed and used forms of bidding documents, which will be improved and upgraded within READP. In case of procurements that have not appeared in previous projects, new formats of tender documents will be prepared. There are some bidding document templates available, developed by international donors or national institutions in BiH. In the

IFAD Procurement Handbook, there are some indications of content and elements of bidding documents for specific types of procurement which can guide procurement staff in their preparation. A challenge will be the preparation of sole specifications and descriptions of requirements for goods, works and services as distinct respond on the specific needs of project beneficiaries. In case of lack of "in-house" knowledge and experience, external consultants may be used to develop quality bases for initiating procurement procedures and to evaluate received bids. In case of applying ICB procurement method, the World bank bidding document templates will be used.

#### **I. Procurement Plan**

31. The first 18-months READP procurement plan will be prepared as a part of project design. If the period from the project design to start of the project implementation is prolonged, this first procurement plan will be updated at the READP start-up workshop. Then PCUs will follow up preparation of next 12 months procurement plans, which will be harmonized with AWPB for respective year. Procurement plan will consist of minimum data such as: items of procurement, its affiliation to project component and subcomponent, quantity and estimated value of purchase, type and method of procurement, type of review, starting and ending date of procurement. Having in mind that AWPBs must be submitted to IFAD for approval two months before beginning of a year, procurement plan must follow the same dynamics of its preparation (in the second half of current year for the next year). In the preparation of procurement plan procurement, a manager has to closely cooperate with respective project team members.

#### **J. Register of contracts**

32. Both PCUs will maintain registers of contracts with relevant data (number of contract, subject of procurement, contractor, type and method of procurement, bidding data, bid evaluation data, good/work/service delivery data, etc.). Updated register of contracts will be submitted electronically to CPM every three (3) months.

#### **K. Procurement progress report**

33. **Procurement progress report** will accompany regular project progress reports as their annex but can be prepared and considered separately in particular cases (e.g. for need of project supervision). Procurement progress report will be prepared based on procurement plan, data from register of the contracts and other data sources.

34. The procurement progress report should include information on the procedures carried out, their progress, the relevant dates for certain key steps in the procurement process, the number and names of bidders, the date and value of the contracts or invoices and status of their execution. The procurement report should mention conditions and eventual problems with procurement in reporting period, as well as auditor's opinion toward procurement issues.

#### **L. Procurement records**

35. PCUs will collect, maintain and file complete original documentation for each subject of procurement in paper and electronic form (where possible). Procurement records and documentation will be available to IFAD for supervision and other purposes and to auditors for project audit. In accordance with the IFAD General Conditions the borrower is obligated to keep original records and documents for at least ten (10) years thereafter.

#### **M. Procurement supervision and audit**

36. Supervision of procurement under the RBADP will be part of project supervision by IFAD. Besides supervision and follow-up missions appointed by IFAD, project procurement will be continuously supervised by IFAD CPM, primarily through prior confirmation of certain steps in the procurement procedures and giving approval for signing contracts or by post review.

37. Procurement audit will be carried out as a part of project audit subsequently by an external auditor selected by Ministry of treasury and finance of BiH and approved by IFAD.

#### **N. Monitoring of contract performance**

38. Results based type of contracts will be applied in case of engaged service providers. Payment of services will be in accordance with achieved performances what requires clear identification of expected results in ToRs, their monitoring during service delivery and elaborated payment schemes.

The service providers must establish and maintain clear evidences of performances of their services, separated of their other activities which will allow insight to project and other supervisions.

#### O. Procurement items and methods

39. The subject of procurement will be **goods, works or consultancy of non-consultancy services**.

40. The following procurement methods will be used for procurement of goods and works:

- a) International competitive bidding (ICB) or alternatively Limited international bidding (LIB);
- b) National competitive bidding (NCB);
- c) Shopping, international or national (IS, NS), and
- d) Direct contracting (DC).

41. The following procurement methods will be used for procurement of non-consultancy or consultancy services<sup>95</sup>:

- a) Request for quotations – internationally or nationally announced;
- b) Shopping – international or national, and
- c) Single source selection.

#### P. Procurement thresholds

42. Although the thresholds for some procurement methods will be finalized during the project negotiation and stipulated in the Letter to the Borrower, it is expected that the following thresholds are confirmed as the criteria for delineation of procurement method (same as for the ongoing RCD project).

**Table 2. Thresholds for determining the appropriate procurement method<sup>96</sup>**

Type of procurement	Procurement method	Contract estimated value
Goods	International competitive bidding (ICB) or Limited international bidding (LIB)	> 200,000 EUR
	National competitive bidding (NCB)	≤200,000 EUR
Works	International or national shopping (IS or NS)	>50,000 EUR
	International competitive bidding (ISB) or Limited international bidding (LIB)	≤50,000 EUR
	National competitive bidding (NCB)	> 1,000,000 EUR
		≤1,000,000 EUR
Non-consultancy services	International or national shopping (IS or NS)	>100,000 EUR
	Request for quotations - internationally	≤100,000 EUR
	Request for quotations - nationally	> 100,000 EU
Consultancy services <sup>97</sup>	International or national shopping (IS or NS)	≤100,000 EU
	Request for proposal - internationally	>20,000 EUR
	Request for proposal - nationally	≤20,000 EUR
		> 100,000 EUR
		≤100,000 EUR

43. In any case of READP preferred procurement should use the methods that provide greater competitiveness. Although direct contracting and single sourcing don't provide the elements of expected competitiveness (paragraph 27 of IFAD Project Procurement Guidelines) those methods can be selected in exceptional circumstances with rational clarification and mandatory prior approval by IFAD CPM.

<sup>95</sup> The explanation in IFAD Procurement Handbook (Module F4) helps to distinguish nature of non-consultancy and consultancy services.

<sup>96</sup> In case of disagreement thresholds for some procurement methods in READP design report and Letter to Borrower (LTB) the leading thresholds will be those that are listed in LTB.

<sup>97</sup> Bid evaluation for consultancy services can be done using one of following methods: quality and cost-based selection (QCBS), quality-based selection (QBS); fix budget selection (FBS); least cost selection (LCS); selection based on consultant qualifications (CQS) or sole source selection (SSS).

44. Although IFAD's procedure for shopping method envisages that in certain cases it can be carried out with less than three tenders (usually not less than three), it should be attempted that, having in mind the set threshold for this method, for higher value purchases within this value class, procurement should be implemented based on at least three offers and using bid submission in closed envelopes.

45. For some procurement arrangements PCUs will have to have IFAD prior review and approval for next procurement steps (called "no objection") or contract award, and for some post review of procurement documentation and procedure (paragraph 80 of IFAD Project Procurement Guidelines). Subject of prior review by IFAD is award of any contract valued more than it is identified below and any contract concluded by direct contracting or single source selection.

**Table 3. Thresholds for procurement which are subject to mandatory IFAD prior review or approval**

Goods	Draft bidding documents, Bid opening and evaluation report, Minutes of negotiation and Draft contract for the first five (5) contracts	or any contract of estimated value > 50,000 EURO
Works	Draft bidding documents, Bid opening and evaluation report, Minutes of negotiation and Draft contract for the first five (5) contracts	or any contract of estimated value >100,000 EURO
Non-consulting services	Draft bidding documents, Bid opening and evaluation report, Minutes of negotiation and Draft contract for the first five (5) contracts	or any contract of estimated value >20,000 EURO
Consultancy services - legal entity	Term of reference, Request for expression of interest (optional), Short list, Request for proposal, Technical and financial evaluation report, Minutes of negotiations and Draft contract for the first five (5) contracts	or any contract of estimated value >50,000 EURO
Consultancy services - individuals	Term of reference, Request for expression of interest, Short list, Request for proposal, Technical and financial evaluation report, Minutes of negotiations and Draft contract for the first five (5) contracts	For the first 5 contracts or any contract of estimated value >20,000 EURO
Direct contracting or single source selection		regardless of the value, based of justified and approved exceptions

46. Estimated contract value will be relevant for selection of procurement method, regardless of final value of contract. In case that the payment of contract is financed from more than one source, the estimated value of contract is determined based on the financial contribution of all co-financiers.

47. Despite that if having national thresholds are lower than indicated, for purchase of goods, works and services under REBDP, will be used thresholds agreed during negotiations and verified in the Letter to the Borrower will be used.

48. International competitive bidding procedure is mandatory if estimated value of single procurement is above the following thresholds: USD 200,000 for goods; USD 1,000,000 for works or USD 100,000 for services. If the PCUs does not have the resources or experience to deal with international procurement they may hire procurement agent specializing in handling international procurement.



49. Estimated number of contracts is dominant but not sole factor that affect decision on selection of procurement method. Other issues should be also considered such as nature of procured goods or works, interest of international bidders, number of potential national suppliers and critical time of delivery.

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## Q. Eighteen months procurement plan

Table 4. Eighteen months procurement plan

Component/subcomponent	Unit	Unit cost (BAM)	2019 (BAM)	2020 (BAM)	18 months (BAM)	Expend. category	Procurement method	Responsible agency
<b>Part A - the Federation of BiH</b>								
<b>1. Enhancement of economic opportunities and smallholders integration in value chains</b>								
<b>1.1 Development and implementation pro-poor business plans - FBiH</b>								
Contracting of service provider to support the business plan development and implementation <sup>1</sup>	lump sum	39,216	392,157	0	392,157	TA	QCBS International	PCU
Stakeholder sensitisation and cluster level business plan workshops <sup>2</sup>	per workshop	3,137	15,686	7,843	23,529	TA	NS	PCU
Quality assurance and certification support (co-financing)	lump sum	14,705	44,118	29,412	73,529	TA	OTHER	PCU
Contracting field officers for clusters	lump sum	19,607	98,309	49,155	147,464	TA	CQS	PCU
BP implementation review and planning workshops	per workshop	3,137	0	3,137	3,137	TA	NS	PCU
Advisory services as BP implementation support	person-day	333	33,333	16,667	50,000	TA	QCBS	PCU
Trade fair participation co-financing	per fair	14,706	14,706	0	14,706	TA	FB	PCU
Study tours								PCU
H.1 domestic	per trip	7,843	7,843	7,843	15,686	TRAINING	NS	PCU
H.2 abroad (co-financing)	per trip	15,686	15,686	15,686	31,372	TRAINING	NS	PCU
I. Other marketing support (co-financing)	lump sum	14,706	14,706	14,706	29,412	TA	NS	PCU
J. BP financing								PCU
J.1. Individual farmer starter packages (co-financing) <sup>3</sup>	lump sum	3,922	1,176,471	2,549,020	3,725,491	GRANTS	ICB/NCB	PCU
Starter packages for youth and women headed households (co-financing)	lump sum	3,921	470,588	705,882	1,176,470	GRANTS	ICB/NCB	PCU
J.3. Youth apprentice (co-financing)	lump sum	5,882	123,529	185,924	308,823	GRANTS	OTHER	PCU
<b>1.2. Farmer organization development - FBiH</b>								
Training and business development assistance for FOs implementing BPs <sup>1</sup>	lump sum	23,529	141,176	0	141,176	TRAINING	QCBS	PCU
Market linkage training and implementation support	unit	19,608	19,608	19,608	39,216	TA	QCBS	PCU
Exchange visit at domestic level	per trip	7,843	7,843	0	7,843	TRAINING	NS	PCU
Exchange visit in Europe	per trip	15,686	15,686	0	15,686	TRS	NS	PCU
Trainings	unit	7,843	7,843	7,843	15,686	TRAINING	NS	PCU
F. FO seed capital financing <sup>3</sup>	lump sum	49,019	147,059	196,076	343,135	GRANTS	ICB/NCB	PCU
<b>1.3. Targeted Infrastructure Development - FBiH</b>								
Oversight, training and advisory services for infrastructure development <sup>4</sup>								
A.1. Preparation, selection and prioritization	unit	1,562	65,635		65,482	TA		PCU
A.2. Design and formalization of project	unit	937	39,365		39,255	TA	QCBS	PCU

<i>Component/subcomponent</i>		<i>Unit</i>	<i>Unit cost (BAM)</i>	<i>2019 (BAM)</i>	<i>2020 (BAM)</i>	<i>18 months (BAM)</i>	<i>Expend. category</i>	<i>Procurement method</i>	<i>Responsible agency</i>
A.3.	Construction and commissioning	unit	76,768	284,282		283,671	TA	International	PCU
A.4.	Operation and maintenance	unit	366	15,400		15,357	TA		PCU
A.5.	Mainstreaming and assessments related to environment and climate change	unit	980	41176		43,137	TA		
B.	Infrastructure Investments <sup>5</sup>								PCU
B.1.	Irrigation infrastructure	unit	187,058	0	748,235	748,235	WORKS	NS	PCU
B.2.	Cold storage facilities	unit	259,803	0	259,804	259,804	WORKS	NCB	PCU
B.3.	Rural roads	unit	92,415	0	277,247	277,247	WORKS	NS	PCU
B.4.	Small bridges	unit	155,882	0	155,882	155,882	WORKS	NS	PCU
B.5.	Storage and packing facilities	unit	103,921	0	207,843	207,843	WORKS	NS	PCU
B.6.	Village water supply	unit	72,745	0	72,745	72,745	WORKS	NS	PCU
B.7.	Rural markets	unit	239,019	0	239,020	239,020	WORKS	NCB	PCU
B.8.	Other small infrastructure proposed by municipalities	unit	20,784	0	20,784	20,784	WORKS	NS	PCU
<b>2</b>	<b>Project coordination management - FBiH</b>								
<b>I</b>	<b>Investment cost</b>								
<b>A.</b>	<b>A. Technical Assistance areas for PCU</b>								
A.1.	Project Start Up Workshop	lump sum	9,723	9,724	0	9,724	TA	NS	PCU
A.2.	Comprehensive baseline study	unit	24,309	24,310	0	24,310	TA	QCBS	PCU
A.3.	Annual Review and Planning Workshop	per annum	4,862	4,863	4,863	9,726	TA	NS	PCU
A.4.	Annual Project Assessment (interentity workshops)	per annum	3,888	0	3,888	3,888	TA	NS	PCU
A.6.	Project completion	lump sum	24,309	0	0	0	TA	QCBS	PCU
A.7.	Annual Audit	per annum	3,890	3,890	3,890	7,780	TA	QCBS	PCU
A.8.	Technical Advisors/Consultants (national)	per annum	4,862	0	4,863	4,863	TA	QCBS	PCU
<b>B.</b>	<b>Training Area</b>								
B1.	Knowledge management workshops	lump sum	5,098	0	5,098	5,098	TRAINING		
B.2.	Training for PCU staff (external)	lump sum	9,850	0	0	0	TRAINING	QBS	PCU
<b>C</b>	<b>Vehicles (procurement)</b>	unit	77,780	233,371	-	233,371	VEHICLES	NCB	PCU
<b>D.</b>	<b>Office Equipment and furniture</b>								
D.1.	Computers and accessories	unit	2,907	5,816	-	5,816	EQUIPMENT	NS	PCU
D.2.	Photocopier	unit	968	1,937	-	1,937	EQUIPMENT	NS	PCU
D.3.	Office Equipment and Furniture	set	8,313	8,314	-	8,314	EQUIPMENT	NS	PCU
D.4.	Telecommunications	set	776	1,553	-	1,553	EQUIPMENT	NS	PCU

<i>Component/subcomponent</i>		<i>Unit</i>	<i>Unit cost (BAM)</i>	<i>2019 (BAM)</i>	<i>2020 (BAM)</i>	<i>18 months (BAM)</i>	<i>Expend. category</i>	<i>Procurement method</i>	<i>Responsible agency</i>
<b>II.</b>	<b>Recurrent Costs</b>								
A.	PCU salary	each	58,196	116,392	58,196	174,588	SALARIES	QBS	PCU
B.	Field allowances	per annum	11,667	11,667	5,833	17,500	SALARIES	OTHER	PCU
C.	Vehicle and equipment								
C.1.	Vehicle O&M <sup>6</sup>	Per annum	11,667	11,667	5,833	17,500	O&M	SSS	PCU
C.2.	Vehicles & Equipment insurance (CASCO)	Per annum	2,916	2,916	2,916	5,832	O&M	NS	PCU
C.3.	Vehicle Registration	Per annum	2,916	2,916	2,916	5,832	O&M	SSS	PCU

Component/subcomponent		Unit	Unit cost (BAM)	2019 (BAM)	2020 (BAM)	18 months (BAM)	Expend. category	Procurement method	Responsible agency
<b>Part A - Republika Srpska</b>									
1.	<b>Enhancement of economic opportunities and smallholders integration in value chains</b>								
1.1.	<b>Development and implementation pro-poor business plans - RS</b>								
A.	Contracting of service provider to support the business plan development and implementation <sup>1</sup>	lump sum	27,451	109,804	0	109,804	TA	QCBS	APCU
B.	Stakeholder sensitisation and cluster level business plan workshops <sup>2</sup>	per workshop	3,137	15,686	7,843	23,529	TA	NS	APCU
C.	Quality assurance and certification support (co-financing)	lump sum	14,705	14,706	14,706	29,412	TA	OTHER	APCU
D.	Contracting field officers for clusters	lump sum	19,607	98,309	49,155	147,464	TA	CQS	APCU
E.	BP implementation review and planning workshops	per workshop	3,137	0	3,137	3,137	TA	NS	APCU
F.	Advisory services as BP implementation support	person-day	333	16,667	8,333	25,000	TA	QCBS	APCU
G.	Trade fair participation co-financing	per fair	14,706	14,706	0	14,706	TA	FB	APCU
H.	Study tours								APCU
H.1	domestic	per trip	7,843	7,843	7,843	15,686	TRAINING	NS	APCU
H.2	abroad (co-financing)	per trip	15,686	15,686	15,686	31,372	TRAINING	NS	APCU
I.	Other marketing support (co-financing)	lump sum	14,706	14,706	14,706	29,412	TA	NS	APCU
J.	BP financing								APCU
J.1.	Individual Farmer Starter packages (co-financing) <sup>3</sup>	lump sum	3,922	784,314	1,666,666	2,450,980	GRANTS	ICB/NCB	APCU
J.2.	Starter packages for youth and women headed households (co-financing)	lump sum	3,921	313,725	470,588	874,313	GRANTS	ICB/NCB	APCU
J.3.	Youth apprentice (co-financing)	lump sum	5.882	82,353	123,530	205,883	TRAINING	QBS	APCU
1.2.	<b>Farmer organization development - RS</b>								
A.	Training and business development assistance for FOs implementing BPs <sup>1</sup>	lump sum	23,529	141,176	0	141,176	TRAINING	QCBS	APCU
B.	Market linkage training and implementation support	unit	19,608	19,608	19,608	39,216	TA	QCBS	APCU
C.	Exchange visit at domestic level	per trip	7,843	7,843	0	7,843	TRAINING	NS	APCU
D.	Exchange visit in Europe	per trip	15,686	15,686	0	15,686	TRAINING	NS	APCU
E.	Trainings	unit	7,843	7,843	7,843	15,686	TRAINING	NS	APCU
F.	FO seed capital financing <sup>3</sup>	lump sum	49,019	98,039	147,057	245,096	GRANTS	ICB/NCB	APCU
1.3.	<b>Targeted Infrastructure Development - RS</b>								
A.	Oversight, training and advisory services for infrastructure development								
A.4.	Operation and maintenance	unit	367	0	2,933	2,443	TA	QCBS	APCU
A.5.	Mainstreaming and assessments related to environment and climate change	unit	980	0	7,843	6,863	TA	QCBS	
B.	Infrastructure Investments <sup>5</sup>								APCU
B.1.	Irrigation infrastructure	unit	187,058	0	187,058	187,058	WORKS	NS	APCU
B.2.	Cold storage facilities	unit	259,803	0	259,804	259,804	WORKS	NCB	APCU

Component/subcomponent		Unit	Unit cost (BAM)	2019 (BAM)	2020 (BAM)	18 months (BAM)	Expend. category	Procurement method	Responsible agency
B.3.	Rural roads	unit	92,415	0	184,831	184,058	WORKS	NS	APCU
B.4.	Small bridges	unit	155,882	0	155,882	155,882	WORKS	NS	APCU
B.5.	Storage and packing facilities	unit	103,921	0	207,843	207,843	WORKS	NS	APCU
B.6.	Village water supply	unit	72,745	0	0	0	WORKS	NS	APCU
B.7.	Rural markets	unit	239,019	0	0	0	WORKS	NCB	APCU
B.8.	Other small infrastructure proposed by municipalities	unit	20,784	0	20,784	20,784	WORKS	NS	APCU
<b>2</b>	<b>Project coordination management - RS</b>								
<b>I</b>	<b>Investment cost</b>								
<b>A.</b>	<b>Technical Assistance areas for APCU</b>								
A.1.	Project Start Up Workshop	lump sum	6,788	6,788	0	6,788	TA	NS	APCU
A.2.	Comprehensive baseline study	unit	24,239	24,239	0	24,239	TA	QCBS	APCU
A.3.	Annual Review and Planning Workshop	per annum	2,908	2,908	2,908	5,816	TA	NS	APCU
A.4.	Annual Project Assessment (interentity workshops)	per annum	2,908	0	2,908	2,908	TA	NS	APCU
A.6.	Project completion	lump sum	24,309	0	0	0	TA	QCBS	APCU
A.7.	Annual Audit	per annum	2,908	2,908	2,908	5,806	TA	QCBS	APCU
A.8.	Technical Advisors/Consultants (national)	per annum	3,878	0	3,878	3,878	TA	QCBS	APCU
<b>B.</b>	<b>Training Area</b>								
B.1.	Knowledge management workshops	lump sum	5,098	0	5,098	5,098	TRAINING		
B.2.	Training for APCU staff (external)	lump sum	2,670	0	0	0	TRAINING	QBS	APCU
<b>C</b>	<b>Vehicles (procurement)</b>	unit	77,780	233,371	-	233,371	VEHICLES	NCB	APCU
<b>D.</b>	<b>Office Equipment and furniture</b>								
D.1.	Computers and accessories	unit	2,907	5,816	-	5,816	EQUIPMENT	NS	APCU
D.2.	Photocopier	unit	968	1,937	-	1,937	EQUIPMENT	NS	APCU
D.3.	Office Equipment and Furniture	set	8,313	8,314	-	8,314	EQUIPMENT	NS	APCU
D.4.	Telecommunications	set	776	1,553	-	1,553	EQUIPMENT	NS	APCU
<b>II.</b>	<b>Recurrent Costs</b>								
A.	APCU salary	each	58,196	116,392	58,196	174,588	SALARIES	CQS	APCU
B.	Field allowances	per annum	11,667	11,667	5,833	17,500	SALARIES	OTHER	APCU
C.	Vehicle and equipment								
C.1.	Vehicle O&M <sup>6</sup>	Per annum	11,667	11,667	5,833	17,500	O&M	SSS	APCU
C.2.	Vehicles & Equipment insurance (CASCO)	Per annum	2,916	2,916	2,916	5,832	O&M	NS	APCU
C.3.	Vehicle Registration	Per annum	2,916	2,916	2,916	5,832	O&M	SSS	PCU

<sup>1</sup> The assumption that the all services for the period of five years will be contracted at the beginning of the project.

<sup>2</sup> Based on the assumption that the each workshops will be procured singly.

	<i>Component/subcomponent</i>	<i>Unit</i>	<i>Unit cost (BAM)</i>	<i>2019 (BAM)</i>	<i>2020 (BAM)</i>	<i>18 months (BAM)</i>	<i>Expend. category</i>	<i>Procurement method</i>	<i>Responsible agency</i>
3	Procurement of goods that are the subject of the grant will be grouped into several packages (dependence of the size of grouped packages their procurement may be a national or international).								
4	All five subgroups of services within this sub-component will be procured at once. Because estimated value is higher than EUR 100,000 an international call should be used.								
5	The starting assumption that the works will be procured individually. In the case of grouping into larger procurement packages, procurement will be carried out using more competitive procurement methods.								
6	Single source selection method because in warranty period they are no available 3 or more authorized service suppliers.								
<b><u>Procurement methods for goods and works:</u></b>			<b><u>Procurement methods for non-consultancy services:</u></b>						
	ICB	International competitive bidding		QCBS	quality and cost-based selection				
	NCB	National competitive bidding		QBS	quality based selection				
	NS	National shopping		CQS	consultant quality selection				
				FB	fix budget				
				SSS	Single source selection				
				OTHER	Other procurement method				





## Appendix 9: Project cost and financing

### A. Introduction

1. This section describes the assumptions underlying the derivation of project costs, estimated project costs and financing plan. The project costs are based on parameters collected during the initial design mission in July 2017 and final design mission that took place on October/November 2017. The key parameters are presented below:

2. **Project Duration.** The implementation period of the Rural Enterprises and Agricultural Development Project is estimated at 5 years.

3. **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. Foreign inflation has been assumed at 2.2% and local inflation at 1.5%.

4. **Physical contingencies** aim to cover uncertainties related to units' costs. They are assumed at 5%, and they are applied only in production and infrastructure investments.

5. **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 (realized by a service provider) funded with IFAD funds.

6. **Exchange Rate.** The exchange rate used in the analysis is fixed at 1 EUR=1.96 BAM.

### B. Total Cost

7. Total Project Cost including physical and price contingencies are estimated at 27.683 EUR million (54.259 BAM million) over a 5-year period. Component 1 on 'Enhancement of economic opportunities and smallholder integration in value chains' is the main investment component representing 26.184 EUR million (51.321 BAM million) of total project costs. Component 2 covers the costs for 'Project Coordination and Management', represent 1.499 EUR million (2.938 BAM million) of the total project costs. A complete set of summary and detailed cost tables are attached in Appendix 9.

**Table 1. Project Costs by Components (EUR)**

Bosnia and Herzegovina  
Rural Enterprise Agricultural Development Project (READP)  
Project Components by Year -- Totals Including Contingencies  
(EUR '000)

#### A. COMP 1: Enhancement of economic opportunities and smallholders integration in value chains

1. Development and Implementation of pro-poor business plan\_FBIH
2. Development and Implementation of pro-poor business plan\_RS
3. Farmers organisations development\_FBIH
4. Farmers organisations development\_RS
5. Enabling Infrastructure Development\_FBIH
6. Enabling Infrastructure Development\_RS

#### Subtotal

#### B. COMP 2: Project Coordination Management Unit

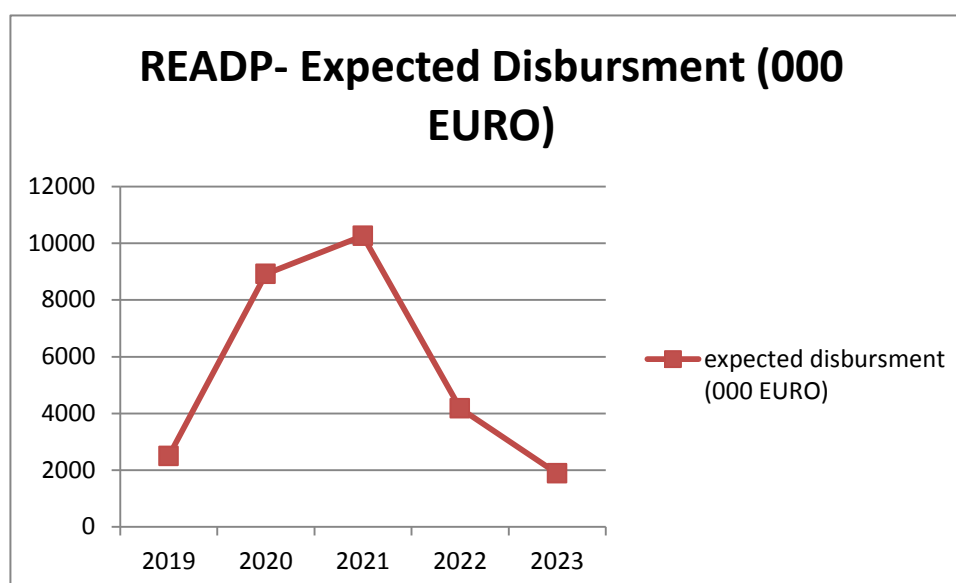
1. Project Coordination Unit\_FBIH
2. Agricultural Project Coordination Unit\_RS

#### Subtotal

#### Total PROJECT COSTS

Totals Including Contingencies					
2019	2020	2021	2022	2023	Total
1,122	3,961	4,314	1,270	640	11,308
753	2,616	2,850	897	449	7,565
120	275	319	111	13	838
93	216	200	82	13	604
-	1,115	1,256	966	295	3,632
-	568	1,012	532	124	2,236
2,088	8,750	9,952	3,859	1,535	26,184
227	89	172	176	181	845
154	75	134	139	152	654
381	164	306	315	334	1,499
2,468	8,914	10,258	4,174	1,869	27,683

To enable easy monitoring of progress, the below graph forecast the expected disbursement per year. This will allow us continuously track progress during supervisor and follow up mission.



### C. Project Financing

8. A total of 11.787 EUR million (23.102 BAM million) of IFAD-financing is expected to be mobilized for READP over the five-year implementation period. The IFAD loans will be used to co-finance: (a) Component 1; and to fully finance (b) Component 2 on Programme Management i.g. the Project Coordination Units in both Entities. The project will co-finance (c) Business Proposals (BPs) implemented under sub-component 1.1 (c) FO seed capital financing implemented under sub-component 1.2 as well as (c) to enabling infrastructure development implemented under sub-component 1.3.

9. The overall Project is expected to be financed according to the following allocation: (a) 43% from IFAD loans; (b) 9% from Municipalities; (c) 10% from Beneficiaries; (d) 1% from FO; (e) 22% from private sector and (f) 15% from Government.

10. The Government of BiH will finance taxes and duties on imported goods, and Value Added Tax (VAT) for a total amount of 4.229 EUR million (8.289 BAM million). The amount of taxes will be the contribution of the Government of Bosnia and Herzegovina.

**Table 2: Project Components by Financiers (EUR)**

Bosnia and Herzegovina Rural Enterprise Agricultural Development Project (READP) Components by Financiers (EUR '000)														
	IFAD		Municipalities		Beneficiaries		FO		SME		The Government		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. COMP 1: Enhancement of economic opportunities and smallholders integration in value chains														
1. Development and Implementation of pro-poor business plan_FBiH	3,443	30.4	822	7.3	1,647	14.6	12	0.1	3,626	32.1	1,759	15.6	11,308	40.8
2. Development and Implementation of pro-poor business plan_RS	2,328	30.8	548	7.2	1,100	14.5	10	0.1	2,420	32.0	1,160	15.3	7,565	27.3
3. Farmers organisations development_FBiH	526	62.7	55	6.5	-	-	116	13.8	-	-	143	17.0	838	3.0
4. Farmers organisations development_RS	388	64.2	36	6.0	-	-	77	12.7	-	-	103	17.0	604	2.2
5. Enabling Infrastructure Development_FBiH	2,279	62.7	552	15.2	61	1.7	52	1.4	74	2.0	614	16.9	3,632	13.1
6. Enabling Infrastructure Development_RS	1,398	62.5	335	15.0	35	1.6	42	1.9	49	2.2	378	16.9	2,236	8.1
Subtotal	10,361	39.6	2,348	9.0	2,843	10.9	309	1.2	6,168	23.6	4,156	15.9	26,184	94.6
B. COMP 2: Project Coordination Management Unit														
1. Project Coordination Unit_FBiH	801	94.8	-	-	-	-	-	-	-	-	44	5.2	845	3.1
2. Agricultural Project Coordination Unit_RS	625	95.5	-	-	-	-	-	-	-	-	29	4.5	654	2.4
Subtotal	1,426	95.1	-	-	-	-	-	-	-	-	73	4.9	1,499	5.4
Total PROJECT COSTS	11,787	42.6	2,348	8.5	2,843	10.3	309	1.1	6,168	22.3	4,229	15.3	27,683	100.0

**Table 3. Expenditure Accounts by Financiers (EUR)**

Bosnia and Herzegovina Rural Enterprise Agricultural Development Project (READP) Expenditure Accounts by Financiers (EUR '000)														
	IFAD		Municipalities		Beneficiaries		FO		SME		The Government		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment Costs														
A. Civil Works	3,485	62.2	848	15.1	96	1.7	95	1.7	123	2.2	952	17.0	5,598	20.2
B. Equipment, Materials & Vehicles	166	83.0	-	-	-	-	-	-	-	-	34	17.0	199	0.7
C. Grants /a	5,386	28.8	1,461	7.8	2,740	14.6	182	1.0	5,948	31.8	2,992	16.0	18,710	67.6
D. Technical Assistance	1,327	80.1	39	2.4	-	-	15	0.9	90	5.5	186	11.2	1,657	6.0
E. Trainings&Workshops	295	78.4	-	-	7	1.8	17	4.5	7	1.8	51	13.5	376	1.4
Total Investment Costs	10,658	40.2	2,348	8.8	2,843	10.7	309	1.2	6,168	23.2	4,215	15.9	26,540	95.9
II. Recurrent Costs														
A. Operations and Maintenance	71	83.0	-	-	-	-	-	-	-	-	14	17.0	85	0.3
B. Salaries and Allowances	1,059	100.0	-	-	-	-	-	-	-	-	-	-	1,059	3.8
Total Recurrent Costs	1,129	98.7	-	-	-	-	-	-	-	-	14	1.3	1,144	4.1
Total PROJECT COSTS	11,787	42.6	2,348	8.5	2,843	10.3	309	1.1	6,168	22.3	4,229	15.3	27,683	100.0

**Table 4: Expenditure accounts by components – totals including contingencies (EUR)**

Bosnia and Herzegovina										
Rural Enterprise Agricultural Development Project										
Expenditure Accounts by Components - Totals	COMP 1: Enhancement of economic opportunities and smallholders integration in value chains									
Including Contingencies	Development and Implementation of pro-poor business plan_FBiH	Development and Implementation of pro-poor business plan_RS	Farmers organisations development_FBiH	Farmers organisations development_RS	Enabling Infrastructure Development_FBiH	Enabling Infrastructure Development_RS	COMP 2: Project Coordination Management Unit			
(EUR '000)							Project Coordination Unit_FBiH	Agricultural Project Coordination Unit_RS		Total
I. Investment Costs										
A. Civil Works	-	-	-	-	3,382	2,216	-	-	-	5,598
B. Equipment, Materials & Vehicles	-	-	-	-	-	-	130	70	-	199
C. Grants /a	10,565	7,047	659	439	-	-	-	-	-	18,710
D. Technical Assistance	692	468	50	48	250	21	71	56	-	1,657
E. Trainings&Workshops	50	50	130	117	-	-	20	9	-	376
Total Investment Costs	11,308	7,565	838	604	3,632	2,236	221	134	-	26,540
II. Recurrent Costs										
A. Operations and Maintenance	-	-	-	-	-	-	47	38	-	85
B. Salaries and Allowances	-	-	-	-	-	-	576	482	-	1,059
Total Recurrent Costs	-	-	-	-	-	-	623	520	-	1,144
Total PROJECT COSTS	11,308	7,565	838	604	3,632	2,236	845	654	-	27,683
Taxes	1,759	1,160	143	103	614	378	44	29	-	4,229
Foreign Exchange	72	60	523	352	867	571	75	71	-	2,590

la Business Plan



## Appendix 10: Economic and Financial Analysis

### 1. Introduction

1. READP's goal is to contribute to rural economic development and poverty reduction by improving livelihood, generating revenue and enhancing the living standards of target households. READP's development objective is to increase the income of rural poor households and rural youth by engaging them in profitable agribusiness and employment opportunities. READP will unlock new rural business opportunities by better connecting and integrating farms, farmers' organisation and agribusinesses to commercial markets. It will create new avenues for self, salaried and wage employments for beneficiaries.

2. Project target group and main beneficiaries are rural poor and extremely poor households in selected areas defined as clusters. READP will support 4-Ps (Producer, Private, Public, Partnerships) based business models that increase the income of the target households by developing profitable marketing linkages between them and sustainable agribusinesses. The entry point of READP investments will be pro-poor business plans (BP) developed collaboratively by business leaders (agribusiness and FOs) and other private, public and producer partners facilitated by the project.

3. The pro-poor BPs will describe the business model and partnership needs for profitably linking the target households to agribusinesses based on marketing opportunities for the selected produce. The selection of the produce will be market-led mainly from the fruit and vegetable, MAPS/NTFPs and dairy sub-sector.

### Expected Project Benefits

4. The achievement of the project objectives at the end of the project will be measured by the following indicators, (i) At least 8,650 households or around 25,000 household members have benefited from the project services (ii) At least 80% of the direct beneficiaries (8,650) have increased their income by at least 30% (iii) Assets of the beneficiary households have increased by at least 25% (iv) At least 4,500 full time jobs (or equivalent) created leading to stable income for enhanced food security and sustainable livelihood of target households (v) At least 75% of supported rural enterprises reporting an increase in sales through 4P arrangements (vi) At least 80% of beneficiaries reporting increase in production (vii) At least 80% increase in contracts between public and private entities (viii) at least 80% members reporting new or improved services provided by their organisations and (ix) at least 5,000 households reporting improved physical access to markets, processing and storage facilities.

### Target groups

5. READ direct beneficiaries will be rural poor population, men, women and youth. The project would target 8,650 direct beneficiaries over a period of 5 years, providing support to the target groups of the very poor and poor, and support greater participation in targeted value chains. In order to reach the target group READP will adopt (i) geographical targeting measures to reach those areas with higher concentration of targeted households; (ii) self-targeting means by selecting crops and enterprises suitable enough and of interest to the target groups; (iii) direct targeting actions to include rural youth and women headed households.

6. The programme areas is selected based on geographical targeting approach. It will consist of 10 clusters (five each in FBiH and RS) with an average of 9 municipalities per cluster. Details of the targeting strategy is presented in the targeting section of the PDR and in Appendix 2.

### 2. Financial analysis

7. **Methodology.** The aim of the financial analysis is to examine the financial viability and incentives for the Project target group as a result of their engagement in Project activities.

8. Twelve financial models were developed: (i) strawberry; (ii) raspberry; ; (iii) cherry & strawberry; (iv) gherkin; (v) pepper; (vi) tomato; (vii) honey production; (viii) livestock/milk production 3-5 cows (ix) livestock/milk production 5-10 cows; (x) marigold; (xi) mint; and (xii) wild mushrooms. In addition roads, cold storage and irrigation system models have been developed. The greenhouse production has not been considered due to the high initial investment cost needed per beneficiary.

9. **With and without project scenarios:** The analysis compares a “without project” and “with project” situation for one dunum (1000 m<sup>2</sup>) of land.

- “Without project” scenario has been calculated based on the prevailing traditional average potato production. The WOP scenario considers production of average 1.8 tons of potato annually resulting in gradual increase in income due to the required investment. ( e.g. purchasing potato beetle and in the first few years more days needed for the total labour).
- “Without project” scenario has been adjusted for purpose of the comparison to “with project”. The adjustment is made taking into consideration number of labour working days needed in those two scenarios. It has been taken net income on 1 dunum/year divided by the number of labour working days needed for the potato production (12 days) and multiplied with the number of labour working days needed for the “with project” crop scenario.
- The net income for Without Project scenario (e.g. in our case Potato), shows gradual increase in yield and revenues (e.g. 1st year 345 BAM/dunum, 2nd year 350 BAM/dunum, 3rd year 380 BAM/dunum, etc.).

10. Project support includes co-financed starter packages for production on one dunum. Most smallholders are producing between 1 and 2 dunum of fruits and vegetables, depending on the type of product, market access and availability of family labour and suitable land.

11. **Project Target Beneficiaries.** The broad target group for the Project will be non-commercial farmers of the four sub-sectors a) fruit; b) vegetables; c) NTFP/MAPs and d) dairy. The final decision on the value chains will be market-led. The Project will have a poverty focus and it is estimated that the number of beneficiaries directly supported with starter packages for production will be 8,300. In addition, 350 beneficiaries will be supported through youth apprentice activities.

12. **Sources.** The following source of information gathered during the initial design mission have been used to set up the analysis: a) interviews with farmers and cooperatives; b) other donors involved in the sector, in particular projects financed by USAID, GIZ, Oxfam Italia; these development partners are involved in value chain development. 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 respectively provided by the PCUs. Conservative assumptions were made both for inputs and outputs in order to take account of possible risks.

13. **Opportunity Cost of Capital.** A discount rate of 11% has been used in this analysis to assess the viability and robustness of the investments and 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 7% and microfinance institutions interest rates, which is around 15%.



**Table 11. Financial Analysis**

F I N A N C I A L  A N A L Y S I S		PRODUCTION						FARM MODELS		MAP MODELS			
		Fruit model 'net incremental benefits ( 01 ha) ( in "000 of BAM)			Vegetable model'net incremental benefits (0.1 ha) ( in "000 of BAM)			Milk Production's net incremental benefits (0.1 ha ( in "000 of BAM)		MAP Model's net incremental benefits ( in "000 BAM)			
		Strawberries	Raspberries	Strawberries +Cherries \a	Pepper	Gherkins	Tomato	Livestock/milk production , 2-5 cows	Livestock/mil k production, 5-10 cows	Honey Production, 50 hives	Marigold	Mint	Mushrooms
	PY1	(472)	(3,592)	(3,688)	(125)	(505)	(350)	(3,004)	(18,882)	(6,973)	(109)	(459)	1,119
	PY2	1,808	603	382	255	467	(70)	(2,560)	1,858	(5,679)	32	211	1,119
	PY3	1,768	1,173	(58)	1,075	675	550	1,440	1,858	1,750	32	81	1,119
	PY4	28	2,103	187	1,075	747	550	1,440	1,858	1,750	32	331	1,119
	PY5	1,808	1,923	2,547	1,075	635	550	1,440	1,858	1,750	32	201	1,119
	PY6	1,768	2,103	4,737	1,075	747	550	966	1,858	1,750	32	331	1,119
	PY7	28	673	4,677	1,075	747	550	965	1,858	1,750	32	201	1,119
	PY8	1,808	853	4,937	1,075	675	550	964	1,858	1,750	32	331	1,119
	PY9..	1,768	673	4,677	1,075	747	550	963	1,858	1,750	32	201	1,119
	PY20	28	853	4,937	1,075	675	550	952	1,858	1,750	32	331	1,119
NPV (BAM)		11,695	5,475	44,517	9,553	6,156	4,445	4,494	300	3,899	203	1,971	11,852
NPV (EUR)		5,967	2,793	22,713	4,874	3,141	2,268	2,293	153	1,989	104	1,006	6,047
FIRR (@7%)		-	32%	39%	-	114%	79%	18%	7%	11%	29%	45%	-
B/C		1.9	2.0	2.1	2.5	1.6	1.4	1.5	1.4	1.1	1.7	1.8	-

16. **Summary results from crop models and Key Assumptions.** Incremental net income as shown in Table 11 is the difference between current (WOP scenario) and assumed farmer income and yield revenues received due to the project. Incremental net income of all fruits, vegetables, MAPs and milk/livestock models vary from year to year due to the described investments. The summary results of the crop models and the key assumptions are presented below;

- Marigold, Mint, Raspberry, Gherkin, Pepper, Tomato, Honey Production and Milk Production is showing gradual increase in yield.
- *Strawberry and cherry*: Concept for the intercropping mechanism of strawberry and cherry has been developed in the following way: First three years of strawberry production, in order to have continuous income while waiting for the cherry trees few years gradual increase in yield. Strawberry for the first three years shows gradual increase, however keeping in mind that the best yield for ad hoc strawberry given within 1 year. Although first year shows the best yield (e.g. strawberry), later on yield gradually decreases and this has been taken into consideration
- *Mint*: Yield for the first few years gradually increase for Mint. However incremental net income in some years is lower due to the costs of additional inputs mainly manure.
- *Raspberry*: Raspberry shows gradual increase in yield, except where in 7th year when decrease in yield occurs due to the old seeds. In 9th year investment in new seeds is made again resulting in gradual increase in yield.
- *Gherkin*: Gherkin shows gradual increase in yield, however due to the wire investment every second year slightly lower income is reflected.
- Pepper shows gradual increase in yield.
- Tomato shows gradual increase in yield, income as well.
- Honey production shows gradual increase in yield, (e.g training, purchasing hives and equipment gradually each year.)
- Milk production, shows gradual increase in yield due to the gradual investment needed (e.g. purchasing cows)

17. With reference to Table 11 on Financial Analysis, the crop models are based on the following underlying assumptions:

18. **Open Field Crop Models - Fruits:**

19. **Strawberry**: Financial incremental income varies due to necessary investment costs every third year (e.g. seeds). Strawberry is type of crop where investments in new plantation are required every third year; thus variation in income varies consequently. The highest yield is achieved at the first year upon planting seeds. However, due to the relatively higher investment costs in the first year the incremental net benefit from strawberry cultivation is limited to BAM -472. Initial investment and operations costs are covered from READP starter packages, household cash flows and pre-finance option from buyer. Positive cash flow is achieved. Income from yield due to intercropping mechanism is able to repay the pre-financing part in the next year.

20. **Raspberries**: Main investment costs (e.g. seeds, operating costs) occur with planation at production start, resulting in negative income in the first year. Income varies from year to year due to the assumption of yield variations year by year. Project will assess sources of IFAD starter package, municipality subsidy and household cash flows or pre-finance option to cover initial investment and operational costs, however at the cash flow analysis it has been reflected that farmers due to the intercropping mechanism yield could repay back the pre-financing part in the next two years

21. **Strawberry and cherry**: Intercropping mechanism with strawberries allows farmers to generate income already in the first three years on the land under cherry production. Cherry fruit tree are assumed to reach first significant harvest in 3<sup>rd</sup> to 4<sup>th</sup> year. Therefore to achieve continuous income strawberry intercropping has been taken into consideration in the model for the first three year

only. Investment costs in cherries are comparable high; the crop model is based on imported high quality seedlings from Turkey with a price of BAM 24/seedling. The variety chosen is known for high yields and high market demand ensuring good selling price. The market price for cherries can reach BAM 3.00 per kg, thus cherries are a very promising crop when market access is assured. Fruit tree such as cherry yield for at least 20 years therefore is considered as suitable longer-term investment. Project will assess sources of household cash flows or pre-finance option to cover initial investment and operational costs, however at the cash flow analysis it has been reflected that farmers due to the intercropping mechanism yield could repay back the pre-financing part in the next two years

## **22. Open Field Crop Models: Vegetables**

23. **Pepper:** Gradual increase in yield has been taken into consideration, later on, achieving 3 tonnes per year with constant 0.95 BAM price. Pepper has low initial investment costs. As annual crop pepper provides yields and income within the first year. Project will assess sources of IFAD farmer package.

24. **Gherkin:** Income from gherkins varies due to necessary investment in wiring every second year. It has been assumed in the model to replace the wire required for gherkins instead of each year every second year. Gherkins main production is based on three classes (e.g. ratio among three classes: 70/20/10). Based on the class type prices vary from 1.20 BAM to 0.20 BAM. Project will assess sources of IFAD starter packages, municipalities subsidy and household cash flows or pre-finance option to cover initial investment and operational costs, however at the cash flow analysis it has been reflected that farmers due to the intercropping mechanism yield could repay back the pre-financing part in the next year

25. **Tomato:** tomato model has been based on gradual increase in yields over years. In the financial model, beyond investing in irrigation, With project situation invests on better quality seeds that allow farmers to produce higher yields than in the without project situation. Project will assess sources of IFAD farmers package, Municipalities subsidy and household cash flow or pre-finance scenario, however at the cash flow analysis it has been reflected that farmers due to the intercropping mechanism yield could repay back the pre-financing part in the next year.

## **26. Livestock/Milk Production Model:**

27. **Livestock/Milk Production:** In average 3 and 5 cows have been assumed for these farm models. Revenues will arrive from milk and calf sales together with current paid subsidies. Milk production has been estimated for a period of 6 years in relation to cow lifecycle period. Negative incremental income at the first year is due to the higher investment costs (e.g. purchasing cows); however already at the second year income is positive. Project will assess sources of household cash flows or pre-finance option to cover initial investment and operational costs, however at the cash flow analysis it has been reflected that farmers due to the intercropping mechanism yield could repay back the pre-financing part in the next two years

## **28. Wild Mushrooms and others MAP:**

29. **Honey production:** 50 hives has been assumed per family. High first year investment cost is due to the bee hives purchase together with further equipment costs for honey production. In the northern part of the country prices per kg honey are up to 15 BAM while in the southern part of BiH the price is at 10 BAM/kg. In the model an average price of 12.5 BAM/kg is considered. Subsidies of BAM 4,90 per beehive have been taken into account.

30. **Marigold:** Gradual increase in yield per year has been taken into consideration; with constant average 1 BAM price. Marigold has low initial investment costs. As annual crop marigold provides yields and income within the first year. It has been assumed that half of the seeds purchased first year will be reused at the next year seedlings (planting), hence, instead of 800 grams next year will be purchased only half ( 400 grams) and so on. Project will assess sources of IFAD farmer package.

31. **Mint:** It is 2 years plant with the highest yield reached every second year. It has been taken into consideration, gradual increase in yield while the price remained the constant average of 0.60 BAM price. Project will assess sources of IFAD farmer package.

32. **Wild mushrooms (boletus/porcini/penny bun):** With organized trainings, and materials received (e.g. brochures), project is targeting current and future collectors within BiH. Currently, at the national territory it has been estimated to be 4000 collectors, each of them optimally picking wild mushrooms up to 600 kg/yearly. It has been calculated that half of those collectors are selling fresh wild mushrooms, while the other half is selling them in dried shape. In order to get 1 kg of dried wild mushrooms, there is a need of 10kg the fresh ones. Prices across fresh and dried wild mushrooms enormously vary, with average fresh wild mushrooms between 6-8 BAM/kg and dried ones reaching prices between 60-100 BAM.

33. Total revenue has been assumed based on average yield and crop price per kg ; average net income has been presented on 1 dunum/BAM. Net income before labour costs and after labour costs taken from 5th year is also shown in table 13. .Production, including investment, operating and labour costs are reflecting initial first year costs. Market prices of fruits, vegetables and MAPs can fluctuate as horticulture is typically characterized by volatile market prices year by year. However, with modern technologies and strong market linkages, organized smallholders will be competitive in the targeted subsectors, even in an EU market context.

#### 34. Summary results of the crop models

**Table 12. Main Assumption and Shadow Prices**

MAIN ASSUMPTIONS & SHADOW PRICES					
FINANCIAL	Output (kg or l)	Price (EUR)		Input prices	Price (EUR)
	Strawberry	1.02		Fertilizer	2.30
	Raspberry	1.28		Pesticides	15.31
	Cherry	1.28		Rural wage \p.d.	15.31
	Pepper	0.48		Irrigation cost ( 1dunum)	153.06
	Gherkin	0.61			
	Tomato	0.64			
	Honey	6.38			
	Milk	0.28			
	Marigold	0.51			
	Mint	0.31			
	Fresh Mushrooms (boletus)	3.57			
	Dried Mushrooms(boletus)	40.82			
ECONOMIC	Official Exchange rate (OER)	1.96	Discount rate (opportunity cost of capital)		11%
	Shadow Exchange rate (SER)	2.01	Output conversion factor		1.18
	Standard Conversion Factor	1.03	Input Conversion factor		0.85
	Labour Conversion factor	0.85			

35. **Profitability results:** A summary of the results is presented in Tables 12 to 13 below. All financial models indicate that profitability of the targeted interventions is good; benefits/costs ratio for all models is robust and viable and ranges between 1.1 to 2.5 for the different crop models (details is table 12 below). It can be concluded that investments and diversification in the fruits, vegetables, MAP and livestock subsectors provide the required leverage to reduce rural poverty and to improve financial viability of small farm holdings in BiH. These results are valid in areas where (i) linkages to buyers are ensured and farmers adopt the required technologies to obtain targeted yields, as outlined in the business plans; (ii) farmers have access to the co-financed starter packages.

36. As shown in Table 13 and 14, all financial models present a positive NPV and positive internal rates of return. By looking at the NPV's figures, the highest one is intercropping mechanism of cherries and strawberries, strawberries, paprika and wild mushrooms. Production of intercropped cherries and strawberries gives NPV of 30,126 BAM per dunum; due to the higher robust cherries price at the market jointly with strawberries production included at the initial three years in order to

achieve continuous income. Among the vegetables cultivated in the open field, paprika has the highest NPV – 9,553 BAM per dunum due to the low investments inputs/prices. Wild Mushrooms NPV of 11,852 BAM is due to the low investment costs and robust prices for fresh and dried mushrooms.

37. **Initial cost of production:** For all financial models of fruits cultivated in the open field, total costs of production (investment and inputs) in year 1 vary between 2,360 and 7,160 BAM per dunum. Cherry production has higher investment costs due to the high quality seeds needed for the purpose of optimizing higher yield production activities. Vegetables total costs of production vary between 1,084 BAM and 2,651 BAM. Pepper has the lowest initial costs due to the low seeds prices at the market. MAPs initial production costs vary between 9,808 for honey production and 53 BAM mushrooms. Purchase of 50 beehives considered at the first few years is reflected in higher initial costs. Wild Mushrooms costs are very limited mainly in the form of collectors' trainings and brochure costs.

38. **Return on family labour:** The cost of seasonal labour in rural BiH is 30 BAM/day. The crop models are based exclusively on family labour, since small land plots up to a family can manage two dunum. The return for the family labour in the financial models is profitable varying between 49 BAM and 175 BAM/day. Again evidence that investments in the targeted subsectors contribute to poverty reduction.

### 39. Results from individual crop models

40. **Strawberry & Cherry Crop Models:** Cherry with high value seeds is promising for under condition that market is assured and price per kg remained robust. At present, cherry prices can reach up to 3 BAM/kg due to high demand from export markets. Although cherries require high investment costs and first harvest will start after three years, market demand is growing and wholesalers and exporters are willing to pay interesting farm gate prices such as 3 BAM/kg. Intercropping with strawberries is improving the income situation to bridge the first three years without harvest. This results in a net income of 5,035 BAM/dunum (year 5).

41. **Raspberry Crop Models:** Among the promising fruits in BiH is still raspberry, although prices dropped in 2017 after high yields in the main exporting countries and still filled cold storage of local exporters being less competitive due to high prices paid to producers in 2016. 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 from 2007 to 2016, between 1.60 BAM and 3.20 BAM per kg. In 2017, the average price will most probably not exceed 2.20 BAM/kg. However, the coming years a recovery of the price is to be expected. The financial model shows that raspberry production in BiH is profitable in case prices are higher than 1.50 BAM/kg. The price in the model is based on 2,50 BAM/kg. Smallholders are expected to be still eager to invest in raspberry production because: (i) a net income of 4,535 BAM/dunum (in year 5) is attractive in rural BiH; (ii) the market is volatile but with the presence of wholesale buyer in the area still guaranteed; (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. The financial profitability indicators are attractive: return to family labour is 113 BAM/day.

42. **Gherkin Crop Models:** production of gherkins crop for processing as pickles is developing rapidly in BiH and it is the very 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. Wholesale buyers are developing out-grower schemes and are currently guaranteeing buying the entire production, which results in interesting farm gate prices (1.20 BAM per kg for grade I). Strong demand results in a net income of 2,606 BAM/dunum.

43. **Pepper Crop Model:** The highest NPV of 9,553 BAM/dunum among vegetables in the models; the low initial investment costs and constant robust yield across years. B/C ratio of 2.5 and return to family labour of 100 BAM.

44. **Tomato Crop Model:** Considered as gradual increase in yield across years with NPV of 4,445 and B/C ratio of 1.5.

45. **Dairy Model.** Milk production model with 3 cows estimation shows average net income of 5,713 BAM and milk production with 5 cows is estimated with average net income of 9,489 BAM. Additional revenues come from yearly calf sales, included in our analysis. B/C ratio varies from 1.4 to 1.5.

46. **MAP model.** With project support it is expected to support target group farmers to invest in cultivation of selected MAPs to allow more constant income from MAPs. Models are developed for marigold, mint, honey production and wild mushrooms ( e.g. boletus).

Medicinal and aromatic plants substantially contribute to the national and local economy of the country with 700 different species out of which 200 or 29% are used for commercial purposes. Diversity of climate and vegetation, clean environment and tradition are good preconditions for the production of high quality raw materials, essential oils and different herbal products.

Herbs are accounting about 20% of total exports within national MAPs sector, while recent trends of cultivation is noticed for plants such as mint, marigold, lavender, chamomile, lemon, balm, basil and immortelle.

47. **Honey model.** Initial Honey production (investment and operating costs) for 50 in the first two years are due to the purchasing hives and equipment needed. Honey production with capacity of 50 hives presents net income of 2,631 BAM ( year 5). Honey production of 50 hives has net present value of 3,899 BAM.

48. **Marigold:** At the initial costs needed (investment and operational) it has been assumed that every year needed to seeds marigolds at the while half of the seeds bought first year has been reused at the next year planning, therefore instead of 800 grams has been bought only 400 grams for the second year. NPV is 203 BAM, net income 354BAM/dunum, B/C ratio 1.74 and return to family labour 70.80 BAM. Marigold has low initial costs of 286BAM/dunum.

49. **Mint:** Initial investment and operating costs are low, accounting for 690 BAM. NPV value in the amount of 1,971, B/C ratio 1.75 and return to family labour 145 BAM.

50. The calculations in Table 12 are based on an average yield kg/dunum assumed in our model analysis. Production, including investment, operating and labour costs has been presented in Table 12 reflecting initial first year costs. Total net income taken from 5<sup>th</sup> year has been assumed based on average yield and crop price per kg.

**Table 13: Financial profitability indicators (2017)**

Model	Net present value BAM/dunum	Internal Rate of Return (%)	B/C Ratio	Return to family labour (BAM/day)	Average Revenue per year BAM/dunum	Average Net Income per year BAM/Dunum	Net income (after labour costs (year 5) BAM/dunum	Net income (after labour costs) (year 5)	Average Incremental Income BAM/dunum	Incremental income, (year 5) BAM/dunum
Strawberry	11,695	-	1.92	89.70			4,485		1,148	1,808
Raspberry	5,475	32%	2.00	113.38	4,985	3,860	4,535	3,135	687	1,808
Cherry+Strawberry	30,126	39%	2.12	162.09	3,763	3,860	5,035	3,155	3,595	2,547
Gherkin	6,156	114%	1.62	82.13	7,710	6,718	2,628	4,075	747	635
Pepper	9,553	-	2.50	100.22	3,920	2,519	2,606	1,556	1,075	1,075
Tomato	4,445	79%	1.43	79.23	2,850	2,511	2,139	1,826	474	550
Honey Production	3,899	11%	1.09	175.43	3,850	2,069	2,631	1,329	942	1,750
Marigold	203	29%	1.74	70.80	7,130	1,824	354	2,181	25	32
Mint	1,971	45%	1.75	145.00	445	347	580	204	221	331
Wild Mushrooms (boletus/porcini)	11,852	-	-	79.09	690	485	4,350	460	1,119	1,119
Livestock Production, 3-5 cows	4,494	18%	1.52	51.87	4,350	4,350	5,713	2,700	657	1,440
Livestock Production, 5-10 cows	300	7%	1.38	48.91	11,760	4,930	9,489	4,344	821	1,858
Livestock Production, 3-5 cows	511	8%	1.37	51.87	19,600	8,452	5,713	7,435	457	1,440
Livestock Production, 5-10 cows	300	7%	1.38	48.91			9,489		821	1,858

a) intercropping mechanism: strawberries production assumed for the first three years at 1 dunum where yielded fruit trees( e.g., cherries) ,so beneficiaries might have continuous income while waiting for fruit trees to bring first yield production.

**Table 14: Financial analysis of crop budget ( 2017)**

Model	Average Yield kg/dunum*	Production & investment cost, including labour (year 1) BAM/dunum	Average Production & investment cost, including labour BAM/dunum
Strawberry	2,493	3,945	2,510
Raspberry	1,505	2,360	1,844
Cherry+Strawberry	2,746	7,160	2,587
Gherkin	4,000	2,624	2,305
Pepper	2,900	1,084	1,030
Tomato	2,800	2,651	2,597
Honey Production*	625	9,808	5,306
Marigold	445	286	248
Mint	1,150	690	340
Wild Mushrooms, Boletus (Porcini)***	330	53	53
Milk Production, 3- 5 cows ( I)*	6,480	10,491	6,830
Milk Production, 5-10 cows ( I)*	10,800	30,851	11,148

\*1 where applicable dunum terminology

\*\*1 Honey production is not related to the dunum-limited capacity, but on 50 hives

\*\*\* not related to the dunum capacity , rather on the average collected mushrooms ( e.g. boletus) per year/per one collector-as per current situation in BiH-data taken upon discussion with PCU/APCU staff. Where written average production costs, it relates to the training costs and small operational costs per one collector needed

51. **Road Model:** Project will finance 16 km of the rural roads at the targeted clusters.

52. According to the scenario assumptions: (i) 50% of all targeted beneficiaries production will be transported via rural roads (ii) in case of current rural traffic infrastructure it has been assumed 15% of losses of the production value will occur due to the non-adequate condition of roads; (iii) in case of improved condition, losses will drop to 2%; (iv) benefits of road improvement is estimated as a saved value of 13% less losses in the amount of 620 million/BAM; and(v) return of investments is considered to be achieved at third year.

53. **Irrigation Model:** Project will finance 11 irrigation systems at the targeted clusters, each having 80 ha capacity. It has been assumed per one irrigation system in total 220 direct beneficiaries who receive starter packages from the project and 47 indirect ones. Total number of beneficiaries for all 11 irrigation systems is estimated to be 2420 direct beneficiaries and 513 indirect ones. (Assuming our direct farmers has on average 1 to 5 dunums, and that they will irrigate all of the arable land than the utilisation capacity of the irrigation system will be 82.5%, leaving space for other indirect farmers to benefit from the irrigation system). It has been estimated that total investment costs could be returned within 7 years under assumption that targeted farmers without irrigation system could yield less around 10-30%, while with investment scenario could bring additional value due to the irrigation system.

54. Additional value has been calculated upon increasing average yield/capacity due to the irrigation system for 10-30% (e.g. depending on the crop) and deducting operational variable costs needed for such activity; (e.g. total consumption cost per m3 of water used for irrigation equates the price of water consumed for irrigation in agriculture with the marginal cost of making it available for use. The marginal cost of an additional unit includes delivery costs (in BiH, the main cost is electricity cost for pumping the water from the water source to the reservoir), costs of building, maintaining and operating the infrastructure to make the unit available (this includes the labour cost at the Water User Association, which is responsible for managing the irrigation system i.e. recording water use per farmer). Our model assumes that pump station, reservoirs and primary water supply pipeline for



irrigation have already been completed. In BiH, these primary irrigation infrastructures have been completed through the WB project.

55. **Cold storages Model:** Project will finance 28 cold storage and packing facilities at the targeted clusters. Following crops have been selected for the overall usage of those cold storage facilities: strawberries, raspberries, fresh wild mushrooms, gherkins, peppers, tomatoes and mints. Each cold storage at our model has 100 tonnes capacity with the possibility to achieve yearly turnovers up to 590 tonnes. Under assumption that our selected farmers is supplying to the facilities 50% of his/her average annual yield/dunum, total amount of stored capacity is able to reach full capacity of the annual turnover. Based on the above selected crops and under scenario that targeted farmers will supply to the facilities half of his/her average yearly yield/dunum; it has been estimated 5400 direct beneficiaries who will receive starter packages to be able to stored their yearly average total production of crops at the purchased 10 cold storage facilities. It has been taken into consideration at least 5% higher crop price sold by the farmers due to the supplying to the facilities. Total additional value due to the better price for 5400 targeted farmers is 350.91 BAM making possible to return investment on the purchasing facilities within 7.5 years.

56. **Youth Apprentice Model:** 350 direct youth beneficiaries could benefit out of the project. Social benefit per one youth is calculated on the yearly basis in the amount of 10.3 thousand/BAM, where social costs covered due to the project is 6,000 BAM. Difference across social benefit/yearly and social costs covered by the project is presenting incremental net benefit in the amount of 4,296 BAM per youth. Finally, total incremental benefit for all 350 youths is estimated to be 1.5 million/BAM.

**Table 15. Number of beneficiaries related to the Infrastructure:**

No. of Beneficiaries	Irrigation Systems	Cold Storages
Direct Beneficiaries	2,420	5400
Indirect Beneficiaries	513	-

### C. Benefits and Beneficiaries

57. The main benefits of the Project would be:
- Expansion of acreage of fruits and vegetables, increase of honey and dairy production for domestic and export markets; the promotion of agribusiness agreements and market linkages would enhance competitiveness of the targeted households and ensure sustainability;
  - Increased revenues for some 8650 target households as direct beneficiaries, who would develop or upgrade their dairy, fruit, vegetable production and youth apprentice activities;
  - Support to the fruit and vegetable sub-sectors would lead to increased production earnings; additional production of fruits and vegetables from the targeted groups of the 3400 farmers within each category is estimated at (i) 10.2 tonnes per year (latest at year 5), with a value of 1,6 billion BAM per year; (ii) MAPs production for targeted group of 4100 farmers is estimated with 2,9 tonnes per year with a value of 8,3 billion BAM. Milk production for the targeted group of 600 farmers with assumption of 3 cow-models is estimated with additional average production of 3,9 million litres per year with a value of 2,1 million BAM. Milk production for the targeted group for 200 farmers with assumption of 5 cows is estimated additional average production of 2,2 million litres per year with value of 1,2 million BAM.
  - Creation of 4,500 new jobs or equivalent created through the 350 youth apprentice and at least 50% of the 8,300 beneficiaries of the starter packages and the FO seed capital financing achieving cash returns equal to at least the minimum net salary earned (BAM 425) from a full time job.
  - Farmers organisations would be enhanced; over a period of 5 years; 40 FOs would be supported in terms of institutional capacity building and support to FO seed capital financing. These significant investments in assets such as production, storage and processing

technologies would result in strengthened organisations with improved market linkages providing better services to their members;

- vi. At municipality level, significant investments in market facilities and further enabling infrastructure would be supported with an outreach to another 5,000 households. Particular attention will be given to support climate change resilience, by favouring environmental friendly technological investments.

#### D. Economic analysis

58. **Objective.** 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.

59. **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 11% 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.

60. **53. 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 most of the models.

61. **Project Phasing.** Table 16 shows the phasing and adoption rate of producers assuming 90% of the beneficiaries of starter packages adopt the measures. In addition, youth apprentice adoption rates and phasing activities has been taken into consideration. Table 17 summarizes the number of participating beneficiaries during the implementation period and the related phasing of the investment.

**Table 16. Beneficiary Adoption Rate and Phasing**

BENEFICIARIES, ADOPTION RATES AND PHASING							
	PY1	PY2	PY3	PY4	PY5	Total	Adoption rate
<b>Strawberries</b>	10	40	40	5	5	100	
<i>Adjusted (adoption rate)</i>	9	36	36	5	5	90	90%
<b>Raspberries</b>	10	40	40	5	5	100	
<i>Adjusted (adoption rate)</i>	9	36	36	5	5	90	90%
<b>Cherries+Strawberries</b>	10	40	40	5	5	100	
<i>Adjusted (adoption rate)</i>	9	36	36	5	5	90	90%
<b>Pepper</b>	100	400	400	50	50	1,000	
<i>Adjusted (adoption rate)</i>	90	360	360	45	45	900	90%
<b>Gherkin</b>	60	240	240	30	30	600	
<i>Adjusted (adoption rate)</i>	54	216	216	27	27	540	90%
<b>Tomato</b>	150	600	600	75	75	1,500	
<i>Adjusted (adoption rate)</i>	135	540	540	68	68	1,350	90%
<b>Honey Production</b>	50	200	200	25	25	500	
<i>Adjusted (adoption rate)</i>	45	180	180	23	23	450	90%
<b>Livestock Production (3-5)</b>	60	240	240	30	30	600	
<i>Adjusted (adoption rate)</i>	54	216	216	27	27	540	90%
<b>Livestock Production (5-10)</b>	20	80	80	10	10	200	
<i>Adjusted (adoption rate)</i>	18	72	72	9	9	180	90%
<b>Marigold</b>	150	600	600	75	75	1,500	
<i>Adjusted (adoption rate)</i>	135	540	540	68	68	1,350	90%
<b>Mint</b>	150	600	600	75	75	1,500	
<i>Adjusted (adoption rate)</i>	135	540	540	68	68	1,350	90%
<b>Ed Mushrooms ( boletus )</b>	30	150	240	120	60	600	
<i>Adjusted (adoption rate)</i>	27	135	216	108	54	540	90%
<b>Youth Apprentice</b>	35	140	140	35	0	350	
<i>Adjusted (adoption rate)</i>	32	126	126	32	0	315	90%
<b>of Targeted Beneficiaries</b>						<b>8,650</b>	
<b>Adopting Beneficiaries</b>						<b>7,785</b>	

**Table 17: Number of Farmers and Phasing in Activities**

	Strawberries	Raspberries	Cherries + Strawberries	Pepper	Gherkin	Tomato	Livestock/milk production, 3-5 cows	Livestock/milk production, 5-10 cows	Honey Production (50 hives)	Marigold	Mint	Mushrooms	Youth Apprentice	Total
<b>PY1</b>	9	9	9	90	54	135	54	18	45	135	135	27	32	752
<b>PY2</b>	36	36	36	360	216	540	216	72	180	540	540	135	126	3033
<b>PY3</b>	36	36	36	360	216	540	216	72	180	540	540	216	126	3114
<b>PY4</b>	5	5	5	45	27	68	27	9	23	67.5	67.5	108	31.5	486
<b>PY5</b>	5	5	5	45	27	68	27	9	23	67.5	67.5	54		401
<b>Total /adoption rates</b>	90	90	90	900	540	1350	540	180	450	1350	1350	540	315	7785
<b>Total</b>	100	100	100	1000	600	1500	600	200	500	1500	1500	600	350	8650

62. **Economic Pricing:** Economic pricing was undertaken using the following assumptions: (a) the opportunity cost of labour is EUR 25.5 /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 EUR=2.0134 BAM and (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 0.85 (for imported inputs) and 1.18.

**Table 18. Conversion Factors**

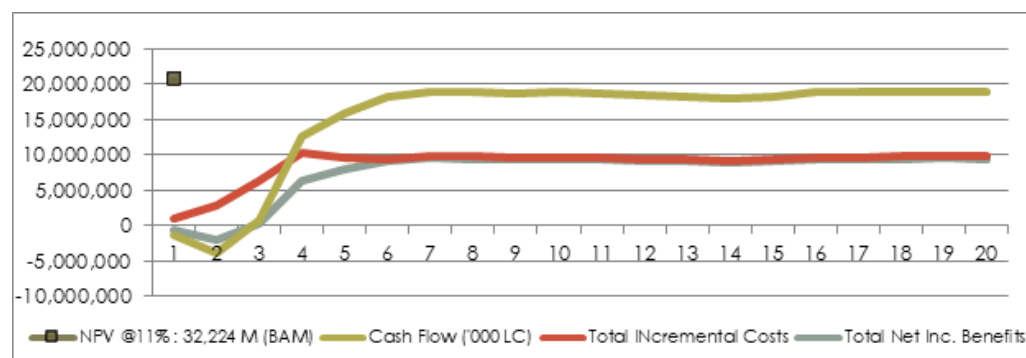
<b>CONVERSION FACTORS</b>		
Conversion Factor (SCF) for imported chemicals	0.85	SCF
Factor (SCF) for exported agric/ products	1.18	SCF
Shadow Wage Rate Factor (SWRF)	0.85	SWRF

63. **Economic Rate of Return:** On the basis of the above assumptions, the EIRR of READ would be 35% and the Net Present Value (NPV) would amount to EUR 16 millions. EIRR has been calculated based on the models' net incremental income. The high EIRR reflects the ambition and potential leverage of READ, with an approach focused on clear comparative advantages and existing economic dynamics in Bosnia and Herzegovina.

**Table 19. Economic Analysis**

		Net Incremental Benefits																	Net Incremental Eco costs ('000 BAM)	CASH FLOW ('000 BAM)
		Strawberries	Raspberries	Cherries+Stra wberries	Pepper	Gherkin	Tomato	Honey Production (50 hives)	Livestock/mil k production , 2-5 cows	Livestock/mil k production , 5-10 cows	Marigold	Mint	Mushrooms	Youth Apprentice	Irrigation Systems	Cold Storages	Rural Roads	Total Benefits ('000 BAM)		
<b>E C O N O M I C  A N A L Y S I S</b>	<b>Y1</b>	12,909	(26,089)	(1,902)	52,203	23,225	(25,635)	(245,730)	(447,019)	(261,076)	8,815	(32,284)	35,651	135,324	41,214	70,183	52,565	(607,646)	1,694,247	<b>(2,301,893)</b>
	<b>Y2</b>	82,499	(87,526)	21,292	301,250	171,264	(96,043)	(1,182,626)	(1,663,917)	(988,057)	64,533	(74,126)	213,909	541,296	288,495	210,548	262,826	(1,934,383)	4,825,191	<b>(6,759,574)</b>
	<b>Y3</b>	205,355	(13,640)	133,235	573,366	499,213	1,083	(1,699,050)	(1,167,276)	(763,072)	181,621	131,046	499,120	541,296	453,350	350,913	420,522	347,083	5,954,661	<b>(5,607,578)</b>
	<b>Y4</b>	262,716	180,569	237,451	959,846	792,655	401,366	(508,194)	893,933	375,678	267,855	438,521	641,726	135,324	453,350	350,913	420,522	6,304,232	3,926,325	<b>2,377,907</b>
	<b>Y5</b>	224,733	251,140	250,449	1,048,599	897,871	689,194	521,587	956,013	403,801	282,491	527,391	713,029		453,350	350,913	420,522	7,991,083	1,712,464	<b>6,278,619</b>
	<b>Y6</b>	226,533	309,026	380,435	1,111,250	930,493	740,831	685,802	1,241,602	562,462	292,720	654,716	713,029		453,350	350,913	420,522	9,073,685	263,000	<b>8,810,685</b>
	<b>Y7</b>	262,716	302,354	576,653	1,153,782	939,388	776,404	827,006	1,219,846	562,462	292,720	649,370	713,029		453,350	350,913	420,522	9,500,516	263,000	<b>9,237,516</b>
	<b>Y8</b>	224,733	254,758	687,859	1,153,782	955,669	776,404	827,006	1,132,765	562,462	292,720	673,776	713,029		453,350	350,913	420,522	9,479,750	263,000	<b>9,216,750</b>
	<b>Y9</b>	226,533	200,437	725,569	1,153,782	945,791	776,404	827,006	1,045,469	562,462	292,720	658,900	713,029		453,350	350,913	420,522	9,352,887	263,000	<b>9,089,887</b>
	<b>Y10</b>	262,716	195,196	739,739	1,153,782	945,059	776,404	827,006	1,034,105	562,462	292,720	673,776	713,029		453,350	350,913	420,522	9,400,778	263,000	<b>9,137,778</b>
	<b>Y11</b>	223,674	187,201	740,387	1,132,746	936,133	776,404	827,006	1,022,713	562,462	292,720	658,900	713,029		453,350	350,913	420,522	9,298,161	263,000	<b>9,035,161</b>
	<b>Y12</b>	222,297	139,723	744,655	1,069,635	901,126	776,404	827,006	1,022,173	562,462	292,720	673,776	713,029		453,350	350,913	420,522	9,169,792	263,000	<b>8,906,792</b>
	<b>Y13</b>	258,480	(45,906)	743,436	1,143,264	904,418	776,404	827,006	1,021,633	562,462	292,720	658,900	713,029		453,350	350,913	420,522	9,080,632	263,000	<b>8,817,632</b>
	<b>Y14</b>	224,733	(165,421)	745,036	1,143,264	938,126	776,404	827,006	1,021,093	562,462	292,720	673,776	713,029		453,350	350,913	420,522	8,977,014	263,000	<b>8,714,014</b>
	<b>Y15</b>	226,533	17,430	743,817	1,143,264	941,419	776,404	827,006	1,020,553	562,462	292,720	658,900	713,029		453,350	350,913	420,522	9,148,322	263,000	<b>8,885,322</b>
	<b>Y16</b>	262,716	210,477	745,036	1,153,782	943,412	776,404	827,006	1,020,013	562,462	292,720	673,776	713,029		453,350	350,913	420,522	9,405,619	263,000	<b>9,142,619</b>
	<b>Y17</b>	224,733	286,471	743,817	1,153,782	946,705	776,404	827,006	1,019,473	562,462	292,720	658,900	713,029		453,350	350,913	420,522	9,430,288	263,000	<b>9,167,288</b>
	<b>Y18</b>	226,533	314,320	745,036	1,153,782	943,412	776,404	827,006	1,018,933	562,462	292,720	673,776	713,029		453,350	350,913	420,522	9,472,199	263,000	<b>9,209,199</b>
	<b>Y19</b>	262,716	319,561	743,817	1,153,782	946,705	776,404	827,006	1,018,393	562,462	292,720	658,900	713,029		453,350	350,913	420,522	9,500,281	263,000	<b>9,237,281</b>
	<b>Y20</b>	224,733	320,938	745,036	1,153,782	943,412	776,404	827,006	1,017,853	562,462	292,720	673,776	713,029		453,350	350,913	420,522	9,475,938	263,000	<b>9,212,938</b>
														NPV@11% (million BAM)		32,224				
														NPV@11% (million EUR)		16,005				
														EIRR		35%				

**Graph 2. Economic Incremental Cash Flow**



64. **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 18 below. The sensitivity analysis investigates the effect of fluctuations in Project costs, benefits and delays in implementation on the NPV and EIRR. 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. A sensitivity analysis shows that the EIRR drops to 31% with an increase in costs of 20%. With an increase of costs by 50% to 26%, the project is still economically worthy. The decrease of benefits from 20% to 50% still yields a higher EIRR, and a delay of project aggregate benefits by 1 to 2 years still yields a higher EIRR. Finally, the analysis shows that the economic viability of the project remains attractive by preserving positive NPV and EIRR in each case.

**Table 20: Sensitivity Analysis (2017)**

SENSITIVITY ANALYSIS (SA)					
		Δ%	Link with the risk matrix	EIRR	NPV (EUR M)
Base scenario				35%	16,005
Project benefits		-10%	Combination of risks affecting output prices, yields and adoption rates	33%	15,284
Project benefits		-20%		30%	14,562
Project benefits		-50%		20%	4,396
Project costs		10%		33%	15,284
Project costs		20%	Increase of construction material prices	31%	14,562
Project costs		50%		26%	12,398
1 year lag in ben.			Risks affecting adoption rates and low implementation capacity	29%	13,178
2 years lag in ben.				25%	10,630
Production costs		10%	Low management & negotiating capacity of farmers groups	24%	13,683
Production costs		20%		21%	11,361
Investment prices		10%	Market price fluctuations	25%	10,755
Investment prices		20%		24%	10,027
Adoption rates		-10%	Extension services outreach is limited, low uptake of good practices, vaccination uptake is low, epidemic diseases	24%	9,330
Adoption rates		-20%		22%	7,176
Yields		-10%			

## Appendix 11: Draft project implementation manual<sup>98</sup>

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<sup>98</sup> The final version of the READP PIM will be fine-tuned by each project unit (PCU and APCU) after the effectiveness of the IFAD loan for READP. The implementation arrangements will be discussed with stakeholders at the start-up workshop based on which the completed version of the PIM will be sent to IFAD CPM for approval.

## Abbreviations & Acronyms

AES	- (Agricultural) Extension Service
APCU	- Agricultural Project Coordination Unit
AWPB	- Annual work plan and budget
BAM	- Bosnian marks (currency of Bosnia and Herzegovina)
BDS	- Business development service
BP	- Business plan
BPEC	- Business Plan Evaluation Committee
CPM	- Country Programme Manager
CQS	- Selection based on consultants' qualifications
DA	- Designated account
DC	- Direct contracting
EA	- Extension Agency (Agricultural Extension Agency of the RS MoAFWM)
ESMF	- Environmental and Social Management Framework
EU	- European Union
EUR	- Official currency of euro zone
EURIBOR	- EUR interbank offered rate
FBiH	- Federation of Bosna i Herzegovina
FBS	- Fix budget selection
FO	- Farmers' organization
GAP	- Good agricultural practice
GHP	- Good hygiene practice
HACCP	- High accident critical control points
HH	- Household
ICB	- International competitive bidding
IFAD	- International Fund of Agricultural Development
IPM	- Integrated pest management
IPSAS	- International Public Sector Accounting Standards Board
ISO	- International Organization for Standardization
LIB	- Limited international bidding
LTB	- Letter to the borrower
MAFWM FBiH	- Ministry of Agriculture, Forestry and Water Management of the Federation of Bosnia and Herzegovina
MAFWM RS	- Ministry of Agriculture, Forestry, Water Management of the Republika Srpska



MAPs/NTFPs	-	Medical and aromatic plants / Non timber forest products
M&E	-	Monitoring and evaluation
MFI	-	Micro financial institution
MFT BiH	-	Ministry of Finance and Treasury of Bosnia and Herzegovina
MIS	-	Management information system
NGO	-	Non-governmental organization
NCB	-	National competitive bidding
NS	-	National shopping
PA	-	Project account
PCU	-	Project Coordination Unit
PFI	-	Project financial institution
PSC	-	Project Steering Committee
PCR	-	Project completion report
PDR	-	Project design report
PY	-	Project year
WBS	-	Quality-based selection
QCBS		Quality and cost-based selection
RBDP	-	Rural Business Development Project
RCDP	-	Rural Competitiveness Development Project
READP	-	Rural Enhancement and Agricultural Development Project
RS	-	Republika Srpska
SECAP	-	Social, environmental and climate assessment procedure
SME	-	Small and medium enterprise
SOE	-	Statement of expenditure
SP	-	Service provider
SPS	-	Sanitary and phytosanitary standards
SSS	-	Single source selection
ToT	-	Training of trainers
VC	-	Value chain
WA	-	Withdrawal application

## **I. Project Introduction**

### **A. Project idea**

1. **The development hypothesis.** The business leaders (SMEs or FOs who offer market linkages to the target households along with other services such as supply of crop production inputs, advisory inputs and pre-financing support) can be motivated and driven by their commercial interests to anchor and lead the process of including youth and poor households in their raw material supply chains resulting in job creation, income generation and poverty reduction of these households. This requires producers' access to information, skills, finance, and services from FOs that can support them to become commercial producers by producing and selling the quality and quantity of products required by the business leaders.
2. **Agribusiness models.** READP will support 4-Ps (producer, private, public, partnerships) based business models that increase the income of the target households by developing profitable marketing linkages between them and sustainable business leaders. The business model will integrate the business leaders enterprises (private), the project and the municipalities (public), target households (private producer) and farmers' organisations (private).
3. **(Agri) Business leaders.** The (agri) business leaders can be capable private enterprises or farmers' organisations (producers' associations and cooperatives) with the interest and potential to develop partnerships with the target households. In general, the natural formation of these marketing linkages often face challenges as they depend on partnerships between different private and public actors, who do intend to form linkages with the target households, but with diverging interests. In this case, agribusinesses appear in the role of leaders in establishing and maintaining a value chains.
4. **Targeting strategies.** READP promotes the inclusion of very poor and poor non-commercial farmers, women and youth in selected value chains through the development and implementation of cluster based business plans for connecting producers to buyers. In order to reach the target group READP will adopt: (1) geographical targeting measures to reach those areas with higher concentration of targeted households (refer programme area above); (2) self-targeting means by selecting crops and enterprises suitable enough and of interest to the target groups; (3) direct targeting actions to include rural youth and women headed households and (4) other enabling measures to promote greater chance of linking the target group to business leaders.
5. **Pro-poor business plans.** READP will broker linkages between the business leaders and the target households by: (1) mobilise and harmonise the commercial and social interest of private, public and producer stakeholders; (2) incentivise and catalyse collaboration between them and (3) monitor and ensure that these target households are actually reached during project implementation. READP investments will be guided by pro-poor business plans (BP) developed collaboratively by the business leader and other private, public and producer partners facilitated by the project.

### **B. Project goals and objectives**

6. **Goal.** READP's goal is to contribute to rural economic development and poverty reduction by improving livelihood, generating revenue and enhancing the living standards of target households.
7. **Objectives:** READP's objective is to increase the income of rural poor households and rural youth by engaging them in profitable agribusiness and employment opportunities. READP will unlock new rural business opportunities by better connecting and integrating farms, farmers' organisation and business leaders to commercial markets. It will create new avenues for self, salaried and wage employments for beneficiaries.

### **C. Project approach, focus, subsector approach**

8. **Sub-sectors focus.** The pro-poor business plans will describe the business model and partnership needs for profitably linking the target households to business leaders based on marketing

opportunities for the selected produce. The selection of the produce will be market led mainly from the fruit and vegetable, MAPs/NTFPs and dairy sub-sector.

9. **Responsibilities.** Different stakeholders in the project business model have a different responsibilities whose simultaneous, proper and timely fulfillment lead to achievement synergy effect.

a) **Private business leaders** will be responsible for:

- 1) marketing aspects, private infrastructure, working capital investments and operational requirements;
- 2) supply of quality planting material, other production inputs including advance financing to the producers and
- 3) including the target households in the business models.

b) **Farmer's organizations** will be responsible for:

- 1) negotiate better terms and conditions for their members and adopt measures to safeguard members interests;
- 2) improve their services to increase the membership from the target households;
- 3) assist members to meet the quality and quantity requirements of the buyer by providing access to advisory assistance, machinery and agronomic inputs and
- 4) where relevant ensure the proper management and maintenance of enabling infrastructure investments.

c) **Project**, through project coordination units, will be responsible for:

- 1) sensitise and mobilise the stakeholders;
- 2) assist market development, training and advisory services to support competitive production by target households;
- 3) co-finance starter packages for competitive production by first time commercial farmers;
- 4) co-finance enabling production and marketing infrastructure investments and
- 5) plan, monitor and provide oversight to ensure that the project resources are being used as agreed and planned.

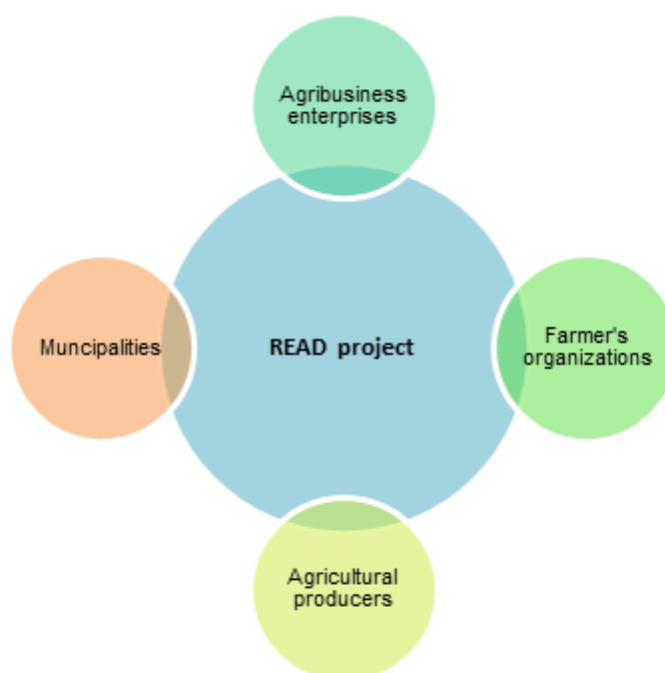
d) **Municipalities** will be responsible for:

- 1) assisting consultation and discussions between different business plan partners;
- 2) co-financing starter packages, FO seed capital financing and enabling infrastructure needs and
- 3) ensuring proper management and maintenance of the developed infrastructure.

e) Rural households in the position of **agricultural producers** will be responsible for:

- 1) co-finance the starter packages and produce the selected products;
- 2) supply the agreed quantities and qualities to the business leader and
- 3) participate in strengthening FOs by lobbying and advocating for more inclusive approach.

10. **The role of the project.** Diagrammatic representation of role of the project is given below



11. **Service providers.** Contracted service providers for business plan development and implementation and for infrastructure component implementation will play a key role in project implementation in FBiH, together with cluster coordinators. In the RS the ministry's Agricultural Extension Service (AES), strengthened with field extension officers, and temporary using short term consultant will leverage development of business, while infrastructure component APCU will implement itself, without using service provider. The framework ToR for the service provider for implementation component one is enclosed to this manual which will be modified in the case of the RS.

#### D. Description of project components

12. The project has **two components**:

- 1) Enhancement of economic opportunities and smallholders integration in value chains and
- 2) Project management and coordination.

13. The first component is the core component aimed to achieve the project goal and objectives, while the second component has task to ensure organizational and other conditions for its implementation.

14. **Subcomponents.** The project component Enhancement of economic opportunities and smallholders integration in value chains has three subcomponents:

- 1) Development and implementation of pro-poor business plans;
- 2) Farmers organisations development and
- 3) Enabling infrastructure support.

15. **Development and implementation of pro-poor business plans.** Under this subcomponent the project will assist poor households to transform from non-commercial to commercial farmers, with special attention to youth and women headed households. That assistance focuses on integration of agricultural households into value chains based on development and implementation business plans in which centre are buyers and processors of agricultural and MAP/NTF products.

16. In the FBiH business plan development and implementation will be supported by a service provider. A qualified service provider will be contracted through competitive procurement procedure for the whole project life. The role of service provider company will be: implementation of the targeting survey, conduct sensitisation workshops before call for business proposals, provide technical

assistance for developing detailed business plans and facilitate implementation agreements and implementation of business plans. In addition, the PCU will contract 5 cluster coordinators, one in each cluster, for field presence and quality implementation of READP.

17. In the RS, the APCU will develop and implement business plans in cooperation with Agricultural Extension Agency (hereinafter only EA), one of department of the MAFWM RS, with which APCU has operation experience from the implementation of previous IFAD projects. Because, EA does not have significant experience with business plans methodology, additional service provider will be contracted for training and capacity building of the EA to ensure the efficient implementation of the business plans. The EA will provide project field coordination through 7 regional extension officers.

18. The APCU and PCU will orient the service providers and Extension Agency to the project objectives, target group, approach and implementation steps. The cluster coordinators and the extension officers will be mandatory included in the orientation activities. The orientation process will comprise: workshops for discussions between the SP/EA, PCUs' staff and RCDP BDS providers, field visits to farmers' organisations, agribusinesses and municipalities.

19. **Development and implementation of pro-poor business plans sub-component activities.** Pro-poor business plans will be implemented through following activities:

- 1) Selection of service providers;
- 2) Conducting targeting surveys;
- 3) Stakeholder awareness and sensitisation;
- 4) Call for proposals and selection of eligible proposals;
- 5) Development of detailed business plans and implementation agreements;
- 6) Market development support;
- 7) Farmers' training, advisory and capacity building services;
- 8) Delivery of starter packages and youth apprentice support;
- 9) Support to business leader to develop external linkages;
- 10) A supportive setting for business plan implementation.

20. These activities are described more detailed later.

21. **Main elements of the business plans.** The final BP will describe how the business will progressively increase the profitability and sustain the inclusion of the READP target households. They will present: (1) the nature of business including forward and backward linkages to other value chain actors; (2) ownership and management structure proposed for implementation of the business model; (3) domestic and export market analysis; (4) strategic plan for achieving the business objectives; (5) targeting strategy and implementation steps for ensuring target group, mainly women and youth inclusion in the promoted VCs; (6) specific measures to support target household inclusion including advisory, extension, operational measures, partnership agreements and monitoring needs; (7) operational needs including implementation arrangements and partnership requirements; (8) financial plan estimating the total investment and co-financing needs and (9) enabling infrastructure requirements such as roads, water supply and bridges expected to be implemented through municipality involvement.

22. **Training and advisory services.** The project will finance all the costs for training and advisory services to the target households except costs for transport and accommodation of trainees. These services will be provided by the READP contracted service providers, field coordinators and extension officers. The cost of domestic study tours for target households will be covered by the project.

23. **Co-financing business plans.** Implementation of selected business plans will be co-financed from the project by co-financing cost of market development, co-financing starting packages, co-financing farmers' organization strengthening and co-financing market linking infrastructure.

24. **Market development activities.** The beneficiaries identified in business plans will be eligible for project co-financing for market development activities such as study tours with up to 70% of total cost, trade fairs with up to 50% of total cost, international standards and certifications with up to 40%

of total cost and other marketing support such as branding, product identification, packaging, promotion material with up to 50% and with upper limits for such types of support.

25. **Starter packages.** The project will co-finance standard starter packages up to EUR 500 each and starter packages for youth and women starter up to EUR 800 each. The starter packages will be provided to only those producers who are: (1) contractually linked to an business leader for selling the produce; (2) have undergone training and skills development for addressing all production needs and (3) will receive agronomic advice from the project during the production cycle in order to meet the quantity and quality standards required by the buyers.

26. **Business plan implementation agreements.** In preparation for the implementation of the business plans the contracted service provider or Extension Agency, in coordination with the PCUs, will develop templates for implementation agreements between the different implementation partners identified in the those plans (municipalities, farmer organizations, financial institutions and the project). These agreements will define: (1) financing commitments of the partners in different categories for implementing the business plans; (2) ownership, management and revenue sharing (if any) roles; (3) targeting roles and responsibilities and (4) monitoring and review of responsibilities. The SP/EA will be responsible for organising meetings, facilitating negotiations and ensuring the development of the written agreements between the partners. These agreements will be accompanied by draft action plans indicating implementation responsibilities and time schedules.

27. **Market development support.** The project will deliver financial support to worthy agribusiness companies who connect and development value chains in identified clusters. That support can be for quality insurance and certification, trade fair participation, study tours and other marketing support.

28. **Trainings and advisory services for farmers.** Specific trainings and advisory services for farmers will be delivered based on prior annual plans prepared by SP or EA and approved by respective PCU. These services will be delivered through on-site visit by technical specialists and continuous guidance by the project SP/AE staff, cluster coordinators and extension officers or hired short term consultants. Potential common areas and topics of training and advisory services are: quality standards (GAP, hygiene, EU quality standards), production of fruit and vegetables, MAP/NTFP, dairy production, environment training e.g. climate change and pest management, investment related trainings and training on organising into FOs. Training will involve on-farm inputs and exposure trips to demonstration farms in the country. Advisory services will be mainly limited on the target households, but not always mandatory.

29. **Youth apprentice support.** The project will assist youth apprentice to find full time employment in the agricultural and rural sector. In order to promote women employment 50% of quota will be reserved for young women apprentice. The apprentice support will be implemented in partnership between the project, the employment bureau at the canton/municipality level and an employer, based on transparent selection process and defined selection criteria.

30. **Support to business leaders to develop external linkages.** The SP/AEs in coordination with the PCUs will assist the business leaders to develop external linkages in areas such as financial support, certification and sources of business management and operational guidance where needed. Also, some credit lines funded from the past IFAD supported projects and served by PFIs will be available and during the READP implementation.

31. **A supportive setting for business plan implementation.** The PCUs will develop a supportive setting for BP implementation by: (1) establishing BP implementation oversight committees; (2) developing BP implementation monitoring system and (3) organising BP implementation review and planning workshops.

32. **Farmers organisations development sub-component activities.** Objectives of this subcomponent are to increase market access and profitability of target households through strengthened farmers associations. That will happened by:

- 1) FO seed capital financing and

2) Institutional development training and advisory support.

33. Strengthening the FOs will empower them to increase their membership from the target households, become effective partners under business schemes and increase their capacity to take informed decisions about their business.

34. **FO seed capital financing.** The project will provide grants to eligible farmers organizations up to EUR 17,500 as support to their business activities which contribute improvement of the business of targeted households. Purchased assets will allow the FOs to render services to the members such as production, processing and bulking, that will enhance the profitability of these members while simultaneously strengthen their linkage to the private enterprise, or investment in processing and value adding equipment which allow FOs to collect and process products themselves. Eligible for this type of project support are FOs that have at least 15 members (from the READP target group) and demonstrate intention to further increase number of members; plus (only for cooperatives) have a regular audit, operate in accordance with the law on cooperatives and maintenance the book of cooperative members.

35. **Institutional development training and advisory support.** The project will develop and deliver training and advisory services for FOs. They will conduct training of trainers (ToT) programme to capacitate a set of social mobilizers to deliver these training to FOs. The training will cover: (1) organizational structure; (2) governance and management; (3) market intelligence and marketing, standards e.g. GAP, GHP, HACCP, Global GAP, ISO, organic, SPS, EU standards and negotiation skills; (4) basic accounting, finance and bookkeeping; (5) BP development, costing and financing, contract development with other chain stakeholders, collective/bulk marketing and procurement of inputs, management of common storage facilities and equipment; (6) technology development for agricultural intensification and productivity enhancement; (7) financial literacy and linkages with banks; (8) savings mobilization and approaches to implement internal savings schemes for addressing social needs, business expansion and collateral requirements of the banks and (9) sustainable adoption of climate resilient crop development that will be accompanied with approaches for sustainable use of natural resources.

36. **Enabling infrastructure support subcomponent.** The project will support (re)construction of two categories of infrastructure:

- a) marketing infrastructure, such as cold storage/pre cooling facilities, packaging facilities, collection points, drying and distillation units and
- b) production infrastructure, such as irrigation facility and village water supply systems or some common infrastructure which connect business leaders and targeted households such as rehabilitation of feeder roads, culverts and small bridges.

37. The project will support (re)construction only publicly owned or co-owned infrastructure.

38. In the FBiH infrastructure related activities will implement the PCU indirectly by using service provider for that type of activities, and in RS APCU will implement those activity directly by in-house staff (primarily by infrastructure engineer and procurement officer).

39. **Enabling infrastructure activities.** The activities in the subcomponent Enabling infrastructure support will be implemented following steps:

- 1) stakeholder sensitisation about infrastructure investments;
- 2) identification of eligible proposals;
- 3) selection and prioritisation of infrastructure investments;
- 4) design, procurement, implementation and financing;
- 5) monitoring, supervision and training.

40. **Stakeholder sensitisation about infrastructure investments.** Infrastructure supported by the project needs to be connected with value chains and business plans prepared for their establishment and strengthening. This approach will be introduced and presented to rural households and local authorities by service provider and PCU's teams. They will present to the stakeholders the objectives,

selection criteria, ownership, management arrangements and project support available under this subcomponent.

41. **Identification of eligible proposals.** The identification of proposal for infrastructure investment will be done in a participatory and demand-driven way and could come from agricultural producers level or from municipality level. The project will publically advertise call for proposal collection and leave a reasonable time for their submission.

42. **Selection and prioritisation of infrastructure investments.** All received proposals for investment in infrastructure (re)construction form a long list of potential infrastructure projects. After that infrastructure service provider in FBiH and infrastructure engineer in RS check each proposal and in according of fulfilling eligibility criteria make a short list of infrastructure projects. Final selection of the projects from the short list has done based on feasibility study prepared for each project proposal. Those studies have to identify and clarify: number of infrastructure beneficiaries and cost of infrastructure per beneficiary, possibilities of co-financing investment cost, expected increase in quantity and value of products sold using improved infrastructure and technical and financial viability of the project.

43. **Selection criteria.** Criteria for final selection and prioritisation of the infrastructure projects are:

- 1) their contribution in strengthening value chains in implementation of business plan;
- 2) their contribution to increase profitability of the target households;
- 3) their influence on performance of the business leaders in the implementation of the BP;
- 4) their link with municipality identified priorities.

44. **Design, procurement, implementation and financing.** Project design will be done by municipalities on whose territory infrastructure is located. Service provider (in FBiH) or infrastructure engineer (in RS) will check project design and participate in preparation of the tenders together with procurement staff. Procurement and contracting of infrastructure works will be done by PCUs. Infrastructure works will be co-financed by the READP, municipalities and other potential stakeholders (rural population, business companies, other donors, etc.). Upper limit for co-financing infrastructure works from READP is 70-80% of total investment cost in extremely underdeveloped and underdeveloped municipalities and 30-50% in semi developed or developed municipalities.

45. **Monitoring, supervision and training.** Official supervision during infrastructure (re)construction will be done by supervisory authorities nominated by municipalities and additionally monitored and checked by infrastructure engineer from APCU or service provider on behalf of PCU.



## **II. Implementation arrangements for component 1: Enhancement of economic opportunities and smallholders integration in value chains**

46. The project component Enhancement of economic opportunities and smallholders integration in value chains will be implemented through three subcomponents: (1) development and implementation of pro-poor business plans; (2) farmers organisations development and (3) enabling infrastructure support. The simultaneous implementation of these three components has a synergistic effect on the achievement of project objectives and impact.

47. Responsibilities for implementation component I have two project coordination units supporting by service providers which will be contracted as consultants or technical assistance.

### **A. Modalities of implementation Component 1**

48. Modalities of implementation component Enhancement of economic opportunities and smallholders integration in value chains is further described by its three subcomponents.

#### **A.1. Modalities of development and implementation of pro-poor business plans**

49. The first subcomponent, Development and implementation of pro-poor business plans will be implemented through ten interconnected activities.

50. **Selection of service provider** (A1:SC1:C1). Successful implementation of a complex project such as READP requires strengthening the project teams in the two project units (in particular, bearing in mind that they will be implementing 2-3 IFAD projects simultaneously) with service providers where relevant. Therefore, it is important that at the very beginning of the project implementation competent and experienced service providers, who will, in cooperation with the PCUs, take over the implementation of a part of the project activities. The PCU, which is in charge of the project implementation in the FBiH, has already implemented some earlier projects in that way, and the APCU, which is in charge of the project implementation in the RS, previously relied on the Agricultural Advisory Service that is the one of department in the RS Ministry of Agriculture. This time, for the need of READP implementation, RS APCU will also hire service provider which will jointly work together with advisors. The term of reference for service provider who will support implementation of component one is in annex 1 of this manual. That ToR should be a little modified and adapted in the RS according to the way of implementation the first project component. In a general, service provider can be single private or public service provider (consulting company, regional development agency, NGO or university) or a consortia of several service providers.

51. The service provider will be contacted by competitive procurement method selected in the procurement plans based on estimated value of its overall services. Service provider selection will be done by the PCUs in consultation with the IFAD CPM. It is important to contract the service provider as soon as possible, at the very beginning stage of the project, because its participation is necessary and very important for the fast and proper start of the project activities.

52. The service providers role are: (1) implement the targeting survey; (2) conduct sensitisation workshops before call for business proposals; (3) provide technical assistance for developing detailed BPs, and (4) facilitate implementation agreements and implementation by BP partners. The technical assistance during the business plan preparation and implementation will be focused on strategic targeting of poor rural households.

53. **Targeting survey** (A2:SC1:C1). The READP target group are: (1) rural households with 0.1-0.5 ha (1-5 dunums) land available for cultivation; (2) households with monthly income less than 817 BAM; (3) unemployed rural youth (below 30 years); and (4) poor women headed households in rural areas. On the beginning of the project PCUs will conduct targeting survey to identify the locations/communities with higher concentrations of the potential target households and to specify the suitable pro-poor products from the project supported agricultural sub-sectors, taking into consideration their prevailing market demand. The survey will be carried out by the same service

provider selected for whole support to implementation the first component. SP (alternatively EA in the RS) will develop the questionnaires, checklists and other tools for conducting the targeting survey.

54. The survey will involve: (1) consultations with key actors, such as social service centres, employment bureau, heads of the local communities, authorities managing entity level farm registers and financial institutions active in the project area; (2) identification of the broad geographical areas and potential farmers' organisations (FO) with higher concentration of the target households; (3) validation visits to these geographical areas and FOs and (4) preparation of a verified list of the geographical pockets and FOs with higher concentration of target households. These lists will be used during the stakeholder workshops to promote inclusive business plan preparation.

55. The survey will involve consultations with key actors (social service centres, employment bureau, heads of the local communities, authorities managing entity level farm registers, financial institutions, business leaders active in the project area) and identification of the areas/communities mainly in the underdeveloped and extremely underdeveloped municipalities that have higher concentration of potential target households. A verified list of these geographical pockets will be developed and profiles of these geographical pockets will be developed in terms of: (1) crop production experiences of target households and recommendations of potential crops suitable to the conditions and capacities of the target households; (2) current marketing arrangements followed for agricultural produce from these pockets along availability and access to crop production inputs and services by the target households; (3) identification of opportunities and constraints against women and youth involvement in project supported activities; (4) identification of FOs with higher concentration of the target households; (5) recommendations of the areas/pockets specially in the underdeveloped municipalities where the business plan implementation should commence and (6) listing of interested enterprises and potential rural sector jobs they can potentially offer that can engage the youth apprentice.

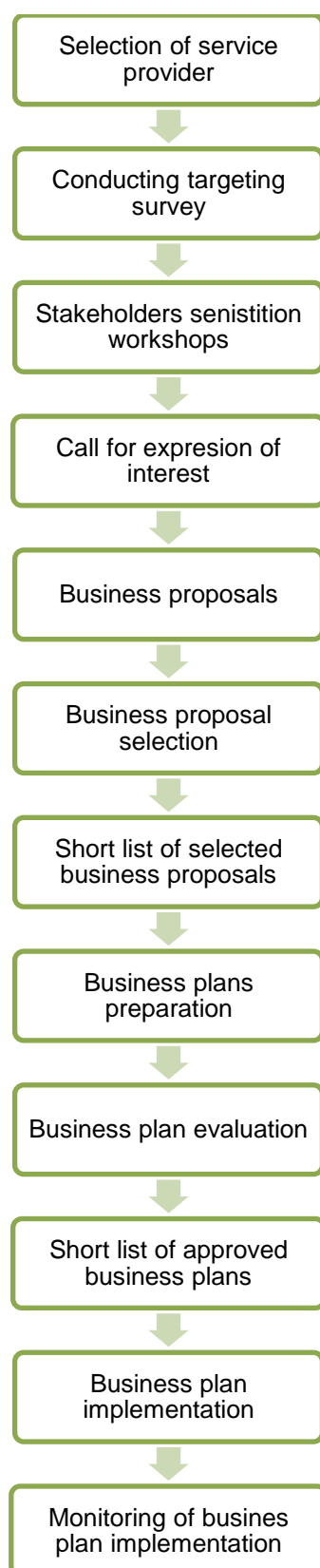
56. The main outcome of the targeting survey will be list of the geographical pockets and FOs with higher concentration of target households from which service provider and BP applicants will start process of identification households that will be included in value chains and beneficiaries of starter packages.

57. It is expected that the selection of a poor beneficiaries is in the interest of local communities because they thus solve problems of their social aide depended categories of population on a sustainable way (creating longer-term conditions for social assisted beneficiaries to generate income from their own work).

58. **Stakeholder awareness and sensitisation** (A3:SC1:C1). This will provide clarification of the process of preparation business proposals and make applicants more sensitive to project objectives and target groups. It will increase the response of PCUs and service providers. These will be organised by regions (clusters) in FBiH and RS. In these workshops the results of the targeting survey will be presented to participants and the process of business planning and templates for pro-poor business proposal preparation will be explained. Sample proposals and the templates for submitting BP proposals will be shared, as well as criteria against which the business proposals will be evaluated. Attendants of that workshops will be representatives from target municipalities, agribusinesses, financial institutions, input suppliers, farmers' organisations and target households.

59. **The animation and selection of the poor for participation.** The key to the success of the project in terms of its pro-poor orientation is a timely reach for the poorer categories of rural population, or the poorer rural households. To achieve that the READP must: (1) successfully sensitize and orient the target households about project details and mobilise applicants for participation; (2) fairly rank the interested households according to poverty criteria and (3) professionally and independently select and verify eligible households.

60. **Business planning process.** The steps in preparing and implementing a business plan is shown on the following diagram.



**Diagram 1. Process of preparation and implementation business proposals and business plans**

61. **Two-stage business planning process.** The main drivers of subcomponent 1 (Development and implementation of pro-poor business plans) are business plans as the main mechanism how the

objectives to support project target groups will be implemented in practice. The process of business plan preparation has a two stages – initial and further elaboration.

62. **Cal for expression of interest (A4:SC1:C1).** PCUs will prepare template for business proposals content (business idea concept) (draft outline is attached as [annex 2](#)) and advertise calls for expression of interest, e.g. submission of business proposals. The call will be advertised in the newspapers and on the websites associated ministries and other suitable ways, with the aim of making it available to a larger part of the public. The call will contain eligibility criteria [annex 3](#) of those who are eligible to submit business proposals. There are agribusiness entrepreneurs in different legal forms (joint-stock company, limited liability company, cooperative, NGO, etc.). The multiple criteria against which the business proposals will be evaluated are already set and communicated during sanitation workshops.

63. **The process of business proposals preparation.** Potential applicants will prepare business proposals independently, without use project technical assistance (consultants) in this stage of formulation their business ideas, but they have possibility to attend stakeholder sensitisation workshop. The stage of preparation and submission of project proposals is an chance for different stakeholders to link with other partners and to as much as better explain their common business idea, because of that will depend whether they will have the opportunity to transform it into a business plan and receive financial support for its implementation from the project.

64. **Business proposals submission.** The business proposals will be submitted in hard and electronic copy to respective PCU until the deadline. Deadline for submission the business proposals will be minimum on months to live their proposers enough time for connecting and proposal preparation. Call for submission business proposals lunched in the first year will be repeated in the next two years of project lifetime, living enough time for their implementation in the remaining period.

65. **Business proposals selection process. eligibility of applicant and proposal quality**  
Received business proposals in the unified format (following recommended template) will be reviewed and selected by Business Plan Evaluation Committees (BPEC), the same that will later evaluate business plans. The committee includes representatives from the A/PCUs, SP/EA and development partners to ensure harmonisation with similar initiatives. Committees will appoint PCU directors in consultation with IFAD CPM. The business proposal selection process consists from (1) screening eligible proposals, followed by (2) validation visits to applicants, and (3) final selection of proposals. Draft outline of the business proposals selection criteria are attached as [annex 4](#), but their final list and scoring system will be established in according to business proposal template defined by contracted service provider. Through the validation process will be confirmed readiness and ability of all partners mentioned in business proposal to seriously participate in proposed business venture. The PCUs in consultation with the selection committee will develop the validation checklist for each screened proposal. Proposals by proposers who are in business or family relations with committee members are not eligible and will be excluded from the selection process. The evaluation of the proposal ends with the making of a short list of proposals whose applicants will be invited to prepare more detailed business plans based on previously evaluated proposals. BPEC will prepare separate business proposal appraisal report for each of submitted business proposals. Before announcing the results of the selection, a short list of selected proposals will be considered and approved by the respective PSC. In addition to the fact that each applicant will be informed by letter about the result of the selection of its proposal, a short list of approved proposals will be published on the PCU website or website the ministry to which it belongs.

66. **Business plan preparation (A5:SC1:C1).** Simultaneously with the publication of the list of selected business proposals, a call for submission of business plans will be announced. This invitation contains information on how to submit proposal of business plan, the deadline and the form/content that they need to satisfy. Only those business proposals that have successfully passed the preliminary selection phase are acceptable to be converted into a business plans. Suggestions and scores of the evaluators in the previous stage can be useful inputs for improving business idea into a viable inclusive pro-poor business plan. All business plan applicants will be familiarize with its main elements

(suggested template of business plan content is in [annex 5](#)) that will be finalized by PCUs and service providers. The BP template has to be followed during business plan preparation process to allow their comparison and evaluation. For the purpose of better understanding methodology of business plan preparation also can be used Annex III – How to develop a business plan (from IFAD toolkit on Engaging with farmers' organizations for more effective smallholder development [https://www.ifad.org/topic/fo\\_resources](https://www.ifad.org/topic/fo_resources)).

67. Pre-identified business plans will be developed in the period of 3-6 months after approval business proposals. In that period service provider for business plan preparation will continuously and actively cooperate with business plan originators. At the same time, biweekly meetings of PCU team and service provider team will be held to discuss the progress made and the problems faced in order to quickly and effectively find a mutually acceptable solutions. From each of these meetings a will be made minutes with key statements about the stage in which is the preparation of each individual pre-identified business plan (strong, moderate and borderline). The main organizer and facilitator of these meetings will be PCU business development officer.

68. Beside of sensitisation workshops the service providers for BP preparation will do further consultations and site visits to the agribusiness enterprises (potential business leader), target households, FOs and municipalities. They will assist the agribusinesses with: (1) data collection and analysis; (2) marketing and profitability assessment; (3) selection of target households (this will receive critical importance); (4) identification of other business partners; (5) outreach and financial target setting; (6) financial planning, identification of financial sources; (7) implementation agreement with other stakeholders. The hired service providers will also be responsible for writing the BP in coordination and consultation with the business leader. Bearing in mind the continuous presence of the service provider, there is no need to create a specific manual as a guide during the preparation of business plans.

69. **Business plan submission and approval.** When the business plan applicant and service provider consider that the business plan is completed, BP originator will handed over it to the respective PCU in written and electronic form, but no later than the deadline set for BPs submission. The Business Plan Evaluation Committee (the same as did business proposal selection) will evaluate submitted business plans, following evaluation criteria [annex 6](#). BPEC will prepare separate business plan appraisal report for each evaluated business plan. The BPEC will make a rating list of evaluated business plans (based on the total number of awarded points), and the final selection of plans to be co-financed by the project will be made by the PSC at the PCU proposal based on the financial resources available and planned for co-financing. Within the approved business plan, all partners who participate in its implementation will sign a memorandum of understanding (MoU) which defines their roles, financial contributions, deadlines and other important details. This draft of MoU will prepare PCU and approve IFAD CPM. Memorandums of understanding alignment and signing will facilitate contracted service provider. These agreements will be accompanied by action plans indicating implementation responsibilities and time schedules.

70. **Business plan supportive activates.** The main activities of business plan implementation which will be supported by the READP are: (1) procurement and co-financing fixed and working capital needs of agricultural producers (called "starter packages") and seed capital financing to FOs (called "matching grants"); (2) procurement and co-financing market development investments including study tours, trade fair participation, certification; (3) procurement and co-financing training and advisory needs and (4) procurement and co-financing infrastructure needs. Each of these group activities have their own specific modalities of implementation, but common is that they arise from the approved business plan.

71. **Business plan co-financing scheme.** Some of the project activities identified in the business plan will be co-financed from the READP under the cost sharing system. There are indicated ceilings for co-financing from READP as a percentage and maximal amount for different categories of activities (table below).

**Table 1. Scheme of co-financing from the READP**

Categories	READP ceiling		Others <sup>99</sup>
	max. in EUR	in %	%
Training and advisory		100%	-
<b>Market development</b>			
Study tours (abroad)	8,000	70%	30%
Trade fair participation	4,000	40%	60%
Certification	4,000	40%	60%
Other marketing support	4,000	50%	50%
<b>Starter package</b>			
Standard	500	< 40%	> 60%
Youth and women	800	< 60%	> 40%
<b>Assets for FOs</b>	17,500	< 70%	> 30%

72. In the case when applied percentage of co-financing from the READP exceeds the ceiling in absolute amount of co-financing, the absolutely defined ceiling is remaining and rest of cost should be financed from other sources.

73. Payment of co-financing for certain types of support from the project are as follows:

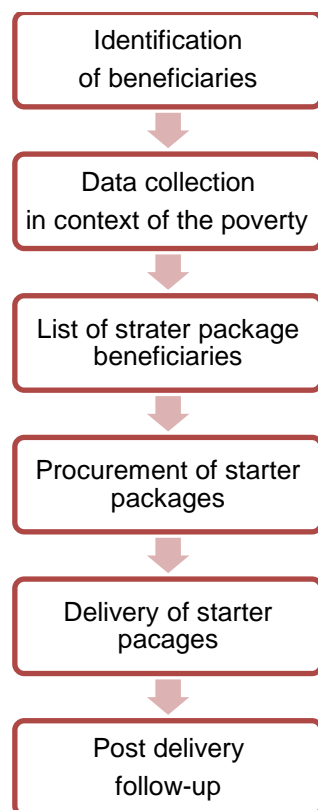
- Training and advisory services – payment (100%) from the project accounts if project contracted that service;
- Study tours – payment (up to 70% with upper ceiling) from the project account if project contracted that service and rest from account of beneficiaries cash contribution or direct from co-financiers' bank accounts;
- Trade fair participation - payment (up to 40% with upper ceiling) from the project account if project contracted that service and the rest from account of beneficiaries cash contribution or direct from co-financiers' bank accounts;
- Certification - payment (40% with upper ceiling) from the project account to account of certification service provider based on decision of PCU director;
- Other marketing support - payment (50% with upper ceiling) from the project account if project contracted that service and the rest from account of beneficiaries cash contribution or direct from co-financiers' bank accounts;
- Starter packages - payment (between 40% and 60% with upper ceiling) from the project account if project contracted those goods and rest from account of beneficiaries cash contribution or direct from co-financiers' bank accounts;
- Infrastructure works - payment (up to ceiling per infrastructure project in EUR) from the project account if project contracted those works and rest from account of beneficiaries cash contribution or direct from co-financiers' bank accounts;
- Assets for FOs - payment (<50%) from the project account if project contracted that goods and rest from account of beneficiaries cash contribution or direct from co-financiers' bank accounts.

74. **Business plans implementation** (A5:SC1:C1). The approved business plans are implemented following agreed action plan and timeline that accompany signed MoUs. Its implementation involves the practical implementation of previously agreed activities by each partner. These agreements will define: (1) financing commitments of the partners in different categories for implementing the business plans guided by the allocations presented in the co-financing table; (2) ownership, management and revenue sharing (if any) roles; (3) targeting roles and responsibilities and (4) monitoring and review responsibilities. In addition to business leader that is crucial for establishing and maintaining a value chain, an important role in business plan implementation has the service provider, who should permanently monitor the implementation of the business plan in which it preparation participated. The role and task of project units in the implementation of the business plans is to timely contract and pay goods, works and services whose implementation has been allocated to them by memoranda.

75. **Starter packages implementation modalities.** Starter packages are one of activities of business plan implementation that emphasizes its pro-poor dimension, because eligible beneficiaries of these packages are from the category of poorer households and other vulnerable groups. The

<sup>99</sup> Other cofinanciers include municipalities, business leaders, FOs and beneficiaries.

starter package will be co-financed (subsidize) from the READP up to 40% of their total cost (with a selling of EUR 500 per package), if their end users are belong project target group. If final beneficiaries are youth or women category starter packages will be co-financed from the project up to 60% (with a selling of EUR 800 per package). Both the standard and the youth/women starter packages will be implemented in the same way and will be strictly linked to the BPs. In the case that households don't have enough money to finance their part of the starter package value, they will borrow from financial institutions (bank or MFI) and project can facilitate in finding the best opportunity for the lending.



**Diagram 2. Process of starter packages approval and delivery**

76. The service provider, in cooperation with the business leader from the agribusiness sector (value chain leader), will prepare the final list of beneficiaries of the starter packages. Since in the meantime, from the moment of preparation and submission of the business plan, until the moment of its realization, some pre-identified beneficiaries can give up, the final list will be checked and confirmed just before the entering in the procedure of procurement the starter packages, which also includes the distribution list (location and timetable) of their delivery.

77. Service provider, in cooperation with field coordinators/officers, will collect necessary data (income per household member, size of agriculture land, value of asset, etc.) using unified form of data sheet and cross those data with other data sources. The data about potential beneficiaries will be filtered through the poverty prism based of the fulfilment eligibility criteria for starter packages beneficiaries [annex 7](#) and classified into three sub categories - extremely poor, very poor and poor. The applications in the three categories will be screened and shortlisted by the SP/EA in consultation with the business leaders, FOs and municipality representatives according to READP poverty targeting criteria. The quota for youth starter packages and starter packages for women will be respected during the selection process. Based on that assessment, they will propose a list of beneficiaries who will receive starter packages in kind, procured by PCUs. Eligible goods related investments supply and cover by the grant include: planting materials, agrochemicals, fertilizers and small equipment. The final list of starter packages' beneficiary will be assessed and approved by PCUs. Only one member per household will be eligible for direct project support in the areas of standard starter package, youth starter package and youth apprentice support (refer SC 1 and 2 for details about starter packages).

78. Based on agreed number of beneficiaries and structure of starter packages, PCUs will prepare technical specifications and packed starter packages in cooperation with value chain leaders, service provider and representatives of final beneficiaries. In that process, if it will be needed, PCUs will be able to use the assistance of external experts in order to request the goods that are accurately defined and provide an optimal relationship between the quality and the price. A/PCU will invite potential bidders to submit their bids and select the best bid in according to price and other qualification criteria.

79. There are two possibilities of payment starter packages procured and contracted by PCU in cooperation with other parties (co-financiers). One is that each co-financier pays his share directly to the supplier, and the other is that all co-financiers pay their contribution to the PCU and than PCU pay to the supplier the total contracted amount. In both cases, a contract with a selected supplier (selected based on procurement procedure executed by PCU on behalf of all other co-financiers) should sign all co-financiers to have a basis for payment their financial contribution.

80. **External co-financing.** If the final beneficiary households need to finance part of the expenses for which they do not have enough own money, they will borrow part of the necessary participation in the starter packages etc. from MFIs under commercial conditions. The PCUs will facilitate in linking borrowers and potential creditors by dissemination information on available credits and other types of financing sources, organizing PFI's presentations and assisting in the process of preparation credit applications. The service providers will organise cluster level planning workshops on which will be invited interested financial institutions and starter package beneficiary to exchange information about financing opportunities. The project promote market-based interest rate that will be compensated to poor farmers due to granting scheme developed as a deducted assistance to vulnerable categories of beneficiaries, sensitive to high interest rate. There are also possibility of partial pre-financing beneficiary households by the buyer of agricultural products, which is a desirable option that will be further evaluated in process of selection business plans supported from the READP.

81. **Monitoring of starter packages delivery and usage.** Delivery of starter packages will be complex tasks given the number of different suppliers and a large number of recipients of goods. Operatively, this process will be assisted and supervised by service providers and cluster/filed coordinators. It is important to ensure clear and proven evidence for quantitative and qualitative control during the handover of the starter packages and archive all supporting documentation as part of contract execution process. The second phase of the monitoring of the starter package is after their delivery, from monitoring their dedicated use, through monitoring the production results that beneficiaries are achieving, to the assessment of their impact on generated income and self-employment. That monitoring will be carried out by the PCUs following the M&E plans.

82. **Market development support (A.6:SC1:C1).** PCUs will organize and contract services of visits to agricultural and similar fairs and study tours for representatives of farmer groups. Other market development activities such as protection of product identity, certification and brand development initiatives will be also supported. Those activities will be demand driven and subsequently organized, preferably for business leaders and FGs involved in implementation of approved business plans. Those activates will be implemented on the cost-sharing model based on percentage of co-financing shown in the table 1. The business leaders that achieve more than 60% of their linkage outreach to target households in the underdeveloped municipalities will be eligible for project support in the areas of product certification, trade fair participation and other marketing assistance such as branding and product identification.

83. **Quality assurance and certification support.** The quality assurance and certification support is special type of support within the market development. The PCUs, together with service providers, will guide the business leaders on importance, mechanisms and process for obtaining different kinds of certification and will also link them to relevant certification bodies where required. READP will co-finance eligible agribusinesses for the introduction of international standards such as HACCP, ISO, Global GAP and HALAL. The eligibility criteria for utilize that opportunity are in the annex 8, and ratio and threshold of co-financing are in the table 1.

84. **Advisory services (A.7:SC1:C1).** READP will provide production related advisory services and practical guidance to the farmers according to the successful BP agreements. Advisory services will be concentrated mainly on the targeted households. Training of farmers and other type of advisory services, clearly pre-identified in approved business plans will be delivered in according to annual farmers' training plan which will be a part of AWPB. Training will involve on-farm inputs and exposure



trips to demonstration farms in the country. The training and advisory services will be partly delivered by service provider hired to implement component one or by public advisory service network (in the RS), and partly will be contracted with specialized individual or institutional consultants by PCUs. The both PCUs will also look for possibilities to cooperate and combine some training needs with other internationally funded projects implemented in B&H in the same time.

85. **Training topics.** Target households will be trained on: (1) quality standards (GAP, hygiene, EU quality standards); (2) production of fruit and vegetables, MAPS/NTFP, dairy as identified in the BPs; (3) environment training e.g. climate change and pest management; (4) investment related trainings; (5) understanding and evaluating the prices and other conditions of different sources of financing, including agricultural insurance opportunities (6) understanding benefits of organising into FOs. Those areas will be workaroud in the annual farmers' training plans prepared by PCU with identification of training executor.

86. **Youth apprentice support (A.8:SC1:C1).** Youth apprentice support is not obligatory part of approved business plan. For the apprentice support will be eligible youth under 30 years, with restriction that 50% of them should be female (see [annex 9](#)). The project limit for financing the expenditure of one year employment is EUR 2,100 and eligible expenditure will be net salary plus taxes, health and pension insurance and other mandatory government contributions that accompany the payment of net salary. The apprentice support will be implemented in partnership between the project, the employment bureau at the canton/municipality level and an employer. The employer can be a project value chain partner including private sector and FOs as well as other enterprises and institutions active in job creation in the rural sector. The employer will engage the apprentice, selected jointly with the PCU and employer bureau.

87. **The youth apprentice employment modality.** The process of youth apprentice full-time employment starts with call of expression of interest, in the same time youth without previous working experience and employers who are ready to employ apprentices. The call of the scheme will be advertise by the project at the cluster level in coordination with the employment bureaus.



**Diagram 3. Process of starter packages approval and delivery**

88. **The paring lists.** An of criteria for youth applicants is that they are from the cluster, belonging to a target group household and their job should pertain to delivery or procurement of goods and services in the rural areas. The employer can be a project value chain partner including private sector and FOs as well as other enterprises and institutions active in job creation in the rural sector. The project will, together with responsible project bureaus, consider all applications and make their paring in according to expressed wishes and needs of both parties (unemployed and employers).

89. **Selection procedure.** Where there are several applicants for a single position the apprentice will be selected competitively and transparently through competitive selection process conducted by panel including the employer, employment bureau and the project.

90. **Young apprentices employment in FOs.** A special type of apprentices employment will be their employment in FOs as their managers of coordinators of some other activates. As a pilot will be employed minimum 25 apprentices in cooperation with universities which will proposed their best just gradated students for that type engagement. Those students will be mentored by their professors in the process of solving problems that they will encounter.

91. **Employment contracts.** The contract of employment sign employer and employees from apprentice category. The employer who employs apprentices from the prior selected list of applicants and the respective employment bureaus sign contract for one or for group of apprentices which defines project obligation to reimburse employer's expenditure based on paid gross salary for employed youth apprentices. The administration of these payments will be done through the employment bureaus.

92. **Monitoring (ongoing appraisal) of business plan implementation (A.9:SC1:C1).** PCUs will monitor and appraise business plans implementation by: (1) developing BP implementation monitoring system; (2) establishing BP implementation oversight committees, and (3) organising BP implementation review and planning workshops.

93. PCUs will monitor and appraise business plans implementation to ensure that target households are actually reached during BP implementation process. The M&E specialist in cooperation with cluster coordinators, the extension officers and service provider's staff will be responsible for data collection and incorporation achievements in BP implementation into regular M&E report and progress reports and prepare ad-hock cluster/value chain based analysis. PCUs will define the reporting needs of the business partners and ensure their regular reporting to the project and the municipalities and inform all partners about that obligation in advance. The check lists for assessment success in business plans implementation will be prepared and followed through years of project implementation.

94. **Business plan oversight committees.** For the need of implementation and monitoring progress of each business plan it will be established business plan oversight committee. This committee will be established by nomination one representative of each parties involved in BP implementation: PAs, buyers, processors, farmers, municipalities and the project. The PCUs will determine the composition of the committee for each BP and invite all parties to nominate their representatives. The committees will be responsible for facilitation of planning and implementation review of the BPs. The committees will be headed by selected municipality.

95. **BP implementation review and planning workshops.** The project will organise regular cluster level BP implementation review and planning workshops attended by the implementation oversight committee and other relevant stakeholders. These workshops will be held annually for each cluster separately.

## **A.2. Modalities of implementation farmers' organisations development**

96. This subcomponent will strengthen FOs (cooperatives, producer associations and similar types of NGOs) to increase their outreach to target households and to develop into viable inclusive farmers' institution. The project will also support the transformation of PAs to cooperatives as well as the transformation of owner centric cooperatives into inclusive institutions. The project direct support to FOs will be in two ways: (1) seed capital financing to FOs and (2) institutional development training and advisory support.

97. **Seed capital financing to FOs (A1:SC2:C1).** Eligible for seed capital financing (maximum 17,500 EUR per FO) are only those FOs which are involved in implementation of approved business plans (either as business leaders or as business partners of a business leader). READP will finance purchase of business assets identified in a profitable BP linked to project target households. Support to FOs outside BPs is not eligible for funding from the project, without prior noticed and justification. Eligibility criteria for seed capital financing for FOs are specified in [annex 10](#). The seed capital financing will be directed mainly to the FOs not yet supported by RCDP (or PBDP) to ensure a greater outreach of IFAD supported interventions.

98. The seed capital financing support can be used for purchase assets as machinery, cooling or draying facility, equipment etc. Procurement of subject of seed capital financing will be done by PCUs, based on technical specification of procured goods agreed between PCU and FOs, with a facilitation of service provider. Contract with supplier will be signed by all parties which co-finance that procurement (PCU, FO, etc.).

99. In addition to fulfilling formal eligibility criteria, the selection of applications for support by seed capital financing will be done based on an assessment of FOs contribution to the achievement of project objectives and their incorporation into broader business plans at the level of the cluster/value chain. Also, the financial plans for these investments must realistically show that the income earned by the partnering FOs will be sufficient to meet the maintenance and replacement costs of purchased assets after their productive life as well as can generate surplus towards capital formation and increasing the returns to the target group farmers.

100. **Institutional development, training and advisory support for FOs (A2:SC2:C1).** The assistance to FOs in terms of capacity building and training will be demand driven. The project will hire experienced consultants and trainers in cooperative movement and the defined technical areas. These activities will be targeted at FOs applying for BP support. Potential areas for training of PGs' management are: (1) organizational structure; (2) governance and management; (3) tailored women FOs leadership programmes; (4) market intelligence and marketing, standards e.g. GAP, GHP, HACCP, Global GAP, ISO, organic, SPS, EU standards and negotiation skills; (5) accounting, finance and bookkeeping; (6) BP development, costing and financing, contract development with other chain stakeholders, collective/bulk marketing and procurement of inputs, management of common storage facilities and equipment; (7) technology development for agricultural intensification and productivity enhancement; (8) financial literacy and linkages with banks; (9) savings mobilization and approaches to implement internal savings schemes for addressing social needs, business expansion and collateral requirements of the banks; and (10) sustainable adoption of climate resilient crop development that will be accompanied with approaches for sustainable use of natural resources. The training plan for FOs will be also part of regular AWPB, as well as training plan for farmers. The needs for training for all FOs' management will be collected and consolidated, to be contracted at once. The part of capacity building should be will exchange and learning visits, within the country and in Europe.

### **A.3. Modalities of implementation infrastructure investment support**

101. **Infrastructure investment support.** This subcomponent improves the profitability of the target households, connect business leaders to the target households and improves the market participation of the beneficiaries. READP support for infrastructure schemes will be demand-driven, as identified in BPs using a cluster-based approach. The BPs will identify the full range of infrastructure requirements for their successful implementation including privately owned and publicly owned or co-owned investments. Under this subcomponent the project will support publicly owned or co-owned investments. Public ownership will be considered when a municipality has majority ownership of the infrastructure. READP will support two categories of infrastructure activities: (1) publically owned and managed infrastructure such as public water supply, which benefits multiple farmers in a defined area, or the establishment and rehabilitation of feeder roads, culverts and small bridges which connect business leaders and target households or (2) publically owned infrastructure, such as irrigation structure, cooling and packing facilities, which is co-managed in partnership between the municipalities, FOs and private sector. More details on the types of infrastructure supported is provided below:

**Table 2. Types of infrastructure investments**

Types of infrastructure	Explanation
<b><i>Publically managed infrastructure</i></b>	
Rural roads	<p>READ will consider improving rural road infrastructure as poor road conditions, especially for the commercially active rural households/smallholders, is another key barrier to accessing markets, as well as working together with other smallholders.</p> <p>Improved rural roads are expected to:</p> <ul style="list-style-type: none"> <li>- Reduce post-harvest losses caused by damage to produce as a result of long period of transport and shaking and vibration of the vehicle transporting produce on poor roads. The reduction in losses depends on the susceptibility of product to damage during transport as well as the length of road but an average reduction in losses in BiH could be from 12% (prior to road rehabilitation) to 2% (after road rehabilitation). Products such as tomatoes and raspberries are especially vulnerable to damage during transport.</li> <li>- Reduce post-harvest losses caused by damage to produce as a result of long period of transport and shaking and vibration of the vehicle transporting produce on poor roads. If farmers can deliver high quality produce (extra class or first class) they can obtain a higher price from the buyers than if product delivered is damaged and of second class quality.</li> <li>- Encourage commercial production in areas dominated by subsistence farming thus increasing the quantity of produced in a particular locality.</li> <li>- Reduce transport time thus generating savings in fuel costs.</li> <li>- Generate other community/social benefits such as faster access to schools and other community services.</li> </ul>
Small bridges	<p>Lack of adequate bridges can impact accessibility and may be a barrier to accessing markets as well as working together with other smallholders. Small bridges can reduce the travel route with similar benefits accrued as those described under rural roads.</p>
Domestic water supply	<p>READ will consider applications for water supply infrastructure on a pragmatic basis based on demand and supporting BPs. Lack of water is a significant factor in social livelihoods and productivity. READP investments should focus on multiple use facilities providing households with domestic water supply as well as water to cater for livestock or storage/packing facilities.</p>
<b><i>Infrastructure co-managed in partnership between the public and the private sector</i></b>	
Cold storage and packing facilities	<p>READ will consider improving cold storage facilities (such as cooling and IQF) as a lack of adequate post-harvest handling facilities impact product quality as well as market opportunities for small landholders. These cold storage facilities will be linked with small storage and packing facilities, as relevant, and connected to domestic or international buyers. The benefits of such infrastructure include:</p> <ul style="list-style-type: none"> <li>- Guaranteed market for producers, which encourages commercial production (i.e. in the past, farmers may have grown small quantities of the product part of which they sold on the green market and the rest consumed at home e.g. making jams etc OR they may have sold to a cooling facility which is far away resulting in post-harvest losses and reduced product quality and therefore lower price paid to the farmer. With a cooling facility, farmers would have the incentive to expand their production, become commercial producers where most of the product produced is supplied to the local cooling facility. Additional people would also be interested to enter the production.</li> <li>- Improved post-harvest handling at the local level resulting in higher product quality (therefore higher price paid to farmer) and reduced post-harvest losses (we can assume 20% higher return to farmer). This is especially important for highly perishable produce such as raspberries, tomatoes etc.</li> <li>- Employment generation at the facility. A cold storage facility is expected to</li> </ul>

	<p>require 2 FT staff and at least 5 seasonal employees.</p> <ul style="list-style-type: none"> <li>- Improved access to international market - increased exports. Some produce, such as raspberries, are export oriented crops - it is not possible to sell or locally produced berries domestically.</li> </ul>
Small storage and packing facilities	<p>READ will consider supporting small storage and packing facilities (which may include small cooling units and/or drying and packing facilities). These facilities will be linked with larger cold storage and packing facilities described above, wherever relevant, using a cluster/value chain approach. The benefits of such infrastructure are similar to those described above as a lack of adequate post-harvest handling facilities impact product quality as well as market opportunities for small landholders.</p>
Rural market	<p>READ will consider supporting infrastructure for rural markets as rural markets can help target households improve their access to the domestic market and generate off-farm employment, including rural tourism.</p>
Irrigation for agricultural production	<p>READ will supporting irrigation infrastructure development projects in areas where there is a possibility to leverage and build on investments by other donors or to establish new irrigation infrastructure. For example, construction of secondary infrastructure may be possible by building upon primary irrigation infrastructure that has been built or is in the process of being built with the support of the World Bank. It is therefore important for READ to ensure that agricultural producers have an interest and finance to install tertiary/on-farm irrigation system, and a READ target group, prior to investing in secondary irrigation system.</p> <p>Additionally READ may support development of irrigation infrastructure in new areas, including small scale irrigation projects such as water retention dams with accompanying infrastructure, which benefits multiple farmers in a defined area. Such examples of infrastructure exist in several part of BiH - these projects were implemented in 2011 by Tuzla-based CRP with USAID support.</p> <p>Irrigation can substantially improve yields and product quality and is an important measure to mitigate against draught, contributing to climate resilience.</p>
Small marketing infrastructure	<p>READ will also consider additional smaller market infrastructure needs based on the needs of key value chain actors and municipalities - provided it meets project objectives i.e. there are clear social and economic benefits. Such <i>eligible</i> smaller infrastructure projects include, but are not limited to, small mobile cold storage/pre-cooling facilities (0/+2 °C), nursery greenhouses, livestock water points, lacto-freezers, solar panels to power water pumps or cold storage facilities (for example), drying facilities (for fruits or NTFPs), distillation units for Non-Timber Forest Products (NTFPs). <i>Ineligible</i> infrastructure projects include all activities that have limited or no impact on the READ target group and cluster, for example street lighting and town roads.</p>

102. **The scope and type of infrastructure investment.** READP will support infrastructure schemes, which have been identified in BPs as pertinent for their successful implementation, and therefore will primarily benefit the READP-target group (direct beneficiaries). Additional farmers (indirect beneficiaries) may also benefit from such infrastructure. For example roads would be expected to be utilized by indirect beneficiaries in addition to direct beneficiaries when constructed.

103. Since post-harvest handling facilities have been identified as a critical bottleneck in value chain integration and market access, READP will ensure that adequate cold storage and packing facilities are developed so they benefit all of the READP target producers (refer to table below). Based on READP model, at least 81 percent of READP direct beneficiaries (approx. 6,100 farmers) will have access to READP-supper cold storage facilities. In this case it is assumed that the remaining farmers will be involved in agricultural production where cold storage is not required (e.g. marigold production on dairy farming) and these will have access to other types of storage and packing facilities. It is also important to note that some of the pertinent infrastructure already exists in targeted municipalities and that READP will aim to develop infrastructure that is currently lacking i.e. identified in BPs as necessary to benefit the value chain, cluster and the target group.

**Table 3. Estimated number of households targeted by infrastructure support**

Infrastructure type	Number of units expected to be supported	Number of expected direct beneficiary HH per unit*	Total number of expected direct beneficiary HH	Percent of target group benefiting (i.e. out of 7,500**)
Rural roads	16	200	3,200	43%
Small bridges	5	200	1,000	16%
Domestic water supply	4	300	1,200	16%
Cold storage and packing facilities	10	610	6,100	81%
Small storage and packing facilities	18	200	3,600	48%
Rural market	3	1,000	3,000	40%
Irrigation for agricultural production	11	220	2,420	32%
Small marketing infrastructure	4	50	200	3%
<b>TOTAL</b>	<b>78</b>			

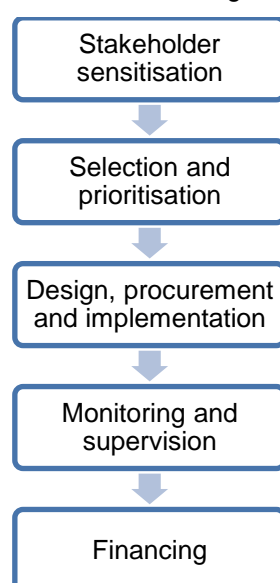
\* The estimates are based on previous experience with similar infrastructure developments under IFAD-funded projects in BiH.

\*\* 7,500 refers to the number of READP direct beneficiaries for starter packages.

104. For budgeting purposes, unit price was based on the review of recently completely construction works for similar projects. Costs per unit can vary dramatically depending on the condition of any existing facilities (as in the case of cold chambers and storage and packing facilities) or the status and local topography as in the case of local roads. An average unit price was used for budgeting purposes.

105. Also, it is important to note that the total allocated budget for different infrastructure types is indicative only - the actual allocation of funds will be subject to identified needs. Considering READP cluster approach and PCUs may spend less or more on different infrastructure items, within subcomponent 1.3. Furthermore, if there is insufficient demand for rural roads, the PCU may re-allocate funds allocated to rural roads to other project sub-components.

106. **Infrastructure investment process.** The process of implementation infrastructure support goes through subsequent activities: (1) stakeholder sensitisation about infrastructure investments; (2) identification of eligible proposals; (3) selection and prioritisation of infrastructure investments; (4) design, procurement and implementation and (5) monitoring, supervision and training. The PCU will implement the infrastructure related activities through the selected SP while APCU will implement these directly through the in-house infrastructure engineer.



**Diagram 4. Process of implementation infrastructure investment support**

107. More detailed process of infrastructure proposal identification, selection, implementation and monitoring is shown on workflow attached as [annex 11](#).

108. **Stakeholder sensitisation about infrastructure investments** (A1:SC3:C1). This will be done during the orientation workshops organised before the call for business proposals. The service provider (in case of PCU) and the infrastructure engineer (in the case of APCU) will be responsible to ensure that the business plans include (1) infrastructure requirements from the geographical locations with higher concentration of target households or locations which can increase in outreach to target households from these investments and (2) that these infrastructure have impact on the profitability of the agribusinesses. Proposing climate resilience of the infrastructure investments are welcome.

109. **Selection and prioritisation of infrastructure investments** (A2:SC3:C3). Identification of infrastructure investments will be undertaken in a participatory and demand-driven manner. Proposals can be submitted by representatives of the business leaders or municipalities. Proposals for infrastructure investment support must be based on the enabling infrastructure development areas already identified in the business plans.

110. Process of identification and selection infrastructural needs will be assisted and guided by service provider/infrastructure engineer. The A/PCU will orient the SP and infrastructure engineer on the above aspects who will then orient the other stakeholders. The main tasks of the SP and the infrastructure engineer will be technical and financial analysis of screened proposals, review and approval of engineering designs, procurement of civil works and submission of evaluation reports and supervision of civil works. The A/PCU and the SPs will also support stakeholders to identify important social, environmental and climate issues early in the BP process, with adaption and mitigation measures factored in the BP process from the outset.

111. Rural infrastructure proposals selection will start with their identification, by municipalities or by agribusiness companies in submitted business plans (long list of proposals). The short listing of the proposals will be done based on their compatibility with the business plans approved to be implemented. The criteria for short listing infrastructure projects are attached in [annex 14](#). Further final selection of shortlisted proposals are made based on professional assessment of their technical and financial feasibility and selection criteria listed in [annex 15](#). The final decision about approval co-financing of infrastructure projects is done by the PSCs.

112. **Design, procurement and implementation infrastructure projects** (A3:SC3:C3). The municipalities are responsible for construction design of the selected infrastructure. The PCUs are responsible for procurement infrastructure works (directly or by hired service provider). Representatives of the municipality and other partners financing the part of the contract may also be represented in the evaluation committee. Depending of the financing model, contract with selected constructor signs only PCU (if co-financiers pay its contribution on bank contribution account) or PCU and all co-financiers (if they pay their part of contribution direct on the account of constructor). Responsibility for the provision of urbanistic-technical conditions (approvals for the commencement of works) is on the municipalities on which territory the works are carried out. The works are carried out in accordance with the technical design and the bill of quantities, which is an integral part of the contract, and payments are made periodically on the basis of interim invoices and the final invoicing at the end. Infrastructure engineers will also facilitate the development of management agreements between different actors for operating the infrastructure.

113. **Monitoring, supervision and training** (A4:SC3:C3). Process of construction works will periodically monitor service provider or APCU infrastructure engineer. Continuous supervision of construction site and scope and quality of works performs supervisor officially appointed by municipality on which territory infrastructure is located. The handover of carried out works has done by expert commission appointed by the municipality and in the presence of service provider/ APCU engineer. They will also facilitate the development of management agreements between different actors for operating the infrastructure. Following the technical acceptance of the works the SP and the infrastructure engineer will train the actors engaged for the management of the infrastructure where relevant (e.g. in case of management of irrigation infrastructure).

114. **Financing arrangements** (A4:SC3:C3). They are several arrangement of financing (ratio of co-financing) investments in infrastructure, depending on type of infrastructure indicated in the table below. The approved infrastructure investments will be co-financed by READP in partnership with

municipalities and, whenever applicable, other entities such as agribusinesses, FOs, individual farmers. The expected average investment by municipalities and others shall be 25%, however, the eligibility and co-financing proportions expected from municipalities and other entities will vary according to their economic development category. The developed and the semi developed municipalities will not be eligible for project financing for roads, bridges, village water supply and rural markets. Their cost contribution for other infrastructure projects will be higher (50-70%) compared to the less developed municipalities (5-15%) as presented in the table below. However, the actual co-financing commitment to an infrastructure project will be one of the key criteria for the selection of an infrastructure for financing. The expected average investment through IFAD financing is 75% (may vary between 95% and 30% depending on the development category of the municipality) but in all cases IFAD financing in different infrastructure categories will be subject to ceilings (in EURO) as defined in the table below. These ceilings are only applicable to IFAD financing. There is no ceiling on the total size of infrastructure investment as long as the infrastructure development meet READP objectives.

**Table 4. Scheme of municipalities variation in co-financing investments in infrastructure**

Type of infrastructure	Minimum contribution from municipality and other entities*				IFAD ceiling in EUR
	Extremely underdeveloped	Under-developed	Semi-developed	Developed	
Publicly managed infrastructure					
Rural roads	5%	15%	X	X	75,000
Small bridges	5%	15%	X	X	75,000
Domestic water supply	5%	15%	X	X	40,000
Infrastructure co-managed in partnership between the public and the private sector					
Cold storage and packing facilities	5%	15%	50%	70%	100,000
Small storage and packing facilities	5%	15%	50%	70%	50,000
Rural market	5%	15%	X	X	75,000
Irrigation for agricultural production	5%	15%	50%	70%	85,000
Small marketing infrastructure	5%	15%	X	X	10,000

\*other entities include SMEs, FOs, individual farmers

## B. Environmental and Social Management Framework

115. **Background.** READP's objective is for full mainstreaming of environmental, social and climate issues throughout the project cycle. Clear procedures on risk assessment are one important element of this endeavour, to: (1) provide information and analysis that strengthen the social, environmental, and climate dimensions of projects and programmes; (2) maximize social, environmental, and climate change adaptation benefits, and avoid or minimize negative impacts; and (3) increase the consistency, transparency and accountability in decision-making.

### 116. Potential program's social, environmental, and climate change impacts and risks.

READP's Social, Environmental and Climate Assessment Procedure (SECAP) Note provides an overview of program's social, environmental, and climate change impacts and risks. In according to that note, this project is classified as category "B" (social and environmental category). It will invest in (small) market and social (rural) infrastructure through municipalities but also according to the business plans prepared (and implemented) by the borrowers. It is envisaged that these will include, *inter alia*, secondary and tertiary irrigation infrastructure, cool storage facilities and processing facilities, and feeder roads. These activities will have site-specific environmental and social impacts. The social impacts are expected to be positive, while the environmental impacts – while not major – can be mitigated through different means, including provision of technical advice and capacity building.

117. To avoid impacts, an Environmental and Social Management Framework will be prepared for the project, in accordance with the revised IFAD social and environmental impact assessment guidelines, prior to project start-up. The ESMF will describe how environmental assessment/related licenses and compliance with national legislation will be built into the project's formal operational procedures governing investment decision-making.



118. The project is expected to reduce pressure on natural resources by providing financial (e.g. credit) and social (e.g. infrastructure or pesticide safety equipment) incentives for primary producers for enforcing more environmentally sound natural resource management practices.

119. While climate change is an issue for BiH, an analysis of climate risk in the context of this project categorizes it at moderate. Populations depended on agriculture are particularly exposed to negative climate-related effects. Projected heavy rainfall, storms, hail, floods, drought, heat waves and frost, and pronounced water scarcity during the summer are predominantly likely to compound poverty challenges, as they result in more frequent and severe climate related disasters. The project will seek to mitigate this by improving climate adaptation knowledge (training, capacity building) and climate-resilient infrastructure. Also, by contributing to the diversification of enterprises of rural populations, the project will increase the resilience of communities to the effects of climate change.

120. Environmental or climate change impacts are, however, negligible due to in part to the small-scale nature of interventions. They can be improved to result in positive impacts or avoided through technical advice and capacity building on, and implementation of, *inter alia*: sustainable agricultural practices, efficient water use, responsible social infrastructure construction, and support to product certification which will promote the adoption of higher environmental standards in production and processing activities carried out by partner enterprises, cooperatives and associated Producer Associations.

**Table 5. Potential Negative Impacts of READP supported programmes by sub-component**

Sub-component	Potential negative impacts	Mitigation strategy
Development and implementation of pro-poor business plans	<p>Transforming non-commercial households to commercial households may result in increased soil and water pollution due to inappropriate fertilizer and excessive pesticide application, soil erosion, and health and safety issues due to lack of health and safety procedures during spraying.</p> <p>Reduced biodiversity is possible due to unsustainable harvesting of plants.</p> <p>BPs may ignore environmental and climate risks.</p> <p>Starter packages may include non-environmentally friendly inputs.</p>	<p>Mainstream environmental and climate proofing measures during stakeholder sensitization events and BP development process.</p> <p>Include environmental and climate risk assessment as part of the BP assessment process.</p> <p>Promote, through technical advice and capacity building, Good Agricultural Practices (GAPs) and climate-resilient agriculture to minimize adverse environmental impacts as a result of commercial agricultural production.</p> <p>Promote, through technical advice and capacity building, sustainable collection practices in the Non Timber Forest Product (NTFP) sector.</p> <p>Promote, through technical advice and capacity building, IPM, pesticides suitable for use under IPM, and safe pesticide use practices.</p> <p>Provide support for production certification (such as organic and Global GAP), which will promote the adoption of higher environmental standards in production and processing.</p>
Farmers' organization development	<p>FO seed capital financing and institutional development training and advisory support may not consider environmental and climate risks.</p>	<p>Include environmental and climate risk assessment as part of the FO seed capital financing assessment process.</p> <p>Promote, through technical advice and capacity building, Good Agricultural Practices (GAPs) and climate-resilient agriculture to minimize adverse environmental impacts as a result of commercial agricultural production and processing.</p>
Enabling infrastructure development	<p>Infrastructure proposals in BPs may ignore environmental and climate risks. Poorly designed infrastructure may have adverse environmental impacts and/or may not be climate-resilient.</p>	<p>Mainstream environmental and climate proofing measures during stakeholder sensitization events and BP development process.</p> <p>Include environmental and climate risk assessment as part of the BP assessment process for proposed infrastructure.</p> <p>Promote, through technical advice and capacity building, environmentally sustainable infrastructure design and operation.</p>

121. **Recommended mitigation measures.** Below are suggested environmental mitigation and climate change mitigation and adaption measures, by project sub-component, which will help to mainstream environmentally sustainable strategies. Annexes provide additional details.

122. **Development and implementation of pro-poor business plans.** Transforming non-commercial households to commercial households as a result of READP activities, namely through development and implementation of pro-business plans, including provision of starter packages, may result in increased soil and water pollution to inappropriate fertilizer and excessive pesticide application, soil erosion, and health and safety issues due to lack of health and safety procedures during spraying. Furthermore, reduced biodiversity is possible due to unsustainable harvesting of plants.

123. The following measures are recommended to mitigate these risks:

- A/PCUs shall orient the service providers to the project objectives, target group, approach and implementation methodologies; including the social, environmental and climate issues and importance of mainstreaming environmental and climate proofing measures in project activities.
- The service providers in close coordination with cluster officers and extension service shall be responsible for providing technical guidance to the business leaders during the detailed business plan development process, which includes identifying important social, environmental and climate issues to ensure that adaptation and mitigation measures are factored in the BP process from the outset. This includes dissemination of climate information to target farmers to guide their choices and timely decision making and providing advise on the selection of suitable crops for the target area, Good Agricultural Practices (GAPs) as well as adoption of climate resilient infrastructure such as drip irrigation will be encouraged. The BPs shall include a section on Environmental, Social and Climate Aspects which shall include a summary of the potential environmental impacts of the proposed activities, climate risks, as well as measures that will enhance the resilience and sustainability of smallholder farming through adaptation and mitigation measures. The applicants shall include the relevant environmental self screening form ([annex 16](#)).
- A/PCU shall incorporate environmental risk assessment as part of the BP assessment process. The reviewers of BPs shall consider the following: How well are environmental aspects reflected in the business idea regarding climate resilience, sustainable management of natural resources, use of chemicals. Potential, un-mitigatable negative impacts shall be scored negatively (i.e. to reduce the actual final score of the BPs during the assessment).
- A/PCU shall complete the Environmental and Social Management Framework (ESMF) checklist for short-listed proposals ([annex 17](#)).
- Procurement of agricultural inputs for starter packages shall comply with the mitigation plan in [annex 18](#).
- A/PCU/Service Providers shall promote, through technical advice and capacity building, sustainable collection practices in the Non Timber Forest Product (NTFP) sector.
- READP, through service providers/extension agents, shall promote Integrated Pest Management and safe pesticide use practices ([annex 19](#)).
- READP shall provide support for production certification (such as organic and Global GAP), which will promote the adoption of higher environmental standards in production and processing.

As defined by the UN FAO<sup>1</sup>, Good Agricultural Practices are practices that address environmental, economic and social sustainability for on-farm processes, and results in safe and quality food and non-food agricultural products. The implementation of GAPs should therefore contribute to sustainable agriculture and rural development. Furthermore, producers wishing to access European retail chains can implement and obtain certification in GlobalG.A.P. standard<sup>1</sup> (world's leading farm assurance program), to help comply with Europe-wide accepted criteria for food safety, sustainable production methods, worker and animal welfare, and responsible use of water, and plant propagation materials

124. Farmers' organization development mitigation measures:

- The applicants shall include the environmental screening form (annex 16).
- Include ESMF review as part of the FO seed capital financing assessment process (annex 17).
- A/PCU/Service Providers shall promote, through technical advice and capacity building, Good Agricultural Practices (GAPs) and climate-resilient agriculture to minimize adverse environmental impacts as a result of commercial agricultural production.

125. Enabling infrastructure development mitigation measures:

- A/PCUs shall orient the service providers to the project objectives, target group, approach and implementation methodologies; including the social, environmental and climate issues and importance of mainstreaming environmental and climate proofing measures in project activities.
- The service providers in close coordination with cluster officers and extension service shall be responsible for providing technical guidance to the business leaders during the detailed business plan development process, which includes identifying important social, environmental and climate issues to ensure that adaptation and mitigation measures are factored in the BP process from the outset to incorporate relevant environmental and climate proofing measures to safeguard the infrastructure from natural hazards (such as flooding and landslides) through designs that take into account the climate risks. The BPs shall include a section on Environmental, Social and Climate Aspects which shall include a summary of the potential environmental impacts of the proposed activities, climate risks, as well as measures that will enhance the resilience and sustainability of enabling infrastructure through adaptation and mitigation measures. The applicants shall include the environmental screening form (annex 16).
- A/PCU shall incorporate environmental risk assessment as part of the BP assessment process. The reviewers of BPs shall consider the following: How well are environmental aspects reflected in the business idea regarding climate resilience, sustainable management of natural resources, use of chemicals. Potential, un-mitigatable negative impacts shall be scored negatively (i.e. to reduce the actual final score of the BPs during the assessment).
- A/PCU shall complete the ESMF checklist for short-listed proposals (annex 17).
- A/PCU / SP shall promote, through technical advice and capacity building, environmentally sustainable infrastructure design and operation. For example, A/PCU / SP shall incorporate relevant environmental and climate proofing measures to safeguard the infrastructure from natural hazards (such as flooding and landslides) through designs that take into account the climate risks. The aim of the measures is to avoid damages to property and forgone economic activity as a result of damages (e.g. failed bridges, damaged buildings), effects on health and human life, and impacts on environmental services (e.g. erosion, loss of natural capacity to protect from future climate change). In addition READP will promote measures that reduce the adverse environmental impact of

these investments by supporting energy and water efficiencies. Suggested measures for different infrastructure projects are described in [annex 17](#).

126. **Laws on Environmental Protection.** FBiH and RS each have a Law on Environmental Protection, which regulates their respective Environmental Impact Assessment (EIA) procedures, together with their by-laws which determine the scope/size of projects, and the subsequent procedures these would follow, to obtain the relevant licenses.

### **III. The arrangements and modalities of implementation component Project organization & management**

#### **A. Institutional and implementation arrangements**

127. **Responsibilities.** The respective Ministry of Finance is designated authorized representative of the analogous entity for the purpose of section 15.03 IFAD General Condition, but the two ministries of agriculture in the two BiH entities will be responsible for the operational implementation of the READP in the territory for which they are responsible. The Federation's Ministry of Agriculture, Water Management and Forestry (FMAWMF) will be lead project agency for the project implementation on the territory of Federation of BiH and the Ministry of Agriculture, Forestry and Water Management of the Republika Srpska (MAFWM RS) for the project implementation on the territory of the Republika Srpska. Both ministries transfer the coordination of project implementation to the two existing project units which are headed by project unit directors. The PCU/APCU director coordinate project activities with IFAD and responsible ministry of agriculture and facilitate communication between IFAD and ministries in the country.

128. **PCU subordination.** In the Federation of BiH the READP implementation will coordinate the Project Coordination Unit (PCU) which has been responsible for the implementing all earlier IFAD funded projects. As well in the Republika Srpska the project implementation will coordinate Agriculture Projects Coordination Unit (APCU) which is, beside of IFAD projects, responsible also for implementation the World bank funded projects.

129. **PCUs responsibility.** PCUs will be responsible for:

- Preparation of annual work plans and budgets (including procurement plans) which reflecting the needs, aspirations and priorities of project target groups and beneficiaries;
- Effective and cost-efficient coordination of direct or indirect execution of all project activities;
- Ensuring synergies and complementarities between project activities across project components and subcomponents;
- Contracting implementing agencies, their guiding and monitoring and evaluation their performances;
- Maintenance of frequent information exchange with external partners within the project to ensure efficient project coordination;
- Maintenance of project accounts in accordance with IFAD requirements and allocation of funds in according with contracts and other commitments;
- Timely preparation and submission of loan withdrawal applications;
- Procurement of goods, works and services required for the PCUs and final beneficiaries;
- Field level monitoring of the project progress and performances of implementing agencies;
- Preparation of periodic progress and financial reports required by IFAD and entity governments;
- Assume M&E responsibilities and functions;
- Organizing annual and ad hock workshops for different project stakeholders in function of improvement project design and performance;
- Preparation of an in-depth review of project performance and achievements prior to the mid-term review, providing an analysis of successes, problems, constraints and the effective participation of women and youth in the project.

130. PCUs are also empowered to determine the optimal execution modalities for each project activity and a way of their implementation.

131. **Staffing.** Project units consist of a sufficient number of qualified experts who are in charge of the implementation of one or more IFAD or other projects whose coordination is assigned to that unit.

Staff already work for IFAD funded RBDP and RCDP will be inherit for the purpose of implementation READ project.

132. The PCU and the APCU each will be headed by a project director who will also be the secretaries of the PSCs. The READP staffing plan for other positions takes into consideration the parallel implementation of RCDP for two cycles, from 2017-2021 and 2022-2026. In general, all the RCDP staff members will also be involved in the implementation of READP. In addition, READP will finance two additional staff positions in PCU and in APCU to assist them to cope with the additional responsibilities of implementing two projects simultaneously. The detailed staff structure in PCU and APCU will be as follows:

- a) PCU: In PCU the staffing for the RCDP already includes the director, two business development officers, M&E/targeting officer, procurement officer, finance officer and translator and driver. For the first two years of READP the salaries of these staff will be financed under RCDP. For the remaining three years of READP these salaries will be financed in 1:2 ratio between READP and RCDP. READP will finance two additional staff positions specifically hired for READP implementation. These two positions will be of READP project manager and accountant to enable the PCU cope with the additional responsibilities of implementing two projects simultaneously.
- b) APCU: in APCU the staff for RCDP includes two business development officers, M&E/targeting officer, procurement officer, finance officer accountant, translator, secretary and driver. For the first two years of READP the salaries of these staff will be financed under RCDP. For the remaining three years of READP these salaries will be financed in 1:2 ratio between READP and RCDP. READP will finance two additional staff positions specifically hired for READP implementation. These two positions will be of project manager and an infrastructure civil engineer to enable the APCU cope with the additional responsibilities of implementing two projects simultaneously.

133. Terms of references for the additionally engaged staff in PCU and APCU are attached in annex 20 of this manual.

134. **Knowledge management workshops.** PCUs will conduct bi-annual inter-entity knowledge management workshops as a forum for PCU's field coordinators and A/PCU's extension officers to exchange experiences, identify implementation constraints and document lessons learned with other stakeholders involve in project implementation.

135. **Office and equipment.** For the accomplishment of the tasks assigned to the units, the units should have at their disposal sufficient office space and equipment in accordance with the number, scope and duration of the assigned projects.

136. **Establishment of PSCs.** The Project Steering Committees will be establish by the respective government decision. The PSC is chaired the entity Ministry of Agriculture represented by the Minister personally or by another designated representative. The established PSC is one of preconditions for execution of first withdrawal application. The PSCs will meet at least three times a year and more frequently if it is needed.

137. **Responsibilities of PSCs.** The READP implementation will oversee and channel by READP Project Steering Committees established in each of two BiH entities. Two PSCs are in charge of:

- Providing conceptual, strategic and policy guidance for the implementation or redesign of the project activities and conformity with overall IFAD and national and sub-national development strategies;
- Approve the annual project work plan and budget;
- Approve annual and semi-annual progress report;
- Review project progress and performance;
- Approve implementation of selected business plans;

- Ensure effective cooperation between the PCUs and the entity/canton/municipality administrations;
- Resolve any implementation problems.

138. **Composition of PSCs.** PSCs consist from 7 to 10 members representatives of relevant ministries and government departments, as well as representatives from the private, PAs and cooperative sectors. Chairman of PSC is the Minister of Agriculture or his/her delegate. Other PSC members may be representatives of respective the Ministry of Finance and other relevant ministries (e.g. Ministry of Industry, Ministry of Family and Youth or Ministry of Local Self-government), representative of Chamber of Commerce, Gender Centre and some professional organizations (union of cooperatives, organizations representing youth, women or some agriculture subsectors). The A/PCUs project directors will be the secretaries of the PSCs.

139. **Annual work plans and budgets (AWPB)** and corresponding procurement plans is the project's key guiding documents. The AWPB presents guidelines for project teams and their partners what and how they should work in the planning period. The scope and type of planned activities and ways of their implementation have implications for the necessary financial resources (budget), inputs that must be provided and the timetable of their execution. AWPBs are formulated taking into account the Project Design Report (PDR), supervision report recommendations and legal agreements, contract and management agreements of service providers and participating partners, the overall project's targets, procurement plans and development priorities of target communities. It is important to recognize moments when the original project design is not more appropriate and timely suggest certain changes through the plans for the respective year, with prior approval by the national and the IFAD authorities.

140. **AWPB timing.** The first project AWPB would be prepared, together with the procurement plan for the first 18 months, and be presented for discussion during the start-up workshop and after that submitted to IFAD for no objection. Each AWPB has to be review, approved and validated by the Project Steering Committees and IFAD (review, approval and no objection) not later than 60 days before the beginning of the fiscal year. That means that AWPBs would be prepared, discussed and approved several months before the beginning of the financial year covering in the AWPB.

141. **Participatory approach in AWPB preparation process.** The process for designing AWPB will be participatory, reflecting a bottom-up prioritisation process from the business units at cluster levels, as per READ's demand-driven nature. A wide range of partners and stakeholders should be involved in process of identifying needs and their transforming in project responses and interventions. During the preparation of the AWPB, the beneficiaries from the project's target group should not be forgotten and ignored. They will have a chance to articulate their needs and opinions during Annual Stakeholder Review and Planning Workshops and preparation of next AWPB should be demand-driven, based on experience and results of implementation previous plans.

142. **Start-up workshop.** The start-up workshop will be organised just after the project become effective. On the workshop will be discussed in more detailed project design and tailored the first AWPB. During start-up workshop will also be considered project's monitoring and evaluation system. It is important that project teams and other service providers are form the beginning familiar with IFAD targeting approach, performance based contracting system and key performance indicators regarding targeting effectiveness, backward linkages and the impact pathways to foster the development of more inclusive value chains and increase the competitiveness of rural enterprises.

143. **Content of AWPB.** The AWP will contain the main goals, quantified in the form of certain target quantities and values, activates that will be undertaken in the planning period, their holders of their implementation, systematized by project's components and subcomponents. The AWP will follow annual financial and procurement plans. The outline of AWP is presented in [annex 22](#). All planned activities should have clear financial allocation and be incorporated into financial plan (budget), as much as more precisely. Also AWP and budget links to procurement plan in which will be identified expected scope and timetable of procurement.

144. **Progress reports.** The progress reporting process will follow timetable of regular reporting deadlines. MIS database will be constantly supplied with data from different sources and stakeholders and they will be periodically transferred into progress reports with additional analysis and evaluations. The set of yearly reports constituting the minimum reporting requirements include: (1) (semi) annual progress report, (2) financial report; (3) procurement report, (4) monitoring report; and (5) audit report. The overall template for (semi)annual project progress report is in annex 23. The project closing ends with a completion report. The progress reports follow the structure of AWP and on quantitative and qualitative way shows what was achieved compare to plan with a explanations way that happened, coincidentally indicates what follows.

## **B. Project implementation modalities**

145. **Project management model.** The READP is implemented on the project management principles. Project implements directly two project coordination units (PCU based in Sarajevo and APCU based in Banja Luka) with additional support by field officers and service providers. The difference between the two project units is that the APCU in the project implementation relies more on the Agricultural Advisory Service, which is part of the same ministry, and which has regional offices throughout entire the RS.

146. **Field officers.** The both project units will provisionally hire additional individual consultants to coordinate project activities at the cluster level (cluster coordinators). The PCU will contract 5 field officers as cluster coordinators, one for each cluster, to ensure field presence of the PCU and assist quality implementation process. In the RS the APCU will ensure field presence through extension officers deployed in the seven regional extension offices of the Agency of Extension Services

147. **Service providers.** For the implementation of some project activities, in according with a project design, project units engage external service providers. Outsource service providers can be individuals, NGOs, SMEs, public institutions (e.g. public extension service, regional or local development agencies), consulting companies and other type organisation. Those arrangements can be based on contractual or some other type of agreements (e.g. memorandum of cooperation). The main role of service provider (preferably one for as many activities as possible) is support implementation of majority activities under component 1, e.g. preparation and implementation business plans. Because Agriculture Advisory Service does not have experience with the business plan methodology, outsourcing support is needed and in the RS (APCU), but to a less extent than in the FBiH. The service providers will be engaged based on performance-based contractual arrangement and payment with a possibility of termination contract in the earlier stage, if performance are unsatisfactory.

## **C. Asset management**

148. **Premises and assets.** Assumptions and preconditions for efficient implementation of the READ project are:

- The availability of sufficient assets, aligned with the needs of the project.
- Project premises, and all assets are kept safe and in good working order at all times.
- Regularly maintaining the assets in accordance with the manufacturer's warranty and recommendations.
- Office supplies are always available and a good stock level is maintained.
- Avoiding the procurement of unnecessary and spare equipment and intermediate goods.

149. At the beginning of the project, it will be provided adequate premises and procure the necessary planned assets in order to be able to implement the project without any restrictions from that side.



150. **Project vehicles.** The project's vehicles are well managed including:

- The types of vehicle are selected according to the highest value of money.
- Vehicles meet safety standards.
- Insurance policies are contracted and renewed in a timely manner.
- Vehicles are driven only by authorized personnel.
- Vehicles are used to provide economical fuel consumption.
- Vehicles are properly maintained and repaired.
- Vehicles are adequately garaged and protected against burglary.

151. **Utilities.** All utilities direct connected with project operations as office rent, telephone, electricity, internet etc. should be secured on time and paid at the expense of the project. By nature, most of these services have only one supplier and therefore are supplied with a single source procurement method. If a project unit uses some of these services for free and for which there are no invoice, such a type of government contribution that can not be replacement for cash contribution, but will be assessed and recorded as an additional contribution.

152. **Communication organization.** Mail should be properly disposed of (regularly sent and received and effectively distributed to the concerned staff). Electronic correspondence (e-mails) is being protected by antivirus software and regularly backup. It is desirable that the project units also have their own website where they will share with public the planned and realized project activities, publish procurement calls and invitations, and promote successful stories and examples.

#### **D. Internal rules for personnel**

153. **Personal and human rights** of the project team members. Interpersonal relations on the basis of respect of their personality and human rights, while achieving efficiency and synergy of teamwork, in particular:

- The staff has the same access to information without any discrimination.
- That staff and consultant contracts are drawn up accurately.
- That staff are paid monthly on time and without delay.
- That staff are aware of working conditions and procedures.
- The each staff member has a file with relevant personnel data.
- The professional staff performance assessment are made annually.

154. **Working hours and conditions.** The following stipulations will apply on working hours and conditions:

- All staff will work a 40 hours a week.
- Field staff will adjust their workload, on the basis of a 40 hour week, at the least. Their work includes field work and visits, as well as office work.
- Additional working time, over 40 hours a week, is expected without overtime payment for all staff. Exceeding work will be compensated by using free hours and days in the period when the work process permits.
- Normally office staff working hours are from 08.00 to 16.00, with a half hour break for lunch, from Monday to Friday inclusive.
- Each office shall keep clear records of attendance of its staff.

155. **Leave regulations.** The following stipulations will apply in case of leave:

- Staff are entitled to a number of days paid leave which are defined in their respective contracts in accordance with national norms.
- Prior to taking part or complete annual leave, staff are required to get clearance for their leave from the PCU/APCU director.

- In addition to their paid leave, all staff are entitled to leave on holidays defined as such by the BiH and RS/FBiH.
- Staff may also take exceptional leave upon written authorisation from the PCU/APCU director. This will normally be granted in cases of urgent and demonstrated emergency regardless of the staff availability. The director will have full discretion to decide whether such leave is paid or unpaid. In other exceptional cases, the director may, approve unpaid leave if staff request it.
- Any absence or illness needs to be supported by an adequate medical certificate if the staff member prefer to be paid. The length and manner of payment of illness leave is in accordance with national legislation.

156. **Salary, insurance & pensions.** The following stipulations will apply in case of health and pension staff insurance:

- The project staff receives the net salary contracted for the period for which the contract of employment has been concluded. As a rule, salary is paid on a monthly basis.
- Apart the net salary, the project will pay the national health insurance, pension contribution and other accompanying fees for employees in accordance with the national rules and regulations in force in BiH/entities.
- Driver and passengers in the project vehicles, are covered by passenger insurance in accordance with the insurance regulations in BiH.

157. **Travel regulations.** The following stipulations will apply:

- Most technical project staff and consultants are expected to travel on frequent and regular visits to different parts of the project area and for project business outside the project area.
- During travel periods staff shall as far as possible adjust to the local conditions and adapt to the programmes of the field staff.
- During field visits, staff are to be paid a travel allowance according to the following rates: travel within BiH and outside BiH in accordance with the decision of the Entity Government.

## **E. Human resource management**

158. **Staff selection.** The following stipulations will apply in case of staff selection:

- As far as possible, the project will retain staff involved in the implementation of RBD and RCD projects for the implementation of READ project, because they are staff that have proved qualifications and experience.
- Whenever will be need for recruiting new staff, recruitment will be done in a competitive and transparent manner, which implies advertising free position in the press and other appropriate media and enable the project to select people by open competition process.
- Employment is done on the basis of clear conditions and criteria and evidence of their fulfillment.
- Employment shall be done only if suitable candidate are found, or position shall be re-advertised.
- The employment of all new staff is subject to "no objection" by IFAD.
- Any staff employed from the civil service, other public or private institutions, must take long-term leave without extra pay.
- In the APCU case the sharing staff costs with other projects will be permitted whenever possible.
- Consultants will be selected according to IFAD guidelines for selection and employment of consultants. Once a consultant has been selected, if his/her work is considered

satisfactorily, he/she will be asked to continue working as required for further periods of consultancy.

159. **Staff contracts.** The following stipulations will apply on staff contracting:

- Employment with the project is full-time but fixed term, with no expectation of continuation beyond the term stated. All staff work on the basis of their contract of employment.
- The project does not have any permanent staff and all staff are expected to make appropriate arrangements for their future once employment with the project is completed, either due to completion or suspension of the project, or of the termination of their post.
- Contracts are initially for one year, renewable on the basis of satisfactory performance review.
- All first concluded contracts shall include an initial 3-month trial period during which management and the staff member may terminate contract.
- All staff are liable to termination if the services are considered inadequate. Termination of contracts prior to completion or non-renewal shall be based on performance review and assessment by two senior staff. In the case of senior staff and consultants, termination or non-renewal can take place by decision by the project director and it is subject of confirmation by IFAD.

160. **Staff training.** All project team members have the right and obligation to be trained and to participate in other forms of their capability building. The training plan for employees is part of the project annual work plan and financial plan. Employees can use paid leave in case of attendance training, on own expenses or paid by another party, with the prior approval of the A/PCU director.

161. **Terms of reference for the project staff.** Framework terms of reference for the permanent READ project staff are in the annex 1. These terms of reference are for all staff and those staff who were recruited and implementing the on-going projects (RBDP and RCDP) will continue work in the PCU and APCU under their original terms of reference. For hiring new staff who will be employed in PCU/APCU for need of READP this ToRs are compulsory.

### III. Financial and Disbursement Procedures

#### A. Financial arrangements

162. **Financing conditions for the IFAD loan.** The IFAD loan is given on ordinary terms, and denominated in EURO. The currency of the designated accounts and repayments is in EURO. The IFAD reference rate applicable to loans on ordinary terms is based on an SDR weighted, EURIBOR (for EUR 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.

163. **The loan closing date.** As soon as either of the IFAD loan is declared effective, loan funds will be disbursed over a six and half year period. The Project Completion Date is the sixth anniversary of the date of the entry into force the Financial Agreement. The Loan Closing Date is six months after the Project Completion Date and is the date after which IFAD and will terminate the right of BiH to make withdrawals from the Loan Account.

164. **Responsibilities of ministries.** The the Ministry of Finance and Treasury of Bosnia and Herzegovinasign the Project Financing Agreement with IFAD on behalf of Bosnia and Herzegovina as a borrower. After that the state Ministry signs two subsidiary loan agreements with the entities (the Federation of Bosnia Herzegovina and Republika Srpska) concerning distribution of IFAD loan and debt between the entities. The Federation of BiH and the Republika Srpska sign a project agreements with IFAD in terms of taking over responsibility for the implementation of project (or respective part of the project). The Ministry of Agriculture, Water Management and Forestry (MAWMF) of the Federation of BiH is responsible for the project implementation within the FBiH, and the Ministry of Agriculture, Forestry and Water Management (MAFWM) within the RS. These ministries hand over the implementation of the project two project units (PCU and APCU respectively) that operatively work on the implementation of the project and are responsible for it, including responsibility for implementation issues from the domain of financial management.

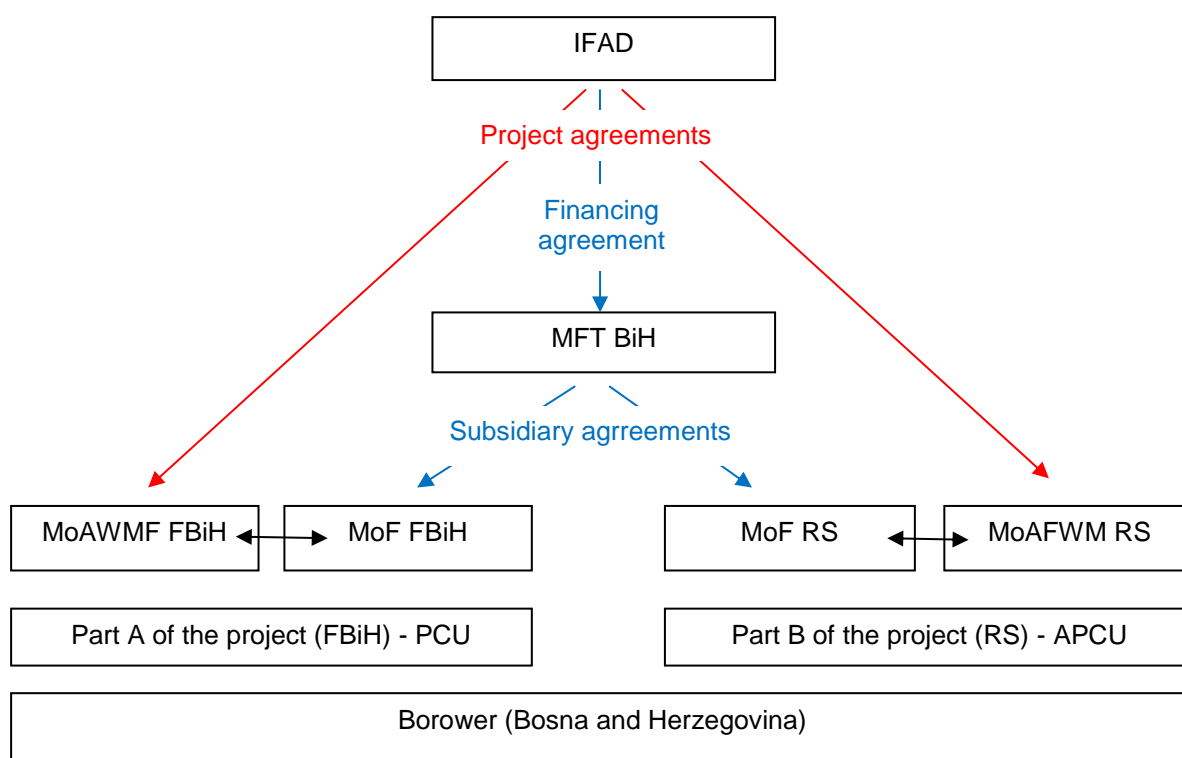


Diagram 4. Responsibilities for disbursement and implementation of REDP

165. **Project Coordination Units.** For the implementation of the REDP project, the already established existing organizational structure of the project units are used, Project Coordination Unit (PCU) in FBiH and Agricultural Project Coordination Unit (APCU) in RS. Both the units are endowed with capacitated financial staff with long year of experience with IFAD projects implementation and coordination (READP will be eight IFAD project for Bosnia and Herzegovina). Both units have already established system and have previous experiences in project coordination and monitoring, accounting, managing, disbursement and reporting on IFAD financed projects and moreover the APCU has also experience in managing the World Bank financed projects.

166. **Financial staff.** The both PCUs has systemized positions of financial manager who executes financial and accounting operations and is responsible to the PCU director for all financial and accounting aspects of the project implementation. Due to a grater number of active IFAD (an other) financed projects intention is to have also accountant (already present in APCU), which allows segregation of responsibilities and reduced operational risks. Responsibilities and working tasks division between financial manager and accountant is delimited and described in Financial and Administrative Manual. That applies also on working time division of financial staff between IFAD and WB funded project in case of the APCU.

167. Financial manager will carry out periodical field visits to be able to better understand the project operations and performances at the field level (possible together with a procurement officer).

## B. IFAD Disbursement Procedures and Flow of Funds

168. **IFAD Disbursement Procedures.** Three standard disbursement procedures may be used for withdrawal of financing: Advance payment to the Designated Account (DA); Reimbursement and Direct payment.

169. **System of the Bank Accounts.** The Bank accounts that allow flow of many from IFAD to borrower consists from designated and project accounts.

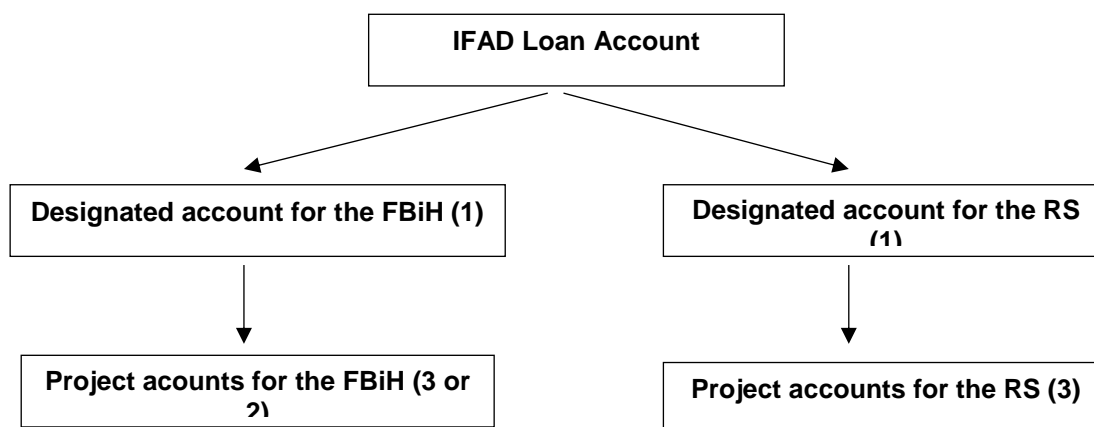


Diagram 5. System of loan, designated and project accounts

170. **Authorization of signatories.** The appropriate governments will nominate authorized representatives (signatories) to manage the project finances, including the operation of the Designated Accounts (DA) and the Project Accounts (PA). To avoid delays in payment process each authorized representative has alternative signatory.

171. **Designated Accounts.** The Borrower will open two IFAD Designated Accounts, each for one of entities, which will be operated by respective PCU (PCU/APCU). Disbursements from the Designated Accounts towards project expenditures will be made against certified Statements of Expenditures. Disbursement from the IFAD loan into the respective Designated Account or for direct payment to suppliers for eligible expenditures will be authorized by the State Ministry of the Treasury. The Direct

payment procedure should be used only for payment of above EUR 100,000. Project payments below that threshold will be paid from Designated or Project Accounts. More detailed conditions for the first withdrawal and its later replenishment of DA are defined in the LTB.

**172. Operation of the Designated Accounts.** Immediately after loan effectiveness, FBiH and RS will send withdrawal applications to IFAD (and other co-financiers applicable) for payment of the initial deposits to the DA. Maximal authorized allocation to designated Account amounting to EURO 800,000 for FBiH and 800,000 EURO for the RS. No documentation is required in support of the application for the authorized allocation; however, the application shall be accompanied with: a copy of the agreement between the FBiH/RS and the bank holding the DA, confirming the establishment of the DA, providing the account number and the agreed procedures for operation of the account; and list of the persons (names and functions) authorized to operate the DA with authenticated specimen of signatures.

**173. Replenishment to the Designated Accounts.** Periodic replenishment of the Designated Accounts is done through the submission of withdrawal applications with summary Statements of Expenditures demonstrating the use of funds towards eligible expenditures, in accordance with the procedures of IFAD. WA for replenishment of the DA is denominated in the currency of the DA. The Withdrawal Applications (WA) for replenishment submits on a regular basis, not before of 90 days before submission previous WA or if requested withdrawal amount exceeds 30% of advance payment, regardless of the time elapsed since the submission of the previous WA. Each application for replenishment to the DA are supported by a statement issued by the commercial bank where the DA is held for the relevant reporting period, showing all transactions under the account. At any given time, the balance held in the DA at the bank, plus the amount of the WA that have been submitted to IFAD but not yet deposited in the DA, plus the expenditures that have not yet been claimed for replenishment, shall always equal the authorized allocation.

**174. Statement of Expenditure.** The Statement of Expenditure is used to justify reimbursement. Exact format of SoE will be defined and attached to the Letter to Borrower. No supporting document will be required to submit SOE and WA (except for Direct Payments). But the project units will keep the all relevant documents supporting to submitted SoEs and make them readily available for inspection and review by IFAD supervision missions and the auditors. 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.

**175. Recovery of the Authorized Allocation to the Designated Account.** The Authorized Allocation also referred to as the Initial Deposit to the DA is an advance which has to be recovered before the Loan Closing Date. Any amounts remaining in the DA at the closing date of the Loan must be promptly refunded to IFAD, to be credited to the Loan in the currency used by IFAD for the purpose of withdrawal from the Loan Account.

**176. Project Accounts (PA).** Project Accounts denominated in BAM, are opened in each entity in a bank acceptable to IFAD, to finance project local expenditures. All Project Accounts are operated by the PCUs (PCU and APCU). Funds will be transferred from the DA to the PA only when needed to execute payments and in accordance with the approved AWPB. Both PCUs will open two project accounts each. One project account will be for the IFAD loan funds and others will be for government counterpart funding and for beneficiary contribution. In addition, in the RS opens one additional project account for the beneficiary financial contribution. For withdrawals from the all Project Accounts for eligible expenditures will be authorized the project directors and one other authorized signatory.

**177. Government Contribution and Counterpart Funds.** In according to negotiated and in the Loan Agreement stipulated sources of project eligible financing by expenditure categories and payment taxis, entity governments will co-finance project with a certain amount of money. FBiH/RS provide contribution of the project from their own sources sufficient to cover their share of the project costs in accordance with the AWPB. These funds will be paid into the Project Account assigned for government counterpart funds and used in accordance with sound accounting procedures. Local authorities and other project partners or beneficiaries can also co-finance some project activities and

pay their contribution on project account for counterpart funds. If local communities and other partners pay their participation in financing project activates in some other way (by direct payment to constructor or supplier) or contribute in kind, that contribution will be captured and registered through project M&E system, incorporated in the accounting system of both Entities and included in performance reported.

178. **Taxation.** In accordance to IFAD policy, none of the IFAD funds can be utilized for the payment of customs of taxes during the project implementation.

179. **Financial and Administrative Manual.** The project financing is carried out and managed in accordance to a Financial and Administrative Manual which will define the financial arrangements in details, including the organization and staffing, internal controls, flow of funds, budgeting, accounting, financial monitoring, financial reporting, and audit procedures. A distinct section of the manual is dedicated to the measuring, capturing and monitoring of the beneficiary contributions in the accounting system. The READP FAM adopted by IFAD CPM is precondition for disbursement. Completed FAM (with a defined the financial arrangements in details, including the organization and staffing, internal controls, flow of funds, budgeting, accounting, financial monitoring, financial reporting, and audit procedures) and approved is one of the pre-conditions for first withdrawal from the loan account.

180. **Payment execution.** Initially, the request for payment prepares accountant, certify procurement officer, control and certify financial officer and approve PCU/APCU director. The procurement officer certifies the execution of the activity in compliance with contracts, the financial officer verifies of budget availability and classification of the expenditure. The last signatory, in case of payment from the project account, is the second signatory from the respective ministry. That procedure differs, depending of the entity. In the Federation of BiH payment request are sent to the Ministry of Finance for checking and signing by the second authorized signature who is from that ministry. They are alternative signatures for the first and the second signatory. In the Republika Srpska the second and final signatory is representative of MAFWM RS. After collecting all signatories, the corresponding project unit executes payment in cooperation with the commercial bank.

### C. Accounting system and audit

181. **Accounting.** The accounting will be done on cash basis following the IPSAS standards. PCUs will maintain accounting system in accordance with IFAD's requirements and internationally accepted accounting standards. Both the units will continue to use the system already in place, wherein APCU may consider an upgrade of the system or a shifting to an accounting software customized to IFAD project requirements.

182. **Accounting records of implementation agencies.** Where project funds are left to an implementing agency for use on behalf of the project and to be spent on purchase goods, works or services, the implementing agency will be obligated to open separate bank accounts for that funds or maintain separate accounting evidences for expenditures financed from project funds. That implementing agencies are obligate to prepare and deliver PCUs financial reports for those expenditure at least each six months.

183. **Staffing.** Both PCUs will recruit qualified personnel to implement FMS coming from the existing experienced staff. In case of need of their replacement, qualified personnel will be selected through a transparent procedure and by choosing the best candidate who satisfies the requirements stated in the ToR for a financial officer in this PIM.

184. **Financial reports.** At the beginning of each fiscal year, and upon AWPB approval, the FM inserts planned expenditure into financial software to ensure that the approved budget provisions are available. Later, the FM extracts financial reports from the system on a monthly basis to ensure an overall control over the budget availabilities, and on a semi-annual basis for the preparation of the financial and physical report. The report will provide analysis by components and activities, categories

and sources of funds. The aim is to upgrade accounting software so that it can automatically handle up to date financial reports without needs for manual intervention.

185. A formal process of monthly bank reconciliation will have to be prepared for all bank accounts managed by the accountant of the PCU/ APCU. Each reconciliation will be verified by the financial officer and approved by the project manager. Formats of the financial reports will be agreed with IFAD at start-up and incorporated in the final version of PIM.

186. FM also prepares the financial statements of the project in compliance with the IPSAS- cash and IFAD requirements, which A/PCU should submit to IFAD no later than four months after the closing of the concerning fiscal year.

187. **Fixed asset register.** All fixed assets are maintained safely and recorded in a register. Each asset is tagged for easy identification and controls. The register are updated and verified on an annual basis. At the end of the year, the inventory of the asset is carried out by a commission appointed by the A/PCU director. The procedures of fix assets registration are described in the Financial Manual.

188. **Internal auditor.** In the PCUs there are no separate internal auditor position. In both entities they are the Supreme Audit Institutions which audit the spending of public funds. The Supreme Audit Office in the RS, during audit MAFWM RS operations, audits also APCU accounts, while this is not the case in the Federation of BiH. Although additional control by the relevant project institutions can not be questionable, during the revision of the IFAD project by the public audit in the RS, there were misunderstandings due to problems with regulatory boundaries through which prism the control will be enforced. In such cases, it is undisputed that dominance have the financial regulations and procedures of the IFAD, as it is stipulated in the general conditions and in the financial agreement.

189. **External audit.** The selection of an external auditor for projects based on international lending, in accordance with the current procedure, carried out the state Ministry of finance and Treasury, in cooperation with the entity's ministries of finance. The auditor are contracted on three years period selected by competitive procurement procedure. The TORs of the auditor will have to be submitted to IFAD for no-objection. The audit report will be submitted to IFAD annually no later than 6 months after the end of the concerning fiscal year. The audit report will include the following elements: (1) an opinion on the Project's financial statements; (2) a separate opinion on the eligibility of expenditures included in the WA/Statement of Expenditure procedure; and (3) a separate opinion on the compliance of the use of the Designated Account with the financing agreement. The TORs of the auditor will have to ensure that all three opinions will be included in the audit. In addition to the audit report, the independent auditor will prepare a management letter which will include comments and recommendations on the adequacy of the financial management system, and on the system of internal controls. 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 consolidated audit report covering the whole project, together with the separate audit reports for APCU in RS and PCU in 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.

#### **D. Planning, budgeting and reporting**

190. **Dedicated expenditure.** The PCU Director and subordinated Financial Manager are responsible for ensuring that the IFAD loan and counterpart financing are used for the right purpose, and on efficient and economical way. This approach starts from the planning of the utilization of available financial resources. BiH as a borrower is required to provide to IFAD and other co-financiers accurate and timely financial information to ensure that expenditures within the project were done for the purposes stated in the Loan Agreement and the Project Design Report.

191. **Budgeting.** The Annual Budget as a integral part of Annual Work Plan and Budget (AWPB) will be prepared by the Project manager in a fully participatory approach and based on the inputs from the stakeholders, with the collaboration of the Financial Manager, the M&E Officer, the Procurement



Officer and the various specialists. The budget will be prepared in a format acceptable to IFAD. The format of the AWPB will indicate at least the expenditure items by activity, components, expenditure categories, implementing entities as well as sources of financing and divided on a quarterly basis. In addition the detailed cost tables should indicate the unit cost and quantity for each item and physical targets/indicators for each activity. The AWPB must be in line with the project description and objectives.

192. **Budget approval.** The project AWP followed by budget will be submitted to the PSC for approval and IFAD for no-objection by the Director of the PCU/APCU at least two months before the beginning of the concerning fiscal year. Before submitting the AWPB to the IFAD for approval, the same should be considered and approved by the PSC.

193. **Financial Reporting.** PCUs prepare and submit IFAD and respective ministry annual and interim semi-annual financial report and annual certified audits report, together or separately. Extraordinary financial reports will also be prepared for special purposes. All financial reports and statements shall be signed by the Project Director and Financial Manager that confirms their accuracy and credibility. Existing financial software in project units should be upgraded and adapted to be able automatically obtain standard reports, in order to facilitate their production and reduce the time needed for their preparation. The financial report will provide analysis by components and activities, categories and sources of funds. The financial reports shall be prepared and presented in local currency and the currency of the DA (EUR).

194. **Reconciliation per expenditure categories.** Special attention in financial planning and reporting should be paid to the compliance of available loan and other funds per expenditure categories and with planned or actual project costs. Therefore, each financial plan or report will contain information on the total planned/spent funds in relation to the total available funds for each expenditure category.

195. **Counterpart contribution.** Some project expenditures are financed from multiple sources. Co-financing relations are determined and agreed in advance and verified through appropriate contracts and agreements. Co-financing can be realized through a special, for this purpose open, project account or by direct payment from the account of co-financier. In both cases, the financial contribution of the beneficiaries must be proven and recorded in the project accounting system (as off-balance records). The same apply on in-kind contribution. The project M&E system will be adapted to the new model of co-financing (cost sharing) project activities and will provide data and evidence necessary to record the financial contribution of partners that is paid out of project accounts.

196. **Financial Statements.** The FM is also responsible for the preparation of the financial statements of the project, which will be in compliance with the IPSAS and IFAD requirements. The A/PCU submit the financial statements to IFAD no later than four months after the closing of the concerning fiscal year. The project financial statements include inter-alia: (1) statement of project management responsibilities including a management statement that the project funds have been utilized for the intended purposes as specified in the relevant financing agreements; (2) statement of cash receipts and payments (by category and by financier); (3) statement of cash receipts and payments (by component); (4) statement of comparative budget and actual amount; (5) statement of Designated Account movements; (6) Statement of Designated Account Reconciliations; (7) SOE-Withdrawal Application Statement; (8) cumulative use of funds by category of expenditure for each of the IFAD financing sources, and (9) Notes to the Financial Statements.

197. **Financial Supervision.** The project is directly supervised by IFAD in accordance with IFAD guidelines which includes and financial supervision. The supervision process will be complemented by desk review of withdrawal applications, progress and financial reports, the annual financial statements, and annual audits. From a financial management perspective, a financial management specialist participates in missions annually to supervise and provide implementation support to the project and follow up the fiduciary risks.

## **IV. Procurement Procedures**

### **A. Procurement arrangements**

198. **Lading procurement regulations.** Based on preliminarily country assessment, it was concluded that procurement for READP will be performed in according to the IFAD procurement procedures defined and elaborated in the IFAD Project Procurement Guidelines and the IFAD Procurement Handbook following thresholds stipulated in the Letter to the Borrower.

199. **Responsibility.** The practical responsibility for the execution of procurement is delegated by borrowers to existing PCUs in two entities. The procurement officers in both project unites (PCU/APCU) are responsible for all project procurement. It is necessary that they cooperate during execution of their tasks with the other project team members. For their work they are responsible to PCU/APCU director.

### **B. IFAD procurement procedures**

200. **IFAD Project Procurement Guidelines.** The procurement of goods, works and services financed by IFAD and co-finance from other counterpart funds will be carried out in accordance with IFAD Project Procurement Guidelines valid at the time of initiating procurement procedure. The valid version of guidelines is always available on the IFAD web site.

201. **IFAD Procurement Handbook.** A useful guide which is supplementing the IFAD Project Procurement Guidelines is IFAD Procurement Handbook that provides project staff with templates and facilitates the preparation of tender documents, conducting of procurement procedures, evaluation of bids, contracting and managing contract execution. This up to date handbook is always available on the IFAD web site.

202. **Methods of procurement.** Method of procurement depends of the subject of procurement (goods, works or services).

203. For procurement of goods and works the following methods will be used: International competitive bidding (ICB), Limited international bidding (LIB), National competitive bidding (NCB), International shopping (IS), National shopping (NS) or Direct contracting (DC).

204. For procurement of non-consultancy services will be used request for quotations (international or national) or shopping method (international or national).

205. For procurement of consultancy services will be used method of selection based o request of proposal (international or national).

206. **The principle of favoring competition.** Competition procedures will be p to referred during all procurement procedures. In principle, in every single procurement opportunity the promotion of competition should be pursued to achieve the best value of the money. Only in exceptional circumstances, single source selection and direct contracting can be considered as a option with mandatory prior approval of IFAD.

207. **Procurement thresholds.** The final procurement thresholds will be determined in the Letter to the Borrower received from IFAD after project loan agreement ratification. In the project design they are proposed following thresholds for some procurement methods (which are expected to be confirmed in LTB):

- a) for goods: threshold for applying LCB or LIB method is estimated contract value of EUR 200,000 or more; threshold for applying NCB method is estimated contract value between EUR 50,000 and 200,000; and threshold for applying IS or NS method is estimated contract value less than EUR 50,000.
- b) for works: threshold for applying LCB or LIB method is estimated contract value of EUR 1,000,000 or more; threshold for applying NCB method is estimated contract value between

EUR 100,000 and 1,000,000; and threshold for applying IS or NS method is estimated contract value less than EUR 100,000.

- c) non-consultancy services: threshold for applying internationally advertised request for quotation is estimated contract value of EUR 100,000 or more; for nationally advertised request for quotation is estimated contract value between EUR 20,000 and 100,000; and for shopping method estimated contract value less than EUR 20,000.
- d) consultancy services: threshold for applying internationally advertised request for proposal is estimated contract value of EUR 100,000 or more; and threshold for nationally advertised request for proposal is estimated contract value less than EUR 100,000.

208. **Methods of consultants selection.** For selection of consultants can be used several procurement methods whose choice should be tailored to the specifics of the particular procurement: quality and cost-based selection (QCBS), quality-based selection (QBS), fix budget selection (FBS), selection based on consultants' qualifications (CQS) or single source selection (SSS).

209. **Direct contracting or single source selection.** Direct contracting goods or works or single source selection of consultants is not a priori unacceptable but it can be use in exceptional circumstances with rational clarification and mandatory prior approval by IFAD CPM (an according to paragraph 27 of IFAD Project Procurement Guidelines).

210. **Favouring competitiveness.** Although IFAD's procedure for shopping method envisages that in certain cases it can be carried out with less than three bids (*"usually not less than three"*) sent by mail, electronic mail or facsimile, it should be attempted that, having in mind the threshold for this method, for higher value purchases within this value class, procurement should be implemented on the basis of at least three bids/proposals and using a closed envelope procedure.

211. **Selection of procurement method.** Estimated contract value is base for the selection of the procurement method. In the case that the payment of contract is financed from more than one source, the estimated value of contract is determined on the basis of the financial contribution of all co-financiers. Although the national thresholds can be lower, goods, works and services under READP will be procured following thresholds agreed during negotiations and verified in the Letter to the Borrower. Estimated amount of contract is dominant but not sole factor that affect decision of selection of procurement method. Should be also taken into account other issues as nature of procured goods or works, interest of international bidders, number of potential national suppliers and critical time of delivery. To the extent possible, goods and civil works to be procured will be bulked into sizeable bid packages to allow for competitive bidding and cost saving.

212. **Tax exemption.** Taxes, customs and other duties on all goods, works and services procured for the needs of the READP will not be paid from the IFAD loan and will be exempt from payment or paid by the governments.

213. **Prior review thresholds.** Draft of bidding documentation, minutes from bid opening, evaluation reports, minutes from negotiation and draft of contracts for the first five contracts for procurement goods, works and non-consultancy or consultancy services will be subject of prior review by CPM. After that, subject of prior review will be only contracts for procurement of goods with estimated value more than EUR 50,000; works more than EUR 100,000; non-consultancy services more than 50,000 EUR and consultancy services more than EUR 20,000. Other contracts that were not the subject of a prior review will be (on the sample basis) subject of post review during the project supervision and audit. All contracts concluded on the basis of direct contracting are subject of prior review and approval, regardless of value.

214. **Bidding documents.** Both project units will use the already developed and used forms of bidding documents, which will be necessarily improved and upgraded for the READP. In the case of unrepeatd procurements from previous projects, new formats of tender documents will be prepared. There are available some bidding document templates developed by international donors or national institutions in BiH. In the IFAD Procurement Handbook they are some indications of content and

elements of bidding documents for specific types of procurement which can guiding procurement staff in their preparation. A particular challenge will be the preparation of sole specifications and descriptions of requirements for goods, works and services as special but real respond on the specific needs of project beneficiaries. In the case of a lack of knowledge and experience "in-house", external consultants may be used to develop quality bases for initiating procurement procedures and evaluate received bids. In case of applying ICB procurement method will be used the World bank bidding document templates.

**215. Result based type of contracts.** For procurement the some services will be applied result based type of contract. Payment of services will be in according to achieved performances what requires clear identification of expected results in specifications of services or terms of reference and their monitoring or measuring during providing of services. With a service provider should be agreed scheme of payment in advance, based of achieved results. The service providers have to establish and maintained clear evidences of performances of their services, separated of their other activities which will allow insight to project and other supervisions.

**216. Community based procurement activities.** For some project activities procurement can be shift to the community or left to intermediaries selected by transparent competitive process and supervised by PCUs and IFAD.

### **C. Procurement system and audit**

**217. PCU role.** All procurement under the READ project will be managed by the respective PCUs.

**218. Staffing.** Existing staff currently working in the PCUs responsible for the procurement is qualified and experienced and implies that they meet the required qualifications for these positions. In the case of the need to recruit new staff instead of the existing that person should follow a competitive selection and must satisfy minimal qualifications and requirements in the term of reference for READP procurement officer in annex of this PIM and his/her appointment will be the subject of IFAD no objection.

**219. Capacity building.** All procurement staff who execute READP are qualified and experienced, but it will be necessary build their capacities through attendance on specialized training and events organized for IFAD funded projects staff or national procurement system application. It is expected that procurement staff will occasionally visit the project area to get a better understanding of situation in the filed and beneficiaries' needs for which they are procure goods, works or services. This particularly applies to procurements from the domain of infrastructure and grants for farmers and FOs.

**220. Team work.** Procurement officers are part of the project teams and their activities and the results are conditioned by the good cooperation with other team members in terms of preparation quality and accurate specifications, ToRs, bills of quantities, and job descriptions that are the subject of contracting. All relevant members of the project team should be involved in the planning, preparation and execution of the procurements and monitoring and evaluation of their results.

**221. Procurement supervision.** Supervision of the procurement under the READP will be a part of project supervision by IFAD trough supervision missions. Addition to supervision and follow-up missions, project procurement will be continuously supervised by IFAD CPM, primarily through confirmation of certain steps in the procurement procedures and giving approval for signing contracts.

**222. Procurement audit.** Procurement audit will be carried out as a part of project audit subsequently by an external auditor selected by Ministry of treasury and finance of BiH and approved by IFAD.

**223. Double audit.** Project expenditure and procurement and other procedures may be subject of additional audit (e.g. by internal auditor and/or by the public national audit authorities) Regardless of who will execute the audit, the IFAD procurement regulation have advantage and prevail over national or other regulation.

**224. Anticorruption and Good Governance Framework.** The 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. 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 which are available on the IFAD website ([www.ifad.org/governance/anticorruption/index.htm](http://www.ifad.org/governance/anticorruption/index.htm)). The primary responsibility of detecting fraud and corruption lies with the borrower. This means that during the implementation of the project, it must be taken serious care of preventing fraudulent and corruption.

#### **D. Planning and reporting**

**225. Procurement plan.** The READP first 18-months procurement plan is a part of READP PDR appendix 8. If the period between the project design and the start of the project implementation will be prolonged, the first procurement plan will be updated at the READP start-up workshop. PCUs are obligated to prepare 12 months procurement plan for each year which will be a part of AWPB for respective year. AWPB have to be submitted IFAD for approval two months before start a year to which it refers, so preparation of procurement plan have to follow same dynamics. In the process of preparation procurement plan procurement officer have to closely cooperate with respective project team members. Procurement plan will content minimum data such as: items of procurement, its affiliation to project component and subcomponent, quantity and estimated value of procurement, type and method of procurement, type of review, starting and ending date of procurement.

**226. Register of contracts.** Each PCU will establish and maintain up-to-date register of contract with relevant procurement data (number of contract, subject of procurement, contractor, type and method of procurement, bidding data, bid evaluation data, dates of IFAD approval, good/work/service delivery data, percentage of contract performing, etc.). Updated register of contracts project officers will submit electronically to CPM every three (3) months.

**227. Procurement records.** PCUs will collect, maintain and file complete original documentation for each subject of procurement in paper and electronic format (where it is possible). Procurement records and documentation will be available to IFAD for supervision and other purposes and for project audit. In according to the IFAD General Conditions the borrower is obligate to keep original records and documents for at least ten (10) years thereafter. This means that before the end of the project, it is necessary to define who will and where keep this records and documentation until the expiry of that deadline.

**228. Procurement progress report.** Based on procurement plan, data from the register of contract and other data sources, procurement officer prepares procurement progress report. This report will be base for or will be a integral part of regular project progress report. The procurement progress report may be also prepared separately in particular cases (e.g. for a needs of follow-up or supervision missions). Beside of ordinary procurement data, this report should emphasize conditions and problems in procurement in reporting period, as well as attitude to auditor's opinion and recommendations toward procurement issues.

**229. Contracting service providers.** The project will engage a number of service providers (individual and institutional) from the private or public sector to deliver a variety of organizational, business, technical or advisory services to final beneficiaries. Depending of complexity of service, service provider can be selected by one or two stage procurement procedure. In the process of selection service providers, beside of the offered price, their qualifications, references and other quality determinants will be taken into account by use in advance known quantitative ratio between quality and cost evaluation criteria. Some contacts with a service providers can be based on a performance based payment system. With the service providers should be contracted and in advance clearly agreed planning and reporting obligations as important source of information for project MIS and M&E system. The activities of the service providers related to the project will be monitored by the PCUs staff.

## V. Monitoring & Evaluation and Knowledge Management

### A. M&E arrangements

230. **Project M&E system.** The project M&E system would be established and managed in accordance with IFAD common approach and procedures. In the process of planning, monitoring, evaluation and reporting project activities and results will be involve the mostly all PCUs' staff, related service providers and stakeholders from beneficiary side.

**Table 6. READP Monitoring and Evaluation Organisational Framework**

Level	M&E Stakeholders	Responsibilities	Outputs
A/PCU	PCU & A/PCU M&E specialists	Define reporting needs and requirements from business partners & clusters level aggregators	Baseline report/ Mid-Term/End line; Evaluation/impact assessment
	Business development officer (BDO)	Entity wide consolidation	Monthly/Quarterly/Bi-Annual and Annual progress report
	Rural infrastructure engineer	Data aggregation from business partners & clusters level aggregators	Results measurements against KPIs
	Service providers (SPs)	Developing data collection tools; formats/questionnaires MIS maintenance/updating	Knowledge-sharing products
Cluster	Service providers (SPs)	Data collection	Cluster level consolidated Business plan progress reports
	Fields/Cluster coordinators (FBiH; PCU; 5x)	Cluster wise consolidation of business partners' reports	
	Extension officers (RS; REOs)	Primary data collection	
	Municipality		
Business Units	Private agribusiness	Data provision	Monitoring & Progress reports
	Farmers organisations		
	Agriculture cooperatives		
Cluster	BP implementation oversight committees	Planning and implementation review of the BPs; and	
		Ensure regular reporting to the project and the municipalities	

231. **Responsibilities for M&E.** The M&E officers would be responsible for establishing and maintaining the internal M&E system and organizing the baseline, mid-term, completion and other impact assessment surveys. They would develop formats, questionnaire and other data collection tools that would be used to identify baseline status and progress achieved during the lifetime of the project.

232. **M&E as management tool.** Intention is to strengthen linkages between project M&E and project results reporting. In accordance with a now mainstreamed into project management, the project log-frame must contain a number of RIMS core indicators, complemented by project-specific indicators (PSIs), designed to measure specific results that may not be adequately captured by the core indicators. Project teams will additionally complement the list of indicators beyond those identified in LogFrame, primarily for the purpose of successful project management. During implementation, M&E system will provide useful information for the project management on the project performances and progress, including identifying the most successful and non successful project interventions and factors influencing on that.

**233. Evidence-based decision making process.** The READP M&E system follows the IFAD's Development Effectiveness Framework which aims to facilitate evidence-based decision making and emphasize the following objectives in the design and implementation of project level M&E and KM functions:

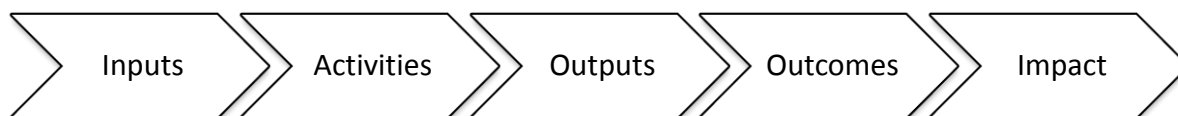
- a) Strengthening the focus on results through the project cycle;
- b) Enhancing self-evaluation and learning for results;
- c) Fostering the use of evidence in project management;
- d) Linking project M&E to corporate result reporting.

**234. Harmonization of M&E approaches.** Regardless of the specific differences in the way of implementation parts A and B of the READP the approaches of APCU and the PCU toward its M&E should be harmonised, by establishing same or close to same list of M&E indicators, and timetable of their collection. This will enable unique monitoring and evaluation of the same project beyond the perspective of one of the PCUs.

## **B. IFAD M&E procedures**

**235. M&E regulations.** The READP M&E system will be establish and maintained respecting: IFAD's Development Effectiveness Framework; new IFAD's corporate Result and Impact Management System (RIMS); IFAD's Knowledge Management (KM) Strategy; and IFAD Result-Based Country Result Management Framework.

**236.** The results of the project will be monitored by the result chain of identifying and interpreting its results at different levels of action.



Scheme 1. The result chain

## **C. M&E system**

**237. M&E and KM system.** For the purpose of monitoring and evaluation the Rural Enterprise Agricultural Development Project Planning, Monitoring & Evaluation and Knowledge Management system will be established and maintained. For its effectiveness and operability primarily are responsible two project units (PCU and APCU) in cooperation with some intermediaries.

**238. Participatory M&E process.** M&E system are oriented to two overarching key functions: output monitoring & outcomes/impacts result monitoring. They will be collected based on participatory process. The obligation to data collection and reporting on the achieved results and impact will be transferred to different categories of users and service providers and included in their contractual obligations or agreed on the basis of voluntary involvement.

**239. Output level indicators.** During the first six months of project implementation, a set of performance indicators will be developed to measure components' progress at outputs level (what project delivers?). To this end, the PCUs will develop monitoring instruments and associated tools in the form of harmonised templates to track progress during the period of its implementation, ensuring the collection of disaggregated data. The PCUs and delegated intermediaries will systematically and timely collect data on the output level in accordance with agreed list of indicators agreed. With the aim of ensuring continuity of collection and monitoring of cumulative data, these data and indicators should not be changed later, except extraordinary cases. For the each indicator will be establish yearly benchmark and at the level of the entire project.

**240. Outcome level indicators.** Outcome assessment are concentrated on assessing the intermediate results of the project's combined outputs on targeted households and other project beneficiaries (what are the consequences of project deliverables?). Progress and likelihood to achieve expected outcomes should be measure at mid-term stage or earlier, and reported to IFAD on annual or biannual basis, depending on the type of indicator and the measurement methodology.

Measuring outcome indicators, will be undertaken with the project M&E budgets and capacities, complemented with small-N quantitative surveys and other qualitative methodologies such as focus groups, in-depth interviews, participatory assessments to triangulate findings and enrich overall assessment of project performance.

241. **Impacts assessment** will focus on the higher level of result defined in the logical framework and include the limited set of development objectives the project intends to achieve. The impact of READP will be reported in the project completion report (PCR). Reporting on the rural poverty impact will require to undertake a household survey, complemented with a market assessment survey quantifying READP induced impact in the various sub-sectors and the wider market system. The final evaluation should identify follow-up activities and generate actionable lessons learnt for IFAD and government counterparts.

242. The Impact of READP will be reported in the project completion reports (PCR). PCUs will determine in consultation with IFAD the project's most appropriate impact assessment need, drawing on combined quantitative, qualitative or mixed method approach that credibly and reliably measure the project performance to satisfy the five standard impact evaluation criteria defined in the PCR, including impact and sustainability of results, contribution to capacity development and the achievement of global environmental goals.

243. **M&E indicators.** In the project logical framework are identified the set of indicators which are revised and extended during start-up workshop and systematically monitored and collected during project lifetime. Data collection and reporting of some data will be transfer to project service providers, because their activities are integral part of entire project implementation activities. The selected M&E indicators for monitoring project progress by PCU and APCU should be harmonized due to the need to report on the progress of the entire project at the borrower (B&H) level on the in a unique way.

#### **D. M&E planning and reporting**

244. **M&E plan.** The M&E the plan should follow the annual work plan, the financial allocation (budget) and the procurement plan. What will be done in the next year should be timely and adequately addressed with responsive data collection that serve as evidence that these activities have been made and as a basis for assessing their performance. Already with the preparation of the annual work plan, the planning of the methods and dynamics of monitoring its realization begins.

245. How much the M&E plan lags behind the work plan (first it needs to decide what will be done, and then how will it be monitored), so much M&E report goes ahead of the annual progress report, as there is no data on how something was done (what impact it had) the annual progress report is limited to the list of realized inputs and outputs.

246. **M&E reports.** The wrong approach is to equalize project M&E report(s) and project progress report because they need and must be separate documents. The M&E system produces different type of data, focused on some issues, at different times, which do not necessarily coincide with the regular reporting periods about project progress. Therefore, M&E reports do not provide all the information necessary for writing the progress reports, which the project manager compile in collaboration with all other team members, but M&E report provide valuable information for a deeper project impact assessment summarized in (semi)annual progress reports.

247. **Start-up workshop.** The start-up workshop is important for finalization some project implementation arrangement, and consequently, the elaboration and finalization of indicators through which the progress of the project will be monitored. At project start-up, the M&E officer will be supported to identify additional reporting requirement providing relevant information for cluster wide steering, trends in business units performance along geographical clusters/sub-sector and joint assessment performance of service providers and field coordinator for stronger accountability.

248. **Baseline study.** Both project units will undertake baseline surveys as a way to establish baseline data and project targets. The baseline study will be conducted in a selected samples of geographical clusters across representative sub-sectors comprising READP's direct and indirect individual and institutional beneficiaries.

249. **Management information system (MIS).** The M&E system important subsystem of whole project MIS system, mentioned earlier. The MIS will be designed largely based on M&E system



requirements. Associated database will contain all relevant data (project inputs, outputs and outcomes) collected within the PCUs and by project stakeholders and consolidated by the PCU/APCU. The system will have to provide gender and age disaggregated data on all key indicators. This overall responsibility to maintain and continuously update the MIS will be the respective M&E officers with mandatory assistance of all project team members and project implementation partners.

250. **Mid-term review.** The mid-term review will be carried at mid-year of the project's third year. The review would cover, among other things: (1) physical and financial progress as measured against AWPBs; (2) performance and financial management of contracted implementing partners; (3) an assessment of the efficacy of technical assistance and capacity building activities; (4) and strategic recommendations to ensure achievement of the development objectives.

251. **Project completion review.** The project completion review team will undertake a final evaluation of the project within the last six months before the project completion date. A completion rural households survey shall be done prior to the PCR mission. The assessment of project achievements would be in line with IFAD's project completion guidelines and the IOE Evaluation Manual. 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).

## **E. Knowledge Management**

252. **Knowledge management process.** A knowledge-sharing and learning culture will be promoted at all level, from the A/PCU to the business units, through the clusters and other subsector stakeholders. KM processes within READP would be to ensure that knowledge generated is systematically identified, analysed, documented, used to improve programme performance; communicated to policy makers to inform government's policy making process; and shared with key stakeholders. All activities related to KM should also be aligned with IFAD's Knowledge Management Strategy.

253. **Scaling up.** READ focus on increasing competitiveness, strengthening farmers organization and generating youth employment is aligned with national development priorities. Success with any of these elements would have a significant potential for scaling up, as significant EU resources will be made available to the rural sector.

254. **Lessons learned.** Knowledge management and communication responsibilities will be shared among all project staff, with the overall responsibility to prove and improve impact through effective KM process belonging to the project manager and the M&E officer. Service providers will have a key responsibility for sharing lessons learnt during the project through preparation of special case studies and learning notes. Provision would be made in the budget for preparation of case studies of success and failure and for technical and learning notes on key aspects of the programme.

### **Draft Outline of TOR for Service Providers for READP Business Plan Development (A/PCUs)**

**Background.** The main component of the IFAD funded READP project is a technical component titled **Enhancement of economic opportunities and smallholders integration in value chains**. This Component 1 comprises of three sub-components: (1) Business plan development and implementation; (2) Farmer development support and (3) Enabling infrastructure support. The project will be implemented in close partnership with business leader (farmer organisations and private agribusiness enterprises); business plans will be the key mechanism for the participation of target group households in the project. Further relevant partners in the business plan implementation process are project area municipalities, providers of technical and business services, financial institutions and relevant private sector market intermediaries.

Entry point and mechanism for Component 1 is through the promotion of public-private-producer partnerships (4P) outlined in business plans (BPs) between business leaders and target group smallholder farmers. The project will engage service providers to support the business plan development process (sub-component 1 and 2 of the project).

**Modalities.** Service providers will play a key role in implementation and will be selected through a competitive process. Two modalities of service providers can be selected, according to the specific services required: (1) single private or public service provider (consulting companies, regional development agencies, NGOs, universities); or (2) a consortia of service providers, the latter being needed because the broad range of training and advisory needs (organizational development, technical and business-related aspects), or a wide geographical coverage may require different service providers.

In FBiH, the PCU will hire a service provider (company) competitively to support the business plan development and implementation process. Depending on performance, the company will be retained for assisting the implementation of the other sub-component on FO seed capital financing. The PCU will also contract 5 field officers as cluster coordinators, one for each selected cluster, to ensure field presence of the PCU and assist quality implementation process.

In the RS, the APCU will also contract a service provider competitively for implementation of the relevant sub-components. Field coordination in the RS will be undertaken by the 7 regional extension officers located in the 5 project clusters in RS. The TORs for service providers in RS will include training and capacity building of the extension agency to support the implementation of the business plans.

After contracting, the A/PCUs will orient the service providers to the project objectives, target group, approach and implementation methodologies. The coordination units will mandatorily include the cluster coordinators and the extension officers in these orientation activities. The orientation process will be handled through (1) detailed information sessions and workshops for discussion between the service provider/extension agency, the project staff and the business development service (BDS) providers developed through RCDP and (2) field visits to farmers' organisations and municipalities.

### **Scope of Work**

The Service Provider will be responsible for supporting the A/PCUs in the process of Business proposal selection, Business plan development and implementation in the frame of the READP Project. The service provider will closely liaise with A/PCUs READP team, in particular with the Project Manager, READP Business Development Officer as well as with A/PCU M&E Officer.

The service providers in close coordination with A/PCUs READP team, cluster officers and extension service will be responsible for:

- i. Implementing a targeting survey;
- ii. Conducting sensitisation and consultation workshops prior to launching the business planning initiative;
- iii. Providing technical guidance to the business leaders during the detailed business plan development process;
- iv. Ensuring the quality of the final business plans;
- v. Facilitating negotiations the implementation agreements between different BP implementation partners,
- vi. Assisting in BP implementation process including training and advisory services;
- vii. Assist and support the M&E data collection in READP.

**The tasks in detail:**

- **The targeting survey** implemented by the service providers, will assist in identifying the target groups present in the clusters. The main tasks for the SP under this activity are:
  - Elaboration of the methodology for the targeting survey such as questionnaires and checklists for guiding focus group and stakeholder discussions.
  - Implementation of the survey together with the extension agency in coordination with the cluster level field coordinators in FBiH and the extension officers in RS. The targeting study will be implemented in close partner.
  - Ship with project area municipalities. Key sources in the targeting process are local authorities at municipal level such as extension workers, social service centres, employment bureau, heads of the local communities.
- **Business proposal appraisal and development process.** The main tasks for the SP under this activity are:
  - Organisation of cluster level stakeholder awareness and sensitisation workshops, at least 5 in each entity. These workshops will be co-facilitated by the cluster coordinators and the extension officers in FBiH and RS respectively.
  - To assist full understanding of the BP concepts, the project will distribute informative literature, organise resource person discussions and audiovisual sessions during the workshops. The collection of relevant informative literature (e.g. production manuals, market studies, export information etc) will be in the responsibility of the service providers; if required the A/PCUs will initiate compilation and printing of additional information.
- **Call for BP proposals.** The PCUs will launch a call for proposals (expression of interest) inviting business ideas from interested business leaders. The call for proposal will be announced through newspapers and the internet. The main tasks for the SP under this activity are:
  - Follow up with cluster level business leaders and help assist them to submit their proposals to the A/PCUs.
- **Business proposal appraisal and BP development.** The A/PCUs expect some 150 business plans to be approved over 4-5 years of project implementation. With these 150 BPs it is expected to reach out to some 7,500 target group households including youth. The main tasks for the SP under this activity are:
  - Support development of criteria and scoring method for ranking the proposals.
  - Validation visits of the selected BPs in coordination with cluster coordinators and extension officers with oversight from the A/PCUs.

- After selection of BPs, technical assistance to the business leaders to develop the selected proposals into detailed business plans. The process will involve consultations, site visits and stakeholder workshops involving the business leaders, target households, farmers' organisations and municipalities. The business plans will be developed over a period of 3-6 months.
- Monthly business plan preparation progress review meetings with A/PCUs, and the extension agency. The service provider will be responsible for follow-up and implementation measures.
- Development of templates for MoU agreements in coordination with the A/PCUs to prepare implementation of the business plans
- Facilitation of agreements/MoUs between the different implementation partners identified in the business plans (municipalities, farmers' organisations, financial institutions and the project).
- Responsible for organising meetings, facilitating negotiations and ensuring written agreements between the partners.
- Provision of support to **FO in applying for seed capital financing**: Up to 40 FOs will be supported in seed capital financing based on BPs in line with the overall BP eligibility criteria. The main tasks under this activity are:
  - The selected business proposals will be developed into detailed business plans with technical assistance support delivered through service providers
  - The service providers will assure that the business plans are focused on increasing the outreach and income of the target households.
- **Market development activities.** The main tasks for the SP under this activity are:
  - Guidance of business partners in the process of introducing international quality standards and certifications.
  - Linkages to relevant certification bodies where required.
  - Preparation and implementation of participation in local, regional and international trade fairs (e.g. Biofach, Fruit Logistica, ANUGA) in close coordination with A/PCUs.
  - Preparation and implementation of local and international study tours in coordination, guidance and oversight from the A/PCUs.
- **Farmers' training, advisory and capacity building services.** The main tasks for the SP under this activity are:
  - Drafting the annual work plan including an annual training plan. The training plan will be reviewed and finalised by the A/PCUs.
  - The service provider and the extension agency along with the cluster coordinators and the extension officers will also be responsible of delivering the trainings. Where relevant additional technical specialists will be hired to support training and advice in specific areas.
  - The service provider will be responsible of the provision of the advisory services. A semi-annual work plan for the implementation of the advisory services will be prepared and approved by A/PCUs
  - Costs for training and advisory services will be included in the tendered packages of the service provider.
- **Institutional development training and advisory support.** In the context FO seed capital financing the selected FOs will be supported with training and advisory services. The main tasks for the SP under this activity are:
  - Developing a training calendar.

- Organising the institutional development training and advisory activities and for implementing these according to schedule.
- Preparation and organisation of exchange and learning visits, within the country and in Europe in close coordination with A/PCUs.
- **Delivery of starter packages.** The main tasks for the SP under this activity are:
  - Organisation and implementation of cluster level implementation planning workshops for the partners to re-affirm their commitments for financing the starter packages and to discuss implementation arrangements.
    - Facilitate the negotiation process between the partners in the workshop and secure written co-financing and other implementation related commitments by the end of the workshop.
  - Assistance to the business leaders to secure contracts with the target households and to compile the list producers eligible for READP starter package financing.
  - Assistance in delivery and verification of the delivery of the starter package inputs to the target groups and preparation of reports based on which the project will disburse the starter package contribution.
  - Organisation of regular cluster level business plan implementation, review and planning workshops.
- **Monitoring of READP implementation.** The main tasks for the SP under this activity are:
  - Assistance to the A/PCUs M&E Officer in data collection and coordinating the involvement of BP agribusiness partners in data provision,
  - Preparation of Knowledge-sharing products (guidelines, manuals, case studies, lessons learnt) to document the results of the component 1.
- **Reporting.** The main tasks for the SP under this activity are:
  - Contribution to the AWPB.
  - Preparation of reports according to the reporting schemes and cycles of the A/PCUs (still to be defined).

#### **Required Skills and Experience**

- Profound knowledge of business plan development;
- Profound knowledge of targeting, gender and youth issues;
- Experiences in implementing targeting studies;
- Experiences in rural area development projects, stakeholder facilitation and coordination, procurement, technical and financial reporting and donor interaction;
- Experience in fruit & vegetable, MAPs/NTFP, dairy and honey sub-sectors;
- Significant in-house expertise in the above mentioned areas are required;
- Proven organization knowledge;
- Fluent spoken and written English.

Draft outline of  
**Business Proposal content**

Business proposal should contain:

- 1) Background details and rationale;
- 2) Description of the business model/concept;
- 3) The selected produce(s)/value chain;
- 4) Raw material supply, production/processing and marketing approach;
- 5) Mechanisms for benefitting and potential outreach to target households (including youth);
- 6) Implementation arrangements;
- 7) Estimation of investments required (technology gaps, capacity building, infrastructure) and expected returns and
- 8) Measures to address environmental and climate change concerns.

The produce selected will be demand driven based on consultations between the agribusinesses/ business leaders, target households and other stakeholders and would not necessarily be limited to one item or commodity.

### Annex 3

#### **Eligibility criteria for business proposal applicants**

##### **Enterprises (business leaders):**

- 1) they are registered in the territory of BiH in accordance with BiH/entity regulations (proof - decision from the court register);
- 2) they exist at least two years (proof - decision from the court register);
- 3) they have a positive financial report of their business for the last two years (proof - income statement);
- 4) they are specialized in agriculture, processing of agricultural products, supplying agriculture with equipment or raw-materials or for delivery agribusinesses related services (proof - decision from the court register);
- 5) they already have proven experience or formal commitment in establishing business linkages with small producers (proof – list of implemented projects with a short description);
- 6) they already select or demonstrate willingness to select crop/produce suitable for production by target households and involving engagement of mainly women and youth as wage labour in the production cycle (proof – list of potential beneficiaries with whom they will cooperate).

Fulfilling the first four conditions (criteria) is obligatory for submitting a business proposal, and meeting other is preferably.

##### **Cooperatives and other FOs (business leaders):**

- 1) they are registered in the territory of BiH in accordance with BiH/entity regulations (proof - decision from the court register);
- 2) they exist at least two years (proof - decision from the court register);
- 3) they have a positive financial report of their business for the last two years (proof - income statement);
- 4) they have at least 25 members, which includes at least 20 members from the READP target group households with income less than KM 817 per month, in majority from the underdeveloped municipalities (proof – list of cooperants registered in cooperants' book or list of PA members, certified by director/president signature and stamp);
- 5) they demonstrate intention to further increase membership particularly from the READP target group (proof – progress report for previous and business plan of cooperative/PA for the next year);
- 6) they have a outreach to a wide base of co-operant and rural poor (proof – list of cooperants with a short description of their link with a cooperative).

Fulfilling the first three conditions (criteria) is obligatory for submitting a business proposal, and meeting other is preferably.

## Annex 4

### Business proposals selection criteria

In process of selection business proposals Business Plan Evaluation Committee (BPEC) will follow the following criteria and assign total number of points to each proposal based on the following weight of a particular criteria.

	Selection criteria	Wight (points)
1.	The reality of the whole concept	
2.	General compatibility of proposal with the project objectives	
3.	Presence of value chain approach	
4.	Pro-poor orientation of business proposal (outreach to target groups)	
5.	Scope of the partnerships	
6.	Market prospect (national/export market coverage)	
7.	Reality of financial projections	
8.	Environmental and climate change sensitivity	
9.	Project management capacities	
10.	Experience in implementation similar projects	
11.	Readiness and capacity to provide pre-financing	
	Total (max. 100 points)	

The final score of each proposal is the arithmetic mean of the number of points assigned to each proposal by each member of the BPEC.



Annex 5  
Suggested template of  
**Business Plan**

The business plan will content following chapters/subchapters:

- 1. Introduction**
- 2. Cluster description**
  - 1.1. Geographical coverage
  - 1.2. Cluster composition
- 3. Value chain identifiacion**
  - 3.1. The main product – focus of value chain
  - 3.2. Forward and backward linkages
- 4. Business proposal description**
  - 4.1. Description of business idea
  - 4.2. Contribution to strategic and specific project objectives
- 5. Beneficiaries' target groups inclusuion**
  - 5.1. Inclusion of the poor
  - 5.2. Inclusion of women
  - 5.3. Inclusion of youth
  - 5.4. Five year targets
- 6. Market analysis**
  - 6.1. Analysis of sale market (domestic and foreign)
  - 6.2. Analysis of supply market
- 7. Analysis of technical and technological feasibility**
  - 7.1. Infrastructure requirements
  - 7.2. Technical preconditions
  - 7.3. Applied tecnological solutions
- 8. Financial evaluation**
  - 8.1. Necessary investments
  - 8.2. Sourcies of financing – financial flow
  - 8.3. Revenues and costs
  - 8.4. Cash flow
  - 8.5. Evaluation of financial feaisibility
- 9. Environmental and climate change imapct analysis**
  - 9.1. Direct impact on environment and climate change
  - 9.2. Indirect impact on environment and climate change
  - 9.3. Good agricultural practices presence
  - 9.4. Mitigation measures
- 10. Social impact analysis**
  - 10.1. Contribution to socila development
- 11. Timeline of implementation**
- 12. Management structure and partnership requirements**
- 13. Monitoring and evaluation plan**
- 14. Analysis of sensyitivity**
  - 14.1. Sensitivity to change in inputs parameters
  - 14.2. Sensitivity to change in outputs parameters
- 15. Summery**

### Business plan evaluation criteria

In process of evaluation business plans the Business Plan Evaluation Committee (BPEC) will follow the criteria same as used for selection business proposals and will assign total number of points to business plan following weight allocated a particular criteria.

	Selection criteria	Wight (points)
1.	The reality of the whole concept	
2.	General compatibility of proposal with the project objectives	
3.	Presence of value chain approach	
4.	Pro-poor orientation of business proposal (outreach to target groups)	
5.	Scope of the partnerships	
6.	Market prospect (national/export market coverage)	
7.	Reality of financial projections	
8.	Environmental and climate change sensitivity	
9.	Project management capacities	
10.	Experience in implementation similar projects	
11.	Readiness and capacity to provide pre-financing	
	Total (max. 100)	

### Eligibility criteria for starter packages beneficiaries

The rural households eligible to be starter package beneficiary have to fulfilled following criteria:

- 1) they have 0.1-0.5 ha (1-5 dunums) land available for cultivation (either through direct ownership or rented/leased);<sup>100</sup>
- 2) they have monthly household income less than 817 KM;
- 3) they are unemployed rural youth (below 30 years) and
- 4) they are poor women headed households in rural areas.

Only one member per household will be eligible for direct project support in the areas of standard starter package, youth starter package and youth apprentice support.

### Check list for selection starter packages beneficiaries

	Criteria	Answer
1.	Own agriculture land (dunums)	
	Less than 5 dunums	YES of NO
2.1	Yearly gross income (in BAM)	
2.2	Monthly gross income (in BAM)	
2.3	Number of family members	
2.4	Monthly income per family member (BAM)	
	2.2 less than 817 BAM	YES of NO
3.	Age of unemployed youth (years)	
	Less than 30	YES of NO
4.	Women headed household	YES of NO
	Number of YES answers (from 1 to 4)	

<sup>100</sup> Some exceptions have to be made with regard to the land criteria.

### **Eligibility criteria for certification support**

Eligible for financial support for certification are companies and cooperatives that:

- 1) have clear assessment that certification will be an advantage for their production and marketing;
- 2) have signed contract between the business leader and a certification company on standards' implementation
- 3) have higher partnering outreach to target households.

**Eligibility criteria for youth apprentice support**

For apprentice financial support from the project are eligible:

- 1) youth under 30 years;
- 2) without previous working experience records;
- 3) registered on employment bureau as unemployed.

### **Eligibility criteria for seed capital financing to FOs**

In order to be eligible for seed capital financing the FOs (cooperatives or producers' associations) can satisfy following eligibility criteria:

- 1) they are registered in the territory of BiH in accordance with BiH/entity regulations (proof - decision from the court register);
- 2) have at least 25 members, which includes at least 15 members from the READP target group (proof – list of cooperants registered in cooperants' book or list of PA members, certified by director/president signature and stamp);
- 3) demonstrate intention to further increase membership particularly from the READP target group (proof – progress report for previous and business plan of cooperative/PA for the next year);
- 4) perform regularly cooperative audit (for cooperatives only) or organize yearly meetings of association assembly (proof – the latest cooperative audit report or minutes form assembly meeting).

**Draft outline of the process for identifying and implementing infrastructure investments**

Phase	Steps		Responsibility
PREPARATION, SELECTION AND PRIORITISATION	<b>(1) Stakeholder sensitisation about infrastructure investments</b>		
	1	<ul style="list-style-type: none"> <li>Conduct orientation workshops, prior to the call for business proposals, to present project objectives, selection criteria, ownership, management arrangements and project support available to the stakeholders. Clearly communicate the requirement for infrastructure investments to focus on BP needs, benefit to target households and to be environmentally sound and climate resilient.</li> <li>Clearly communicate the need for BPs clearly present (i) the enabling infrastructure requirements in the geographical locations with higher concentration of target households including potential increase in outreach to target households from these investments (ii) the impact of these infrastructure on the profitability of the agribusinesses.</li> <li>The A/PCU and the SPs will advise stakeholders to incorporate into the business plans the relevant environmental and climate proofing measures. The mitigation and adaptation measures will be promoted at two levels: (i) at the producer level it will involve the identification of infrastructure types such as irrigation structure, shade nets, hail protection equipment that increase adaptation to climate change. (ii) At the municipal level it will involve measures that safeguard the infrastructure from natural hazards through designs that take into account the climate risks as well as measures that reduce the adverse environmental impact of these investments by supporting energy and water efficiencies and</li> </ul>	A/PCU/SP in full coordination with the municipality
	<b>(2) Identification of eligible proposals</b>		
	2	<ul style="list-style-type: none"> <li>Coordinate the identification of eligible infrastructure investments. Identification should be undertaken in a participatory and demand-driven manner to ensure the investments improve the market access of smallholders and off-farm entrepreneurs through upgraded infrastructure that benefits the rural poor smallholder farmers, women and youth, and strengthen the value chain.</li> </ul>	A/PCU or SP led, involving other stakeholders
	3	<ul style="list-style-type: none"> <li>Agribusinesses will, in coordination with municipalities, submit infrastructure proposal based on the enabling infrastructure development needs to successfully implement their business plans that are aligned with READP development objectives.</li> </ul>	Agribusinesses/PAs
	<b>(3) Selection and prioritization of infrastructure investments</b>		
	4	<ul style="list-style-type: none"> <li>The infrastructure selection process shall involve (i) long-listing all potential infrastructure items (ii) shortlisting the more important infrastructure items (iii) final selection based on feasibility study of the shortlisted infrastructure items.</li> <li>The long list will be prepared from the presentation in the BPs and from municipality recommendations.</li> </ul>	A/PCU or SP led, involving other stakeholders

	5	<ul style="list-style-type: none"> <li>Screening and shortlisting will be based on information already available in the BPs and actual discussions about them between the SP/infrastructure engineer and the relevant stakeholders. Screening criteria will include (i) contribution to increasing the outreach of the BP to the target households (ii) contribution to the profitability of the target households (iii) performance of the agribusiness in the implementation of the BP (iv) link between infrastructure and value chain development for municipality identified proposals. Clearly non-eligible activities (such as street lights etc) shall be immediately excluded from further consideration and such activities include: <ul style="list-style-type: none"> <li>Retrospective financing of activities already undertaken;</li> <li>Infrastructure projects that do not meet READP objectives, such as town street lights;</li> <li>Infrastructure activities that do not comply with READP environmental and social safeguard policies as described in READP Environmental and Social Management Framework (ESMF).</li> </ul> </li> <li>Representatives from the municipality, private sector and the project shall examine if submitted, high quality, proposals can be linked to the ones submitted by other agribusinesses or if new business ideas and BPs can be developed as a result of these infrastructure investments.</li> </ul>	A/PCU or SP led, involving other stakeholders
	6	<ul style="list-style-type: none"> <li>A/PCU or SP will be responsible for preparing feasibility studies, which shall provide sufficient quantitative and qualitative information for final evaluation and selection of the shortlisted infrastructure items, based on factors outlined in <a href="#">annex 12</a>. The feasibility study shall consider environmental issues and climate-related risks.</li> </ul>	A/PCU or SP
	7	<ul style="list-style-type: none"> <li>Final infrastructure evaluation will be based on criteria outlined in <a href="#">annex12</a>, utilising feasibility studies as the basis for the evaluation. The selected infrastructure will be ranked based on this assessment and finalised for design and implementation according to the priority.</li> </ul>	A/PCU or SP led, involving other stakeholders
	8	<ul style="list-style-type: none"> <li>Evaluated proposals that score above 50 are considered eligible activities and form a "pre-final list" of proposals, which is then submitted to IFAD for no objection.</li> </ul>	A/PCU
	9	<ul style="list-style-type: none"> <li>Following no objection, the municipality/the originator of the infrastructure proposal is informed of no-objection. The municipality may then proceed with additional prioritizing from eligible activities, if required, or proceed with final design.</li> </ul>	Municipality/originator
DESIGN & FORMALISATION OF PROJECT	<b>(4) Design, procurement and implementation</b>		
	10	<b>Design</b> <ul style="list-style-type: none"> <li>Municipality, with input from the private sector, as relevant, are responsible for developing the designs for the selected infrastructure. The final design shall include the full project/engineering design with relevant permits.</li> </ul>	Municipality or the private sector
	11	<ul style="list-style-type: none"> <li>The SP /infrastructure engineer will review the proposal for engineering soundness for the target site.</li> <li>The SP /infrastructure engineer will incorporate relevant environmental and climate proofing measures (if not incorporated already in the design) to safeguard the infrastructure from natural hazards (such as flooding and landslides) through designs that take into account the climate risks (see section II.B. Environmental and Social Management Framework of the PIM for details). The aim of the measures is to avoid damages to property and</li> </ul>	SP / infrastructure engineer



		forgone economic activity as a result of damages (e.g. failed bridges, damaged buildings), effects on health and human life, and impacts on environmental services (e.g. erosion, loss of natural capacity to protect from future climate change). In addition READP will promote measures that reduce the adverse environmental impact of these investments by supporting energy and water efficiencies.	
CONSTRUCTION & COMMISSIONING	12	<b>Procurement</b> <ul style="list-style-type: none"> <li>The SP / infrastructure engineer will assist with technical specification of works, preparation of tender documents and tendering for implementation of the works.</li> <li>The SP / infrastructure engineer will coordinate the evaluation of submitted proposals.</li> <li>The SP / infrastructure engineer will prepare a contract for execution of works with the selected bidder.</li> </ul>	SP / infrastructure engineer
	13	<ul style="list-style-type: none"> <li>Selected contractor is responsible for construction as per contract.</li> </ul>	Contractor
	14	<b>Implementation</b> <ul style="list-style-type: none"> <li>The municipality along with the SP and the infrastructure engineer will be responsible for monitoring the implementation process.</li> <li>The supervisory board established by the municipality will be responsible for overall project implementation on a daily basis.</li> <li>On a regular basis (approx 2-4 times during construction), and prior payment to the contractor, a committee comprising of SP / infrastructure engineer, supervisory board and contractor, will review completed works for quality and completeness.</li> </ul>	SP / infrastructure engineer and municipality
	15	<b>Final acceptance of works and issuance of use permit</b> <ul style="list-style-type: none"> <li>Final acceptance of works will be conducted by the supervisory board, contractor, municipality officer, A/PCU / SP / infrastructure engineer</li> <li>Municipality will name a committee, comprising of relevant engineers, for technical acceptance of works prior to permitting use/issuing a use permit</li> </ul>	All
<b>(5) Monitoring, supervision and training</b>			
OPERATION AND MAINTENANCE	16	<ul style="list-style-type: none"> <li>Following the technical acceptance of the works the SP and the infrastructure engineer will facilitate the development of management agreements between different actors for operating the infrastructure. Such agreements will be based on best practices and experiences in Bosnia and elsewhere (see <a href="#">annex 13</a>).</li> <li>The SP and the infrastructure engineer will conduct periodic monitoring and follow-up visits to the infrastructure sites to assess the quality of implementation and the generation of benefits according to the projections in the BPs and feasibility studies.</li> <li>SP will provide technical assistance to overcome any issues and bottlenecks observed during the follow up visits, and train the actors engaged for the management of the infrastructure where relevant. In particular, it is expected that READP will provide tailored training to WUAs on organizational aspects of managing WUAs as well as technical aspects of operating irrigation systems to ensure optimum water use, optimum yields and minimum adverse impact on the environment.</li> </ul>	A/PCU, SP, municipality

**Draft READP Evaluation table for enabling infrastructure proposals**

	Referee Points	Score
<b>Number of individuals assisted per EUR 1,000 of investment</b>		
Less than 1	0	
Between 1 and 5 people	5	
Between 5 and 10 people	10	
More than 10 people	15	
<b>Contribution by applicants</b>		
20% of investment cost or less	5	
20-30% of investment cost	10	
More than 30% of investment cost	15	
<b>Operation and maintenance capacity and experience</b>		
Poor	0	
Good	5	
Very good	10	
<b>Expected Increase in the value and volume of products sold by beneficiaries using better infrastructure</b>		
0-14% improvement	0	
15-24% improvements	5	
25% or higher improvement	10	
<b>Link between infrastructure and value chain development (i.e. business plans submitted by enterprises and farmer organisations)</b>		
Weak	0	
Strong	5	
Very strong	10	
<b>Technical and financial viability of the project</b>		
Poor	0	
Good	5	
Very good	10	
<b>Expected engagement of women and youth</b>		
Less than 10%	0	
10 to 29%	5	
30% and over	10	
<b>Consistency with nationally applicable regulations on environmental impact and IFAD environmental and social safeguard policies, including climate resilience</b>		
Poor	0	
Good	5	
Very good	10	
<b>The extent poor farmers benefit from the infrastructure</b>		
Low	0	
Medium	5	
High	10	
TOTAL (max 100)		

### Infrastructure ownership and management

READP will support two categories of infrastructure activities:

1. Publically owned and managed infrastructure such as public water supply, which benefits multiple farmers in a defined area, or the establishment and rehabilitation of feeder roads, culverts and small bridges which connect business leaders and target households.

These facilities will be publically owned and publically managed.

2. Publically owned infrastructure, such as irrigation structure, cooling and packing facilities, which is co-managed in partnership between the municipalities, FOs and private sector, as shown below.

Types of infrastructure	Examples of Public-Private Partnerships – ownership and management of infrastructure
<b>Irrigation infrastructure</b>	<p>The municipality will establish a mechanism for the collection of fees for irrigation water use, which will be used to cover maintenance and repair costs of irrigation systems. The municipality, in consultation with the project and POs, will determine which entity will be responsible for the management or irrigation systems, including the collection of water use fees. A Water User Association (WUA) may be formed for this purpose or an existing will be used in case of READP activities that build on the existing the World bank Irrigation Development Project, which has introduced participatory approach to water management and created WUAs. The fees collected will be paid into a municipality bank account established solely for the purpose of accruing funds collected from irrigation water users and will be paid to the municipal utility company, which will be responsible for the maintenance and repairs of irrigation systems.</p> <p>Determination of water use fee (cost per m<sup>3</sup>) should equate the price of water consumed for irrigation in agriculture with the marginal cost of making it available for use. The marginal cost of an additional unit includes delivery costs (in BiH, the main cost is electricity cost for pumping the water from the water source to the reservoir), costs of building, maintaining and operating the infrastructure to make the unit available (this includes the labour cost at the Water User Association, which is responsible for managing the irrigation system i.e. recording water use per farmer).</p>
<b>Cold storage facilities or other storage and packing facilities</b>	<p>Municipality could provide fixed assets such a land and, potentially a building, IFAD funding could be used to purchase a cooling chamber, while the private sector could provide ancillary equipment (sorting equipment, packing line etc). In his case, the facility is co-owned by the municipality (i.e. fixed assets) and the private sector (movable assets) with management of the facility given from the municipality to the private sector under a lease arrangements over a set period of time.</p>
<b>Rural market</b>	<p>In instances where multiple private businesses have indicated in their business plans an interest in establishing a rural market in this case, the municipality may establish partnerships will all interested private businesses. Similarly to the above example, the municipality and IFAD funding can be used to finance fixed assets, while the private sector may fund movable assets. Management of the facility may be transferred in part to the private sector while the ownership will remain public.</p>

### **Criteria for short listing infrastructure investments proposals**

The criteria on which will be evaluated and selected proposal for co-financing infrastructure investments are:

- 1) their contribution to increasing the outreach of the BP to the target households;
- 2) their contribution to the profitability of the target households;
- 3) their contribution to performances of the business leaders in the implementation of the BP and
- 4) link between infrastructure and value chain development for municipality identified proposals.

**Criteria for final selection short listed infrastructure proposals**

Pre-selected (short listed) project proposals of the market infrastructure will be finally selected using following selection criteria:

- 1) number of individuals assisted per EUR 1,000 of investment;
- 2) share of co-financing by other stakeholders;
- 3) expected increase in the value and volume of products sold by target households using better infrastructure and
- 4) technical and financial viability of the project.

## Environmental Self-Screening Form for Applicants

### ENVIRONMENTAL, SOCIAL CLIMATE ISSUES

	Explanation
<b>What is the expected impact of the proposed activity on the environment?</b>	
Water quantity and quality	
Air quality	
Noise pollution	
Natural habitat	
Social-cultural impacts	
Human health and safety	
<b>Have this or nearby locations been recently affected by floods or landslides?</b>	

### PERMITS AND INSPECTION

Do you have the following permits for your activities/facilities?	Answer	Explanation
A valid Environmental permit	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Planning permission	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Construction permit	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Use permit	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Has your production facility been inspected regarding environmental and worker safety issues?	<input type="checkbox"/> Yes <input type="checkbox"/> No	

### CERTIFICATIONS

Do you have any of the following certifications?	Answer	Explanation
Global GAP	<input type="checkbox"/> Yes <input type="checkbox"/> No	
Organic	<input type="checkbox"/> Yes <input type="checkbox"/> No	
HACCP	<input type="checkbox"/> Yes <input type="checkbox"/> No	

### ADDITIONAL INFORMATION

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### Environmental and Social Management Framework (ESMF) Checklist

<b>ESMF Checklist for READP Activities Related to Business Plan Implementation (including infrastructure) and FO seed capital financing</b>
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General Guidelines for use of ESMF checklist:

The checklist-type format has been developed to provide “example good practices” and designed to be user friendly and compatible with safeguard requirements.

The Environmental and Social Management Framework (ESMF) checklist-type format attempts to cover typical core mitigation approaches for activities related to business plan (BP) implementation, which may involve procurement of equipment and construction activities. This format provides the key elements of an Environmental and Social Management Framework (ESMF)<sup>101</sup>. The checklist provides guidelines for the small works contractors and should be utilized by A/PCU infrastructure engineer or SP when evaluating BP proposals and influence the design of bidding documents, which contractors need to respond to during the tendering process and implementation.

The checklist has three sections:

- Part 1 includes a descriptive part that characterizes the project and specifies in terms the institutional and legislative aspects, the technical project content, the potential need for capacity building program and description of the public consultation process. This section could be up to two pages long. Attachments for additional information can be supplemented when needed.
- Part 2 includes an environmental and social screening checklist, where activities and potential environmental issues can be checked in a simple Yes/No format. If any given activity/issue is triggered by checking “yes”, a reference is made to the appropriate section in the following table - the Environmental Mitigation and Monitoring Plan (EMMP) - which contains clearly formulated management/mitigation and monitoring measures.
- Part 3 is the Environmental Mitigation and Monitoring Plan (EMMP), which is generic but adapted to the context of READP in Bosnia and Herzegovina. A/PCU infrastructure engineer or SP shall review and update the EMMPs for specific site conditions of the proposed BP to ensure suitability, adequacy, and comprehensive inclusion of necessary environmental, social and climate-resilience safeguards. Following this, the A/PCU infrastructure engineer or SP shall proceed as follows:
1. For any planned construction activities, it is A/PCU / SP's responsibility to review measures identified under B1 and B2 and take appropriate action, as identified therein.
  2. If step 1 is passed, the relevant EMMPs shall be included into the tender documents for contractors, priced during the bidding process, diligently implemented, and supervised during works execution.
  3. The implementation of measures identified for operation and use of construction infrastructure shall be the responsibility of the operator, which is identified in an agreement between the A/PCU and relevant stakeholder(s) (namely municipality and relevant agricultural organization).

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<sup>101</sup> This framework is closely aligned with World Bank Environmental Assessment requirements.



## **Contents**

- 1. General Project and Site Information**
- 2. Safeguards Information**
- 3. Environmental Mitigation and Monitoring Plan**

## PART 1: GENERAL PROJECT AND SITE INFORMATION

<b>INSTITUTIONAL &amp; ADMINISTRATIVE</b>			
Country			
Project title			
Scope of project and activity			
Institutional arrangements (Name and contacts)	IFAD (Country Project Manager)	A/PCU	Business Plan originator
Implementation arrangements (Name and contacts)	Safeguard Supervision	Municipality	Contractor
<b>SITE DESCRIPTION</b>			
Name of site			
Describe site location	Attachment 1: Site Map [ ]Y [ ]N		
Who owns the land?			
Description of geographic, physical, biological, geological, hydrographic and socio-economic context			
Locations and distance for material sourcing, especially aggregates, water, stones?			
<b>LEGISLATION</b>			
Identify national & local legislation & permits that apply to project activity			
<b>PUBLIC CONSULTATION</b>			
Identify when / where the public consultation process took place			
<b>INSTITUTIONAL CAPACITY BUILDING</b>			
Will there be any capacity building?	[ ] N or [ ]Y if Yes, Attachment 2 includes the capacity building program		

## PART 2: SAFEGUARDS INFORMATION

ENVIRONMENTAL /SOCIAL / CLIMATE SCREENING			
Will the site activity include/involve any of the following?	Activity	Status	Triggered Actions
	A. Procurement of equipment	<input type="checkbox"/> Yes <input type="checkbox"/> No	See Section <b>A</b> below
	B. Construction activities	<input type="checkbox"/> Yes <input type="checkbox"/> No	See Section <b>B</b> below
	C. Cold storage, storage and packing facilities	<input type="checkbox"/> Yes <input type="checkbox"/> No	See Section <b>C</b> below
	D. Construction and use of irrigation systems	<input type="checkbox"/> Yes <input type="checkbox"/> No	See Section <b>D</b> below
	E. Water supply rehabilitation/construction	<input type="checkbox"/> Yes <input type="checkbox"/> No	See Section <b>E</b> below
	F. Construction of public water supply	<input type="checkbox"/> Yes <input type="checkbox"/> No	See Section <b>F</b> below
	G. Construction of rural roads and bridges	<input type="checkbox"/> Yes <input type="checkbox"/> No	See Section <b>G</b> below
	H. Construction of rural markets	<input type="checkbox"/> Yes <input type="checkbox"/> No	See Section <b>H</b> below

### PART 3: ENVIRONMENTAL MITIGATION AND MONITORING PLAN

ACTIVITY	ENVIRONMENTAL AND CLIMATE ISSUES	MITIGATION MEASURES CHECKLIST	MONITORING INDICATORS	RESPONSIBLE PARTY
<b>A. Procurement of equipment e.g. small marketing infrastructure</b>	Equipment and new production and processing methods may have a potential impacts on land, water, and human health.	<p>a) Equipment procurement plans include environmental considerations. Proper equipment and appropriate technology should be used to minimize the environmental impact such as:</p> <ul style="list-style-type: none"> <li>- Energy/Water/thermal efficient and cost effective food processing equipment including homogenizers, evaporators, heat exchangers, stainless steel tanks and refrigerators with less Global Warming Potential (GWP) and Ozone Depletion Potential (ODP) etc.</li> <li>- Sound enclosures &amp; noise barriers, equipment with low noise ratings.</li> <li>- Pollution Control Applications: Heat Exchanger, Oil Mist Eliminator, Drain Water Cleanup and Starch Recovery Systems, Heat Recovery, Oil/Water Separator etc.</li> <li>- Installation of procured equipment to be conducted by an authorized company.</li> </ul>	A/PCU tendering procedures	A/PCU
<b>B. Construction activities</b>				
<i>B.1. Site Selection</i>	Poor site selection can have adverse environmental impacts or expose the constructed facility to hazards. Climate change factors need to be taken into account to avoid damage as a result of floods, landslides and erosion.	<ul style="list-style-type: none"> <li>- Consider climate change scenarios at the locality (forecasts for temperature and precipitation and extreme weather, as well as projections for soil stability).</li> <li>- Avoid sitting outside of an area that has known flooding potential. Locate more than 30 meters from a water body to minimize risk of contaminated storm water and/or construct infrastructure above a 100-year flood plain mark.</li> <li>- Avoid areas prone to landslide or in known fault areas.</li> <li>- Avoid sitting in critical habitat areas or wetlands.</li> <li>- Avoid sating in areas with shallow groundwater table or porous soils.</li> <li>- Avoid areas that have known hazardous waste contamination or ensure plan for remediating waste.</li> <li>- Avoid sating processing facilities too close to occupied residential areas.</li> <li>- Area with buildings should be located at least 9 m from overhead power lines.</li> </ul>	Documented site visit memo, as part of project feasibility study or project appraisal, documenting any potential environmental concerns such as potential of landslides, erosion or flooding. In case of any sign/evidence of flooding or geological instability found during the visual inspection, seek additional hydro-geological expertise and conduct additional research. Inspection of planning documents, construction or any other permits.	A/PCU or SP

		<ul style="list-style-type: none"> <li>- Avoid disturbing or damaging cultural resources. Obtain appropriate permit.</li> <li>- Identify underground and overhead utility structures and avoid interference with them.</li> <li>- Ensure nearby residents do not have any objections to construction (collect written concurrences/no objections from relevant residents).</li> </ul>	<u>If site is not suitable for construction, do not proceed with tendering process unless an alternative, suitable, site is identified.</u>	
<i>B.2. Planning and design</i>	Poor design can have adverse environmental and social impacts. Climate change factors need to be taken into account to avoid damage as a result of floods, landslides and erosion.	a) Construction and/or rehabilitation plans shall include environmental considerations including: <ul style="list-style-type: none"> <li>- Consider recent experience in floods, landslides, drought and incorporate projected changes in precipitation, temperature, soil stability and flooding into designs for erosion control, steep slopes, storm water control and waste disposal.</li> <li>- Documented safety plan.</li> </ul>	<ul style="list-style-type: none"> <li>- Documented design standards;</li> <li>- Conformance with the design;</li> <li>- Relevant permits.</li> </ul> <u>If inadequate, A/PCU or SP shall request from originator to modify the design.</u>	Municipality, with input from the private sector as relevant.
<i>B.3. Construction activities</i>	a) Air Quality	<ul style="list-style-type: none"> <li>- Keep the surrounding environment (side walks, roads) free of debris to minimize dust.</li> <li>- Avoid open burning of construction / waste material at the site.</li> <li>- Avoid excessive idling of construction vehicles at sites.</li> </ul>	Conduct periodic independent inspection of work to see that it conforms to original plan and design specifications. Provide incentives and disincentives to ensure conformance.	Contractor is responsible for implementation  Municipality is responsible for day to day supervision  A/PCU infrastructure engineer / SP is responsible for oversight
	b) Noise	<ul style="list-style-type: none"> <li>- Limit construction noise to restricted times agreed to in the permit.</li> <li>- During operations the engine covers of generators, air compressors and other powered mechanical equipment shall be closed, and equipment placed as far away from residential areas as possible.</li> </ul>		
	c) Water Quality	<ul style="list-style-type: none"> <li>- The site will establish appropriate erosion and sediment control measures such as e.g. hay bales and / or silt fences to prevent sediment from moving off site and causing excessive turbidity in nearby streams and rivers.</li> </ul>		
	d) Waste management	<ul style="list-style-type: none"> <li>- Identify waste collection and disposal pathways and sites for all major waste types expected from demolition and construction activities.</li> <li>- Separate mineral construction and demolition wastes from general refuse, organic, liquid and chemical wastes by on-site sorting and stored in appropriate containers.</li> <li>- Construction waste shall be collected and disposed properly by licensed collectors.</li> <li>- Maintain the records of waste disposal as proof for proper management as designed.</li> <li>- Whenever feasible the contractor shall reuse and recycle appropriate and viable materials (except asbestos).</li> </ul>		

	e) Health and Safety	<ul style="list-style-type: none"> <li>- Notify local communities of upcoming activities through appropriate notification in the media and/or at publicly accessible sites (including the site of the works)</li> <li>- Acquire all legally required permits for construction and/or rehabilitation.</li> <li>- The Contractor formally agrees that all work will be carried out in a safe and disciplined manner designed to minimize impacts on neighboring residents and environment.</li> <li>- Workers' PPE will comply with international good practice (always wear hardhats, as needed masks and safety glasses, harnesses and safety boots). Appropriate signposting of the sites will inform workers of key rules and regulations to follow.</li> </ul>		
<b>C. Cold storage, storage and packing facilities</b>  C.1. Prior to construction	Poor site selection and design can have adverse environmental and social impacts. Climate change factors need to be taken into account to avoid damage as a result of floods, landslides and erosion.	<i>Apply measures identified under B.1. and B.2. in addition to the following:</i> <ul style="list-style-type: none"> <li>- Building design shall include installation of water, heating, ventilation, sewage system, and restrooms.</li> <li>- Agricultural storage/packing/processing facilities shall aligned with HACCP principles.</li> <li>- Ensure relevant permits are obtained.</li> </ul>	Refer to B.1. and B.2.	Refer to B.1. and B.2.
C.1. During construction	See B.3.	<i>Apply relevant measures identified under B.3.</i>	Refer to B.3.	Refer to B.3.
C.3. During operation/use of facilities	Cold storages may have potential impacts on land, water, air and human health: <ol style="list-style-type: none"> <li>Soil, Surface and ground Water;</li> <li>Air Pollution Impacts;</li> <li>Noise, Odour &amp; Visual Quality Impacts;</li> <li>Non efficient Use of Energy and Water Resources;</li> <li>Impacts on Human Health.</li> </ol>	<b>a) Soil and water pollution prevention</b> <ul style="list-style-type: none"> <li>- Implement good management practices.</li> <li>- Ensure adequate storage of damaged fruits and their safe reutilization or transportation.</li> <li>- Establish and maintain and effective waste management, disposal, and waste reduction system.</li> </ul> <b>b) Air pollution prevention</b> <ul style="list-style-type: none"> <li>- Use environmentally acceptable fuels for dryers &amp; heating equipment. Replace fuels with high greenhouse gas emissions (e.g. coal) with clean fuels like natural gas if possible.</li> <li>- Use Freon R404A as refrigerant or other environment friendly and freon-free options.</li> <li>- Use efficient low emission production equipment with high energy efficient ratings.</li> <li>- Limit use of hot water, reduce energy demand of lighting &amp; production equipment.</li> </ul>	<ul style="list-style-type: none"> <li>- Environmental and use permits;</li> <li>- Certifications.</li> </ul>	Operator, which is identified in an agreement between the A/PCU and relevant stakeholder(s) (namely municipality and relevant agricultural organization).

		<p><b>c) Noise, odour prevention.</b></p> <ul style="list-style-type: none"> <li>- During operations, the engine covers of generators, air compressors and other powered mechanical equipment should be closed, and equipment placed as far away from residential areas as possible.</li> <li>- Use sound enclosures &amp; noise barriers, equipment with low noise ratings.</li> <li>- Provide ventilation to reduce smoke, vapour &amp; odour in the workplace.</li> <li>- Tightly close doors of the facility.</li> </ul> <p><b>d) Ensure resource efficiency</b></p> <ul style="list-style-type: none"> <li>- Perform regular maintenance to optimize performance on heating, cooling, &amp; lighting systems to maximize efficiency.</li> <li>- Optimize process line operations to avoid spills of raw materials and water, reducing the need to wastewater treatment and associated energy consumption.</li> <li>- Select appropriate insulation panels and doors in order to decrease heat penetration in the cold room.</li> </ul> <p><b>e) Worker Safety Measures</b></p> <ul style="list-style-type: none"> <li>- Conduct regular instructing of personnel on health and occupational safety requirements.</li> <li>- An Emergency Preparedness Plan (EPP) for Refrigerant/Freon Management should be displayed in a proper place and the staff must be trained in handling of refrigerants leakage should it occur.</li> <li>- Installation of the forced air cooling equipment is conducted by an authorized company in accordance with producer's installation and operation manual. Access restricted to authorized personnel only.</li> <li>- Avoid air pollution and worker poisoning, special indicators of the potential refrigerant/Freon spillage should be installed near the freezing equipment.</li> <li>- Ensure gas masks and protective gear to comply with safety rules for ammonia/Freon refrigerating systems.</li> </ul> <p><b>e) Minimize impact to sensitive ecologies</b></p> <ul style="list-style-type: none"> <li>- Trainings on protection of endangered species, native plants &amp; wildlife (i.e. during collection of non timber forest products, berries &amp; mushrooms).</li> <li>- Training on organic certification standards and/or Global GAP certification standards for agriculture production and processing.</li> </ul>		
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<p><b>D. Construction and use of irrigation systems</b></p> <p><i>D.1. Prior to construction</i></p>	<p>See B1 and B2 in addition to below:  Consider potential local or transboundary issues with respect to water extraction upstream and impact on water levels downstream e.g. environmental flows or drawdown on groundwater tables.</p>	<p>Apply relevant measures identified under B.1. and B.2. in addition to the following:</p> <ul style="list-style-type: none"> <li>- Select sustainable solution with minimal impacts on environmental flows (i.e. ensure environmental flows can be maintained) or groundwater levels (e.g. choose rechargeable aquifers or build water retention dams).</li> <li>- Ensure relevant water use permits are obtained prior to investment.</li> <li>- As a rule, financing for water infrastructure improvements should not be provided unless appropriate operations and maintenance provisions are in place. Operations and Maintenance Agreement should be prepared before water system operations begin.</li> </ul>	<ul style="list-style-type: none"> <li>- Documented design standards;</li> <li>- Conformance with the design;</li> <li>- Relevant permits.</li> </ul> <p><u>If inadequate, A/PCU or SP shall request from originator to modify the design or identify another suitable location.</u></p>	<p>Municipality, with input from the private sector as relevant; with A/PCU support.</p>
<p><i>D.2. During construction</i></p>	<p><b>a) Water quality</b>  Potentially increased sediment loads in streams or contamination of surface and ground waters by fuel and oil leak.</p> <p><b>b) Soil impacts</b>  Temporary localized impact in immediate vicinity of pipelines: loss of top soil, soil compaction; soil contamination.</p> <p><b>c) Solid waste</b>  - Construction wastes may reduce terrestrial and aquatic quality.;  - Air pollution from open burning.</p>	<p><b>a) Water quality</b></p> <ul style="list-style-type: none"> <li>- Minimize disturbance to river banks and stream beds</li> <li>- Revegetate after construction.</li> <li>- Store fuels and lubricants in safe place, provide spill protection, emergency response procedures.</li> </ul> <p><b>b) Soil impacts</b></p> <ul style="list-style-type: none"> <li>- Conserve topsoil layer and replace after interventions.</li> <li>- Install storm water control barriers (hay bales, filters) to prevent erosion.</li> <li>- Schedule interventions so as to minimize vehicle/equipment passage.</li> <li>- Infill trenches after interventions.</li> <li>- Schedule interventions to ensure trenches are open for short periods only.</li> </ul> <p><b>c) Solid waste</b></p> <ul style="list-style-type: none"> <li>- Set protocols for storage of materials and wastes.</li> <li>- Set protocols for equipment storage and maintenance.</li> <li>- Use of excavated materials to refill trenches.</li> <li>- Post-construction cultivation will mitigate impacts – in areas of no cultivation pipeline traces should be revegetated.</li> <li>- Recycle/reuse inert demolition wastes as fill.</li> <li>- Industrial wastes need to be disposed of in recognized landfill.</li> <li>- Open burning of waste prohibited.</li> </ul>	<p>Conduct periodic independent inspection of work to see that it conforms to original plan and design specifications. Provide incentives and disincentives to ensure conformance.</p>	<p>Contractor is responsible for implementation</p> <p>Municipality is responsible for day to day supervision</p> <p>A/PCU infrastructure engineer / SP is responsible for oversight</p>



	<p><b>d) Air quality</b></p> <ul style="list-style-type: none"> <li>- Dust generation during pipe laying and transport;</li> <li>- Vehicle/heavy equipment emissions.</li> </ul> <p><b>e) Impact to Flora and Fauna</b></p> <ul style="list-style-type: none"> <li>- Potential impact on local flora and fauna (including aquatic).</li> </ul> <p><b>f) Potential impacts on human health</b></p>	<p><b>d) Air quality</b></p> <ul style="list-style-type: none"> <li>- Implement dust control measures if required.</li> <li>- Cover haul trucks.</li> <li>- Provide dust control during extraction and disposal of spoil and sediment.</li> </ul> <p><b>e) Impact to flora and fauna</b></p> <ul style="list-style-type: none"> <li>- Minimize disturbed area.</li> </ul> <p><b>f) Potential impacts on human health</b></p> <ul style="list-style-type: none"> <li>- refer to B.3.e.</li> </ul>		
<i>D.3. Following construction</i>	<p><b>a) Water quantity</b></p> <p>Potentially reduce groundwater or surface water levels.</p> <p><b>b) Water quality</b></p> <ul style="list-style-type: none"> <li>- Surface and groundwater pollution by pesticides/herbicides and fertilizers;</li> <li>- Increased sediment loads due to erosion.</li> </ul> <p><b>c) Soil impacts</b></p> <ul style="list-style-type: none"> <li>- Stagnation;</li> <li>- Waterlogging;</li> <li>- Compaction.</li> </ul> <p><b>d) Impact to Flora and Fauna</b></p> <ul style="list-style-type: none"> <li>- Mass growth of pests resistant to pesticides;</li> </ul>	<p><b>a) Water quantity</b></p> <ul style="list-style-type: none"> <li>- Encourage water efficient irrigation equipment e.g. drip irrigation or efficient sprinkler irrigation systems when drip irrigation is not appropriate.</li> <li>- Avoid over-irrigation and manage extraction to ensure sufficient water is available downstream.</li> <li>- Regulate use through adequate water pricing/energy pricing.</li> <li>- Water metering to monitor water use.</li> <li>- Full evaluation of basin wide water resource availability for all future interventions. Be cognizant of transboundary issues.</li> <li>- Support the development of water management plans.</li> </ul> <p><b>b) Water quality</b></p> <ul style="list-style-type: none"> <li>- Soil testing to determine nutrient / fertilizer needs for target crop / site.</li> <li>- Limit use of chemical fertilizers and pesticides.</li> <li>- Ensure correct storage, handling, use and disposal of agrochemicals.</li> <li>- Implement integrated pest management (IPM) (see <a href="#">annex 19</a>)- and good agricultural practice (GAP).</li> <li>- Implement EU Nitrates Directive.</li> <li>- Minimize intensive cultivation of row crops on slopes and on light textured soils.</li> <li>- Ensure suitable sprinkler pressures.</li> <li>- Plant field and riparian buffers.</li> </ul>	<ul style="list-style-type: none"> <li>- Water level and water quality data</li> <li>- Soil quality tests</li> <li>- Sustainable management arrangements</li> </ul>	Operator, which is identified in an agreement between the A/PCU and relevant stakeholder(s) (namely municipality and Water User Association)

	<ul style="list-style-type: none"> <li>- Establishment of persistent weeds;</li> <li>- Impacts to Threatened, Endangered &amp; Protected Species (TES).</li> </ul> <p><b>e) Potential impacts on human health</b></p> <ul style="list-style-type: none"> <li>- Lack of control of nitrate and residual pesticide concentrations in agricultural products.</li> <li>- Tropic migration of hazardous substances via the food chain.</li> <li>- Eolian transport of pesticides during application.</li> <li>- Lack of adequate spraying equipment and protective clothing.</li> <li>- Groundwater pollution affecting potable water wells in nearby villages.</li> </ul>	<p><b>c) Soil impacts</b></p> <ul style="list-style-type: none"> <li>- Soil testing to assess soil characteristics (nutrients, permeability) and determine appropriate soil management practices for target crop / site.</li> <li>- Good irrigation practices.</li> <li>- Better matching of water demand to farm location.</li> <li>- Use of drip irrigation and other improved methods.</li> <li>- Ensure sufficient application of leaching fraction during irrigation.</li> <li>- Ensure clean and adequate drainage.</li> <li>- Avoid repeated use of heavy equipment.</li> </ul> <p><b>d) Impact to flora and fauna</b></p> <ul style="list-style-type: none"> <li>- Implemented Good Agricultural Practice (GAP) and Integrated Pest Management (IPM) (see <a href="#">annex 19</a>).</li> <li>- Limit use of chemical fertilizers and pesticides.</li> <li>- Ensure correct storage, handling, use and disposal of agrochemicals.</li> </ul> <p><b>e) Health and safety measures</b></p> <ul style="list-style-type: none"> <li>- Implemented Good Agricultural Practice (GAP) and Integrated Pest Management (IPM) (see <a href="#">annex 19</a>).</li> <li>- Limit use of chemical fertilizers and pesticides.</li> <li>- Promote adequate spraying equipment and safety clothing.</li> <li>- Protect children and local communities from accidental drowning through use of signs, factsheets.</li> </ul>		
<p><b>E. Construction of public water supply</b></p> <p><i>E.1. Prior to construction</i></p>	<p>Poor site selection and design can have adverse environmental and social impacts.</p> <p>Climate change factors need to be taken into account to avoid</p>	<p><i>Apply relevant measures identified under B.1. and B.2. in addition to the following:</i></p> <ul style="list-style-type: none"> <li>- Site water supply facilities in a way that minimizes the potential for contamination, taking into account existing and likely future land use patterns in the water supply—i.e., wellhead protection, or upper watershed—area.</li> <li>- In general, design water supply facilities to protect water quality,</li> </ul>	<i>Refer to B.1. and B.2.</i>	<i>Refer to B.1. and B.2.</i>

	damage as a result of floods, landslides and erosion.	<p>minimize the potential for contamination, and minimize operation and maintenance costs.</p> <ul style="list-style-type: none"> <li>- As a rule, financing for water infrastructure improvements should not be provided unless appropriate operations and maintenance provisions are in place. Operations and Maintenance Agreement should be prepared before water system operations begin.</li> </ul>		
<i>E.2. During construction</i>	<i>See B.3</i>	<p><i>Apply relevant measures identified under B.3. in addition to those below:</i></p> <ul style="list-style-type: none"> <li>- Monitor and repair leaks from cracked containment structures, broken pipes, faulty valves and similar structures.</li> <li>- Do not use piping containing asbestos.</li> <li>- Provide proper wellhead protection against contaminant sources.</li> </ul>	<i>Refer to B.3.</i>	<i>Refer to B.3.</i>
<i>E.3. During operation/use</i>	Water quality	<ul style="list-style-type: none"> <li>- Keep livestock from grazing immediately up-gradient of water supplies.</li> <li>- Do not allow animals to drink directly from water sources, unless those sources are subsequently treated.</li> <li>- Monitor drains and soakways and keep clear of debris.</li> <li>- As practicable, landscape construction sites in a way that is appropriate to local conditions.</li> </ul>	Water quality	Municipality or local public health authority
<b>F. Construction of rural roads and bridges</b>  <i>F.1. Prior to construction</i>	Poor site selection and design can have adverse environmental and social impacts. Climate change factors need to be taken into account to avoid damage as a result of floods, landslides and erosion.	<p><i>Apply relevant measures identified under B.1. and B.2., in addition to the following:</i></p> <ul style="list-style-type: none"> <li>- Design for climate-resilience i.e. expected increased frequency of 1 in 100 year flood therefore the need to design bridges higher above flood plain and strengthening erosion/drainage control measures (e.g. by increasing the size of culverts, adding wider paved shoulders and improving slope management; building bridges that are stronger and higher than currently required).</li> <li>- Apply design standards for each facet of construction and related activities, e.g., road bed, road surface, drainage, erosion control, re-vegetation, stream crossing, sensitive areas, steep slopes, material extraction, transport and storage, construction camps, decommissioning, etc.</li> <li>- Minimize use of vertical road cuts even though they are easier to construct, and require less space than flatter slopes. The majority of road cuts should have no more than a ¾:1 to 1:1 slope to promote plant growth. Vertical cuts are acceptable in rocky material and in well-cemented soils, if such cuts are stable according to established slope stability criteria.</li> <li>- Identify and avoid areas in the project impact zone that may contain important ecological, archaeological, paleontological, historic, religious or cultural resources, including forests, wetlands and areas of high biological diversity or threatened species habitat.</li> </ul>	<i>Refer to B.1. and B.2.</i>	<i>Refer to B.1. and B.2.</i>

<i>F.2. During construction</i>	<i>See B.3</i>	<p><i>Apply measures identified under B.3. in addition to the following:</i></p> <ul style="list-style-type: none"> <li>- Water the road prior to compaction to strengthen the road surface.</li> <li>- Reshape eroded or culled surfaces so that water will no longer follow the course of the roadway.</li> <li>- Install drainage structures during, instead of after construction. Most erosion associated with roads occurs in the first year after construction. Delaying installation of the drainage features greatly increases the extent of erosion and damage during that time.</li> <li>- Install frequent diversion structures, such as water bars, to move water off the road and minimize concentration of water.</li> <li>- Install drainage crossings to pass water from the uphill to the downhill side of the road. If using culvert pipes, follow accepted sizing and design standards. Where flows are difficult to determine, use structures such as fords, rolling dips, and overflow dips that can accommodate any flow volume and are not susceptible to plugging.</li> <li>- Stabilize outlet ditches (inside and outside) with small-stone riprap, and/ or vegetative barriers placed on contour to dissipate energy and to prevent the creation or enlargement of gullies.</li> <li>- Install drainage ditches or berms on up-hill slopes to divert water away from the road.</li> <li>- Install temporary erosion control features when permanent ones will be delayed. Use erosion control measures such as hay bales, berms, and straw or fabric barriers.</li> <li>- Stabilize slopes by planting vegetation.</li> <li>- Break up old road surface material. Remove and dispose of surface material (e.g. asphalt) if necessary, and loosen soil of previous track to accelerate regeneration of vegetation.</li> </ul>	<p><i>Refer to B.3.in addition to below:</i></p> <ul style="list-style-type: none"> <li>- Drive roads after moderate rains to identify areas that collect or gully water. Mark and redesign/rehabilitate as necessary.</li> <li>- Visually spot check for drainage problems, including accumulation of water on road surfaces, especially after the first heavy rains following rehabilitation and at the end of the rainy season.</li> </ul>	<i>Refer to B.3.</i>
<i>F.3. During operation/use</i>	Water management issues	<ul style="list-style-type: none"> <li>- Monitor and maintain drainage structures and ditches including culverts. Clean out culverts and side channels/runouts when they begin to fill with sediment.</li> </ul>	Visual inspection	Municipality
<b>G. Construction of rural markets</b>	<i>See B.</i>	<i>Apply relevant measures identified under B.</i>	<i>Refer to B.</i>	<i>Refer to B.</i>

### Environmental Mitigation and Monitoring Plan (EMMP) for Starter Packages

ACTIVITY	ENVIRONMENTAL AND CLIMATE ISSUES	MITIGATION MEASURES	MONITORING INDICATORS	RESPONSIBLE PARTY
<b>A. Procurement of agricultural inputs for starter packages</b>	Inappropriately selected agricultural inputs, such as fertilizers and pesticides, can have adverse impacts on the environment and human health	<ol style="list-style-type: none"> <li>1) Any seedlings provided are certified as disease and virus free.</li> <li>2) Identify most suitable fertilizers for starter packages, taking into consideration the existing soil quality, intended crop, and current practices on the use of manure by small holders.</li> <li>3) If pesticides form part of the procurement package, ensure the following: <ol style="list-style-type: none"> <li>a) pesticides are registered in BiH and suitable for use on the target crop;</li> <li>b) selected pesticides are least toxic pesticides, which are suitable for IPM;</li> <li>c) relevant safety clothing is provided as part of the starter package;</li> <li>d) all recipients receive training in IPM and safe pesticide use practices.</li> </ol> <i>Refer to Annex 4. for pesticide use practices for additional information.</i> </li> <li>4) Whenever possible, promote climate resilient technologies such as drought tolerant varieties, drip irrigation, shade nets, hail nets etc.</li> </ol>	<ol style="list-style-type: none"> <li>1) Plant health certificate indicating that seedlings are virus and disease free;</li> <li>2) Fertilization recommendations based on soil tests and target crops;</li> <li>3) List of registered pesticides in BiH; List of suitable pesticides developed by local expert(s); GlobalGAP certification in instances where producers are export oriented.</li> </ol>	A/PCU / SP

### Pesticide use practices on READP

Since pesticides are used in most agricultural production systems, attention to pesticide use is important to marketing, crop and livestock management, business plan development, and other activities with which READP is involved. Pesticides may be misused or mishandled. Farmers need to be constantly reminded of the acute and chronic effects of pesticide use both on human health and the environment and the importance of properly using personal protection equipment to minimize adverse health effects. READP has an opportunity to promote safer use of pesticides and non-chemical pest management techniques through Integrated Pest Management (IPM) by providing training and technical assistance to those involved.

There are two key areas where READP should mitigate risks associated with pesticide use:

1. Procurement of pesticides for starter packages;
2. Training and advisory assistance to farmers;
3. Promote certification according to Global GAP or organic standards.

This is described in further detail below:

#### 1. Procurement of pesticides for starter packages

Any starter packages that include pesticides, shall comply with the following:

- a) pesticides must be registered in BiH and suitable for use on the target crop;
- b) selected pesticides needs to be least toxic pesticides available for the control of pests in target crops, which are suitable for use under IPM;
- c) relevant safety clothing is provided as part of the starter package;
- d) all recipients receive training in IPM and safe pesticide use practices;

To comply with points a and b above, READP should engage a reputable pest management/IPM specialist(s), to identify suitable pesticides for the starter package and training and advisory assistance.

#### 2. Training and advisory assistance to farmers

READP should provide training and technical assistance to farmers on Integrated Pest Management (IPM) and safer use of pesticides when their application is warranted. Pesticides should only be recommended in conjunction with the use of appropriate protective gear. Only pesticides identified in step 1 above, shall be promoted during training. Practical advice for safety clothing, equipment, and precautions go a long way, and with appropriate recommendations, READP assistance for the use of approved pesticides is not expected to have adverse impacts on human health.

The following is a summary of pesticide safer use training topics that should be addressed:

- **Chemical knowledge:** registration, correct use, application procedures and label specifications. This should include an in-depth review of label information as well as a discussion of dosage rates, application rates, equipment calibration and maintenance, application intervals, re-entry and pre-harvest intervals, Maximum Residue Limits (MRLs), and demonstrations of proper

#### Reducing pesticide exposure

There are numerous ways to reduce exposure to humans. Among these are the following:

- Read labels carefully and follow instructions with regard to product use and protective clothing or equipment;
- Do not re-enter a treated area until the pesticide has dried or the prescribed re-entry interval has passed;
- Never eat, drink or smoke while working with any pesticide;
- Wash thoroughly with soap and water after working with pesticides;
- Do not expose food, beverages, drinking vessels or cigarettes to pesticides;
- Wear gloves, face masks, long sleeved shirt and trousers, shoes, socks and hat and other prescribed protective gear (e.g. rubber aprons and goggles) when working with pesticides; and
- Stay up-wind during application process.

equipment use.

- **Storage:** proper storage of chemicals in relation to other structures on the property. The need for a separate, clearly marked and locked facility for exclusive storage of farm chemicals should be emphasized. Pesticides should be kept away from food for human or animal consumption or sources of drinking water. Pesticides should always be stored in their original containers.
- **Safety practices:** proper mixing techniques, the importance of using clean water for mixing, and the importance of not contaminating water sources. The types of containers used in chemical preparation, their proper use, cleaning and storage need to be addressed. Applicators need to be taught not to eat, drink or smoke while applying pesticides.
- **First aid and medical facilities:** Participants need to be taught to identify the primary symptoms of chemical exposure and what to do in an emergency.
- **Waste Management:** how to clean up and safely dispose of any chemical not used. For liquids, empty containers should be rinsed 3 times, and emptied into the spray tank as part of the application mixture. When the product is used completely, chemical containers should be triple rinsed and punctured before being buried. Containers should NEVER be reused. If possible, procurement of pesticides should include a clause whereby pesticide vendors will collect empty pesticide containers.
- **Protection of drinking water:** Training should emphasize the importance of protecting potable water sources and avoiding contamination of ground and surface waters. Participants should be trained to identify their drinking water source and to keep all pesticides away from that source. Characteristics of the water source and mitigation measures to avoid contamination will be addressed.
- **Environmental safety:** the importance of protecting natural resources and the proper use of pesticides to avoid environmental contamination and impacts on non-target organisms should be addressed. For pesticides toxic to birds, bees, and other wildlife, trainers should give training on the protection of habitat, including preventing drift.
- **Worker protection:** Types of personal protective equipment (PPE), when they should be worn and why, and how it should be cared for. The basic PPE recommended for all pesticide applications includes long-sleeved shirts, long pants and boots. Participants need to be encouraged to wash PPE separate from everyday clothing and to keep their PPE in good condition.

Only agronomists with a pest management background and IPM training will be utilized for training activities within the project. READP shall present all of its relevant training topics in the holistic framework of Good Agriculture Practices (GAP) and IPM as they pertain to specific crops. This training program needs to highlight preventative measures and cultural practices as a first-line of defense. It should also highlight ways pesticides can be integrated into the overall IPM program and used only as a last resort. It is best to incorporate this IPM training into the overall technical training program for producers and should incorporate training on safe pesticide use and selection and use of appropriate equipment as noted above. IPM and safe pesticide use recommendations shall also be incorporated in any READP extension materials on production or presented in stand-alone extension material.

### 3. Promote certification according to Global GAP or organic standards

Producers that are certified according to Global GAP or organic standards, undergo regular audits to check compliance on pest management practices, include use of permitted pesticides. Producers should obtain certification that are required by the desired market.

## **Term of Reference**

### **PROJECT MANAGER** (one position for each PCU)

The READP Project Manager is a employee of the A/PCU, and the main person in charge of READP planning, implementation and reporting. He/She is directly subordinated to the A/PCU director. The READP Project Manager leads READ project team and is responsible for READP overall implementation.

#### **Job description:**

- Prepare the final version of Project Implementation Manual (PIM).
- Organize and play active role in the start-up workshop and the project promotion/awareness campaign.
- Support preparation of the TOR and the documentation to hire service provider(s), cluster coordinators and extension field officers for implementation of component 1 and its sub-components.
- Initiate in close coordination with service provider the development of a methodology for the targeting study and supervise implementation and reporting.
- Organize in coordination with service provider, stakeholder sensitization workshops in each cluster of the project areas.
- Develop background information and procedure for "Call for business proposals".
- Coordinate the follow up field visits of service provider and cluster coordinators/extension officers to assist stakeholders in preparation business proposals.
- Facilitate establishing business plan appraisal committee and furthermore contribute to development of business plan screening criteria.
- Follow-up on the process of identification and preparation of business plans through periodic reporting and field visits.
- Supervise the further development of selected business plans.
- Participate in the business plan approval sessions.
- Update information about sub-sectors and value chains relevant for business plan development.
- Coordinate in close cooperation with service provider the identification and specification of required starter packages and launch after A/PCUs approval the tender process.
- Supervise the procurement process and distribution of starter packages to the determined target households.
- Coordinate the development and implementation of training plans to be prepared by service provider/agriculture extension service.
- Monitor the functioning of the voucher scheme in RCDP and contribute to the decision making process on advisory services.
- Supervise training and advisory services and ensure close communication with all stakeholders including municipalities and private sector partners.
- Initiate, support approval and follow up/participate in market development activities implemented by service provider such as quality assurance/certification processes, trade fair participation and study tours.
- Organize in cooperation service provider business plan implementation review and planning workshops in the selected clusters.
- Coordinate training and advisory services for institutional strengthening.



- Coordinate seed capital financing measures such as specification, selection, approval of required investments, coordination with municipalities on co-financing means, establishment of linkages to the finance sector, launching tender processes and support procurement and distribution.
- Liaise with the A/PCU M&E officer to set up an appropriate M&E system for systematic data collection and reporting related to all key project activities.
- Coordination closely with the M&E officer for the implementation of the M&E system and timely implementation of baseline study and impact study.
- Monitor the performance of approved business plans and progress made against baseline indicators 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 business plans.
- Coordinate with service provider and M&E officer the preparation of knowledge-sharing products (guidelines, manuals, case studies, lessons learnt) to document and share the results of the project.
- Preparation of the annual work plan and budget (AWPB).
- Participation in PSC meetings.
- Logistics and implementation support to IFAD supervision, MTR and completion missions.
- Preparation of the project progress and closing report.
- Coordination with other development projects related to READP.
- Coordination among the READP team and defining clear responsibilities and tasks.
- Capacity building of APCU READP team members to further develop the required skills and capacities for READP implementation.

**Required Education, Experience and Skills:**

**Education:**

- Master degree in business administration, economics, agriculture, management or related areas.

**Experience:**

- A minimum of ten (10) years working experience in coordination of development projects.

**Skills:**

- Proven management and organization skills.
- Knowledge of gender and targeting issues.
- Preference for teamwork.
- Proven communication skills.

**Language:**

- Fluent spoken and written English.

## **Term of Reference**

### **INFRASTRUCTURE CIVIL ENGINEER** (position only in APCU)

The infrastructure civil engineer is a member of APCU and the main executive of implementation sub-component Enabling infrastructure support. He/She is responsible for overall guidance and management of the infrastructure investment related activities and their linking with other sub-component of READP. He/She is directly subordinated to the READP project manager.

#### **Job description:**

- In cooperation with the APCU relevant staff participate in orientation workshops and sensitize stakeholders about the sub-component, application and selection procedure, ownership, management arrangements and project support available to the stakeholders.
- Clearly communicate the requirement for infrastructure investments to focus on BP needs, benefit to target households and to be environmentally sound and climate resilient.
- Coordinate the identification of eligible infrastructure investments in a way that infrastructure needs are undertaken in a participatory and demand-driven manner to ensure the investments improve the market access of smallholders and off-farm entrepreneurs through upgraded infrastructure that benefits the rural poor smallholder farmers, women and youth, and strengthen the value chain.
- Prepare feasibility studies, which shall provide sufficient quantitative and qualitative information for final evaluation and selection of the shortlisted infrastructure items, based on factors outlined in the PIM. The feasibility study shall consider environmental issues and climate-related risks.
- Advise stakeholders to incorporate into the business plans the relevant environmental and climate proofing measures.
- Review and assess proposals for infrastructure investment with regard to their technical feasibility and preliminary cost estimation.
- Assess whether the proposed infrastructure works are required and linked to the selected VCs in the business plans with clear synergy with other sub-components.
- Assess the environmental, social and climate-related issues using the Environmental and Social Management Framework (ESMF) checklist.
- Review proposed works in relation to other possible alternatives.
- Participate and contribute in discussions with applicant, design company and other interested parties in decision making during the construction stage.
- Review detailed engineering design solutions in terms of sound technical solutions, quality and identified scope and volumes of works.
- Assist the procurement manager with technical specification of works, preparation of tender documents and tendering for implementation of the works.
- Participate in bid opening and evaluation committee in evaluation of bids for infrastructure works implementation.
- Facilitate in collecting sources of financing of contracted infrastructure works.
- Manage contracts for works procured by the APCU for the implementation of the infrastructure sub-component, including approvals of contractors' submittals (payment certificates, variation orders, completion certificates, etc.) and notifications to the contractors (defects, penalties, etc.) and any other issues as specified in the general and special conditions of contract.
- Conduct periodic monitoring and follow-up visits to the infrastructure sites to assess the quality of implementation according to technical requirements.
- Coordinate activities of construction site daily supervisors in accordance with agreed procedure and standard formats and in the purpose of ensuring quality and actual quantity of work done.

- Facilitate the development of management agreements between different actors for operating the infrastructure.
- Provide technical assistance to overcome any issues and bottlenecks observed during the follow up visits, and train the actors engaged in the management of the infrastructure where relevant.
- Supervise and personally participate in the activities of technical acceptance and physical handover of performed works.
- As a member of the APCU project team, provide reports and information on infrastructure investment operations as necessary to the APCU Director and contribute to progress reports.

**Required education, experience and skills:**

**Education:**

- High degree in civil engineering.

**Experience:**

- A minimum of (5) five years working experience with projects for infrastructure rehabilitation, including design and construction supervision, with proven ability to work in a multi-disciplinary team and with the rural population.
- Experience in the area of civil works, water supply preparation of tender documents, supervision of construction works, project supervision and implementation;
- Experience of working with donor-supported projects will be an advantage;
- Familiarity with engineering design requirements and construction supervision procedures of the Republika Srpska, as well as with the procurement procedures applicable under foreign donors' funded projects.

**Skills:**

- Computer literacy, MS Office (Windows, Word, Auto CAD, Arci CAD, Excel),
- Driving license: B category.

**Language:**

- Fluent English, both spoken and written is preferable.

## **Term of Reference**

### **ACCOUNTANT**

(one position only for PCU)

The Accountant is a member of the PCU and executive of accounting and financial tasks in the project unit. The aforementioned activities carried out for the needs of all active IFAD projects. He/She is directly subordinated to the Financial Manager.

#### **Job description:**

- Assist the FM in the implementation of a sound financial management system.
- Prepare financial reports, including monthly funds reconciliation, and monthly, quarterly, semi-annual and annual expenditure statements.
- Prepare transaction vouchers, and input all transactions into the project accounting system before submission to the FM for approval.
- Opening and closing of the project accounts.
- Timely payment of project liabilities upon verification of the invoices received and ensuring that the project procedures are strictly adhered to.
- Process monthly payroll, salary payment to staff and all project contributions related to salary payments; Ensure registration and deregistration of employees.
- Manage and report on the use of Petty Cash in accordance with the approved procedures.
- Prepare cash flow forecasts as required.
- Carry out the accounting of the documents in the various project books and journals and/or the accounting software.
- Verify all accounting entries.
- Assist in the preparation and monitoring of annual operational budgets.
- Maintenance of a well organized and up-to-date filing system for accounting and financial records as well as an fixed asset tagging system.
- Perform physical inventory of project assets each year.
- Prepare the annual financial statements.
- Assist the FM in the closing of the financial year and the preparatory work for the annual audit and provide assistance to the external auditors as required.
- Prepare monthly bank reconciliation statements of all bank accounts maintained by project.
- Assist the FM in the preparation of direct payment requests and withdrawal applications, including statement of expenditures (SOE) in line with IFAD guidelines of expenditures.
- Undertake any other duties as they may be requested by the supervising authorities.

#### **Required education, experience and skills:**

##### **Education:**

- High (bachelor) degree in the business administration or accounting.

##### **Experience:**

- Minimum five (5) years of working experience in accounting of which three (3) in an equivalent position with an information flow equal to that of a project.

##### **Skills:**

- Certified accountant license.
- Good computer skills and use of accounting software.

##### **Language:**

- Good knowledge of the English language.

**Output, outcome and impact indicators**

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-term	End Target	Source	Frequency	Responsibility	
Goal								
To contribute to sustainable rural economic development in Bosnia and Herzegovina (BiH)	1. Percentage % increase in assets ownership*	0	15%	25%	National statistics, Human development reports	Years 1, 3 et 5	PCU/APCU	
Project Outreach	2. Number of persons receiving services promoted or supported by the project*	0	15 000	25,000 <sup>102</sup>	Progress report	Annually	PCU/APCU	
Development Objective								
To Increase the income of rural youth and poor households by fostering their engagement in profitable agribusiness and employment options	3. Percentage of supported households reporting increase in income of at least 30%	0	40%	80%	Progress report, Service providers	Annually	PCU/APCU	- Conducive macro-economic and deterioration of the political environment; - The demand for specialised Bosnian products on the export market increase;
	4. Number of new jobs created*	0	3,000	4,500 <sup>103</sup>	Outcome survey, Progress report	Annually	PCU/APCU	
Outcome 1: Production, productivity, marketing of produces and profitability of target	5. Percentage of supported rural enterprises reporting an increase in sales through 4P agreements	0	50%	75%	Outcome survey, Progress report,	Annually	PCU/APCU	- Timely and quality access to specialised service providers;

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

<sup>102</sup> Given that the support will be reaching 8,650 household and given an average household size of 2.9 members in BiH, READP will reach around 25 000 people at project completion.

<sup>103</sup> Includes 350 young apprentices and 50% of the 8,300 beneficiaries of starter packages and FO seed capital financing. Their cash returns from the adoption of the project supported activities is expected to equal at least the minimum net salary earned (BAM 425) from a full time job.

<b>group households improved based on 4Ps models</b>					Service providers			- Continued interest of rural producers and farmers organisations to establish stronger linkages with lead enterprises.
	6. Percentage of beneficiaries reporting an increase in production*	0%	40%	80%	Outcome survey, Progress report, Service providers	Annually	PCU/APCU	
<b>Output 1.1:</b> Development and implementation of Business Plans	7. Number of pro-poor BPs approved and implemented by Business Leaders	0	100	150	M&E system of READP, Service providers	Semi-annual	PCU/APCU	- Timely, quality and continuous access to business development services.
	8. Number of targeted farming households engaged in 4Ps *	0	5,000	8,000 <sup>104</sup>	M&E system of READP, Service providers	Semi-annual	PCU/APCU	
<b>Output 1.2 :</b> Provision of start-up packages	9. Number of rural producers accessing production inputs and/or technological packages*	0	5,000 (25% women)	8,300 (25% women)	M&E system of READP	Semi-annual	PCU/APCU	
<b>Output 1.3 :</b> Youth Apprentice Programme	10. Number of youth supported by the Youth Apprentice Programme*	0	250 (50% women)	350 (50% women)	M&E system of READP	Semi-annual	PCU/APCU	
<b>Outcome 2 :</b> <b>Enhanced FOs for increased integration of farmers in markets</b>	11. Percentage of FOs engaged in formal partnerships/ agreements or contracts with public or private entities	0	60%	80%	Outcome survey, Progress report, Service providers	Annually	PCU/APCU	- FOs governance and management capacities increased.
	12. Percentage of FOs' members reporting new or improved services provided by their	0	60%	80%	Outcome survey, Progress	Annually	PCU/APCU	

<sup>104</sup> Includes 7,500 direct beneficiaries of starter packages plus 50% of the 800 beneficiaries of FO seed capital financing.

	organization				report, Service providers			
<b>Output 1.4:</b> FOs seed capital financing	13. Number of FOs provided with seed capital financing	0	30	40	M&E system of READP, Service providers	Semi-annual	PCU/APCU	
<b>Output 1.5</b> FOs capacity development	14. Number of persons trained in FOs capacity development *	0	1,500	3,000	M&E system of READP, Service providers	Semi-annual	PCU/APCU	
<b>Outcome 3:</b> <b>Market access of target group enhanced through improved market infrastructure</b>	15. Number of persons/households reporting improved physical access to markets, processing and storage facilities	0	3,000	5,000	Outcome survey, Progress report, Service providers	Annually	PCU/APCU	- Willingness of municipalities, farmers organisations and local communities to manage marketing infrastructure.
<b>Output 1.6:</b> Production and marketing support	16. Number of market and storage facilities constructed or rehabilitated	0	18	28 <sup>105</sup>	Progress report, Service providers	Semi-annual	PCU/APCU	- Effective coordination from the municipalities; - Target households' access to timely irrigation facilities and crop; - Recruitment of locally experienced contractors.
	17. Km of roads (linked to the selected value chains) constructed, rehabilitated or upgraded	0	10	16	Progress report, Service providers	Semi-annual	PCU/APCU	

<sup>105</sup> Includes both cold storage facilities and packing/mini warehouses and rural markets

## **Outline of the READP Annual Work Plan for the PY X**

- 1. Introduction**
- 2. Brief project description**
- 3. Annual plan for PY X**
  - 3.1. Component - Enhancement of economic opportunities and smallholders integration in value chains
    - 3.1.1. Sub-component Development and implementation of pro-poor business plans
      - 3.1.1.1. The progress achieved so far
      - 3.1.1.2. Planed activities in the PY X
      - 3.1.1.3. Quantitative targets in the PY X and cumulative
    - 3.1.2. Sub-component Farmers' organisations development
      - 3.2.2.1. The progress achieved so far
      - 3.2.2.2. Planed activities in the PY X
      - 3.2.2.3. Quantitative targets in the PY X and cumulative
    - 3.1.3. Sub-component Enabling infrastructure support
      - 3.1.3.1. The progress achieved so far
      - 3.1.3.2. Planed activities in the PY X
      - 3.1.3.3. Quantitative targets in the PY X and cumulative
  - 3.2. Component - Project management and coordination
    - 3.2.1. Project team
    - 3.2.2. Project steering committee
    - 3.2.3. Organizational issues
    - 3.2.4. Coordination with partners
    - 3.2.5. Project cost and financing (link to attached the budget!)
    - 3.2.6. Procurement (*link to attached the procurement plan!*)
    - 3.2.7. M&E issues (*link to attached the M&E plan!*)
- 4. Challenges and implementation risks**
- 5. Conclusion**
- 6. Attachments**
  - 6.1. READP budget for the PY X
  - 6.2. READP procurement plan for the PY X
  - 6.3. Project M&E plan for the PY X
  - 6.4. Dynamic plan of READP implementation for the PY X



**READP financial plan for the PY X (per activity – from IFAD loan)**

Ref.	Component sub-component activity	Total available	BAM		% of total in BAM		EUR		% of total in EUR		Exp. category	Reference to proc. plan
			PY X	Cumulative	PY X	Cumulat.	PY X	Cumulat.	PY X	Cumulat.		
1.	Enhancement of economic opportunities and smallholders integration in value chains											
1.1.	Development and implementation of pro-poor business plans											
	Activity 1											
	Activity 2											
	Activity 3											
	...											
Total sub-component 1:												
1.2.	Farmers' Organisations Development											
	Activity 1											
	Activity 2											
	Activity 3											
	...											
Total sub-component 2:												
1.3.	Enabling Infrastructure Support											
	Activity 1											
	Activity 2											
	Activity 3											
	...											
Total sub-component 3:												
Total component 1:												
2.	Project management and coordination											
	Item 1											
	Item 2											
	Item 3											
	...											
Total component 2:												
TOTAL												

**READP financial plan for the PY X (per expenditure category)**

	Component sub-component activity	Total available	BAM		% of total in BAM		EUR		% of total in EUR	
			PY X	Cumulative	PY X	Cumulat.	PY X	Cumulat.	PY X	Cumulat.
A	Equipment, Materials & Vehicles									
B	Technical Assistance									
C	Trainings Workshops									
D	Grants									
E	Recurrent costs									
G	Salaries									
	TOTAL									

**READP financial plan for the PY X (per source of financing)**

	Component sub-component activity	Total		IFAD loan		Government		Beneficiaries (cash)		Beneficiaries (in-kind)	
		BAM	EUR	BAM	EUR	BAM	EUR	BAM	EUR	PY X	Cumulat.
<b>1.</b>	<b>Enhancement of economic opportunities and smallholders integration in value chains</b>										
<b>1.1.</b>	<b>Development and implementation of pro-poor business plans</b>										
	Activity 1										
	Activity 2										
	Activity 3										
	...										
	Total sub-component 1:										
<b>1.2.</b>	<b>Farmers' organisations development</b>										
	Activity 1										
	Activity 2										
	Activity 3										
	...										
	Total sub-component 2:										
<b>1.3.</b>	<b>Enabling infrastructure support</b>										
	Activity 1										
	Activity 2										
	Activity 3										
	...										
	Total sub-component 3:										
	Total component 1:										
<b>2.</b>	<b>Project management and coordination</b>										
	Item 1										
	Item 2										
	Item 3										
	...										
	Total component 2:										
	TOTAL										

## READP procurement plan for the PY X

[illegible]

## **Outline of the READP (semi)annual progress report for the PY X**

- 1. Introduction**
- 2. Brief project description**
- 3. (Semi)annual progress for PY X**
  - 3.1. Component - Enhancement of economic opportunities and smallholders integration in value chains
    - 3.1.1. Sub-component Development and implementation of pro-poor business plans
      - 3.1.1.1. The progress achieved so far
      - 3.1.1.2. Realized activities in the PY X
      - 3.1.1.3. Quantitative targets achieved in the PY X and cumulative
    - 3.1.2. Sub-component Farmers' organisations development
      - 3.2.2.1. The progress achieved so far
      - 3.2.2.2. Realized activities in the PY X
      - 3.2.2.3. Quantitative targets achieved in the PY X and cumulative
    - 3.1.3. Sub-component Enabling infrastructure support
      - 3.1.3.1. The progress achieved so far
      - 3.1.3.2. Realized activities in the PY X
      - 3.1.3.3. Quantitative targets achieved in the PY X and cumulative
  - 3.2. Component - Project management and coordination
    - 3.2.1. Project team
    - 3.2.2. Project steering committee (evidence of meetings)
    - 3.2.3. Organizational issues
    - 3.2.4. Coordination with partners (evidence)
    - 3.2.5. Project cost and financing (link to the financial report in attachment!)
    - 3.2.6. Procurement (link to the register of contacts in attachment!)
    - 3.2.7. M&E issues (link to the M&E reports in attachment!)
- 4. Lessons learned**
- 5. Conclusion**
- 6. Attachments**
  - 6.1. READP financial report for the PY X
  - 6.2. READP register of contracts for the PY X
  - 6.3. Project M&E report for the PY X
  - 6.4. Dynamic plan of READP implementation for the PY X



**READP (semi)annual financial report for the PY X (per activity – from IFAD loan)**

READP (semi)annual financial report for the P.Y.X (per activity – from IRAD loan)															
	Component t sub- component activity	Plan BAM		Disbursed BAM		% of plan in BAM		Plan EUR		Disbursed EUR		% of plan in EUR		Exp. cate gory	Ref er. to proc . plan
		PY X	Cum ulat.	PY X	Cum ulat.	PY X	Cum ulat.	PY X	Cum ulat.	PY X	Cum ulat.	PY X	Cum ulat.		
1	Enhancement of economic opportunities and smallholders integration in value chains														
1	Development and implementation of pro-poor business plans														
1															
1															
	Activity 1														
	Activity 2														
	Activity 3														
	...														
	Total sub- component 1:														
1	Farmers' organisations development														
2															
2															
	Activity 1														
	Activity 2														
	Activity 3														
	...														
	Total sub- component 2:														
1	Enabling infrastructure support														
3															
3															
	Activity 1														
	Activity 2														
	Activity 3														
	...														
	Total sub- component 3:														
	Total component 1:														
2	Project management and coordination														
2															
	Item 1														
	Item 2														
	Item 3														
	...														
	Total component 2:														
	TOTAL														

**READP (semi)annual financial report for the PY X (per expenditure category)**

	Component sub-component activity	Plan in BAM		BAM		% of plan in BAM		Plan in EUR		EUR		% of plan in EUR	
		PY X	Cumulat.	PY X	Cumulat.	PY X	Cumulat.	PY X	Cumulat.	PY X	Cumulat.	PY X	Cumulat.
A	Equipment, Materials & Vehicles												
B	Technical Assistance												
C	Trainings Workshops												
D	Grants												
E	Recurrent costs												
G	Salaries												
	TOTAL												



**READP (semi)annual financial report for the PY X (per source of financing) in BAM**

	Component sub-component activity	Total		IFAD loan		Government		Beneficiaries (cash)		Beneficiaries (in-kind)	
		Plan	Disbursed	Plan	Disbursed	Plan	Disbursed	Plan	Disbursed	Plan	Disbursed
<b>1.</b>	<b>Enhancement of economic opportunities and smallholders integration in value chains</b>										
<b>1.1.</b>	<b>Development and implementation of pro-poor business plans</b>										
	Activity 1										
	Activity 2										
	Activity 3										
	...										
Total sub-component 1:											
<b>1.2.</b>	<b>Farmers' Organisations Development</b>										
	Activity 1										
	Activity 2										
	Activity 3										
	...										
Total sub-component 2:											
<b>1.3.</b>	<b>Enabling Infrastructure Support</b>										
	Activity 1										
	Activity 2										
	Activity 3										
	...										
Total sub-component 3:											
Total component 1:											
<b>2.</b>	<b>Project management and coordination</b>										
	Item 1										
	Item 2										
	Item 3										
	...										
Total component 2:											
TOTAL											

**READP (semi) annual financial report for the PY X (per source of financing) in EUR**

	Component sub-component activity	Total		IFAD loan		Government		Beneficiaries (cash)		Beneficiaries (in-kind)	
		Plan	Disbursed	Plan	Disbursed	Plan	Disbursed	Plan	Disbursed	Plan	Disbursed
<b>1.</b>	<b>Enhancement of economic opportunities and smallholders integration in value chains</b>										
<b>1.1.</b>	<b>Development and implementation of pro-poor business plans</b>										
	Activity 1										
	Activity 2										
	Activity 3										
	...										
Total sub-component 1:											
<b>1.2.</b>	<b>Farmers' Organisations Development</b>										
	Activity 1										
	Activity 2										
	Activity 3										
	...										
Total sub-component 2:											
<b>1.3.</b>	<b>Enabling Infrastructure Support</b>										
	Activity 1										
	Activity 2										
	Activity 3										
	...										
Total sub-component 3:											
Total component 1:											
<b>2.</b>	<b>Project management and coordination</b>										
	Item 1										
	Item 2										
	Item 3										
	...										
Total component 2:											
TOTAL											

READP register of contracts for the PY X (cumulative data)

[illegible]



## **Appendix 12: Compliance with IFAD policies**

1. The READP is fully aligned with all relevant IFAD strategies and policies including the Strategic Framework 2016-2025, especially by way of promoting investment in productive capacities and market participation of beneficiaries through the vehicle of 4Ps; Targeting Policy; Gender Strategy; Rural Finance Policy, Climate Change Strategy; Policy on Supervision & Implementation Support. The environmental and social category is considered to be B namely that it does not present any irreversible impacts on the short or long term or during construction and /or operations. The climate risk classification is deemed to be Moderate.



## Appendix 13: Social, environmental and climate assessment procedures (SECAP)

### A. Major landscape characteristics and Issues (Social, natural resources, and climate)

#### A.1. Socio-cultural context

Located in Southeastern Europe, in the Western Balkans, Bosnia and Herzegovina (BiH) covers 51,209 km<sup>2</sup> of land and 12.2 km<sup>2</sup> of sea, bordering Croatia, Serbia, Montenegro and the Adriatic Sea. Its population is 3,861,912 million (July 2016 est.)<sup>106</sup>, of which about 60% is rural<sup>107</sup>, making it one of the most rural countries in Europe. Following a significant rise in GDP from US\$ 5.51 billion (2000) to US\$ 17.16 billion (2010), the country's GDP decreased slightly in 2016 to US\$ 16.56 billion, of which 8% is accounted for by agriculture (2016)<sup>108</sup>. Poverty is an issue, with an unemployment rate of 44.5% and around 18% of people living below the poverty line. According to the Agency for Statistics of BiH, the rate of unemployment for women in 2016 was 30%, and 60% for youth.

The inter-ethnic war of 1992-1995 had a severe and still-felt impact on the country, in terms of the social fabric, economy, infrastructure and livelihoods. Following the signing of the Dayton Peace Agreement at the end of 1995, a new governance structure was established, consisting of a State-level Government and two Entities - the Federation of Bosnia and Herzegovina (FBiH) (which has ten cantons and a total of 79 municipalities) and the Republika Srpska (SR) (which has no cantons but 62 municipalities) - plus the self-governing Brcko District (BD).

The structure of the agriculture sector is characterized by small sized family farms, which to large extent produce for home consumption – over 50% of agriculture holdings are estimated to be less than 2 ha. Agriculture is dominated by crop production, with livestock production representing less than one third of the total output. Economically, the most important sub-sectors are vegetables, fresh cow milk, maize and potatoes. About 80% of Bosnian farmers are smallholders constrained by the small and fragmented nature of production, lack of access to markets, financial and insurance services, and infrastructure in rural areas. Their situation is increasingly difficult as the country is moving towards a market-based economy that needs to meet EU accession requirements and compete globally<sup>109</sup>.

The EU is the main trading partner of the country – in 2016, BiH imported Euro 5.3 billion (of which 14.8 were agricultural products) and exported Euro 3.8 billion (of which 4.6% were agricultural products)<sup>110</sup>. In June 2008, the EU and BiH signed the Stabilization and Association Agreement<sup>111</sup> (SAA), which was then ratified and entered into force on 1 June 2015. In February 2016, BiH submitted its application for EU-membership. BiH is however not reaping the full benefits of these agreements as, as progress is still at an early stage with regards to EU-compliant food safety institutions and compliance to EU regulatory frameworks (e.g. food safety, veterinary and phytosanitary issues).

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<sup>106</sup> CIA Fact Book (last updated June 21, 2017) <https://www.cia.gov/library/publications/the-world-factbook/geos/bk.html>

<sup>107</sup> WB Data. <http://data.worldbank.org/indicator/SP.RUR.TOTL.ZS?locations=BA> (Accessed in July 2017)

<sup>108</sup> WB Data.

[http://databank.worldbank.org/data/Views/Reports/ReportWidgetCustom.aspx?Report\\_Name=CountryProfile&Id=b450fd57&tba r=y&dd=y&inf=n&zm=n&country=BIH](http://databank.worldbank.org/data/Views/Reports/ReportWidgetCustom.aspx?Report_Name=CountryProfile&Id=b450fd57&tba r=y&dd=y&inf=n&zm=n&country=BIH) (Accessed in July 2017)

<sup>109</sup> IFAD. 2010. Environment and Climate Change Assessment. Prepared for IFAD's Country Strategic Opportunities Programme 2013-2015

<sup>110</sup> EU Data. [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113358.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113358.pdf) (Accessed in July 2017)

<sup>111</sup> The SAA is signed with countries that have made sufficient progress in terms of political and economic reform and administrative capacity.

## A.2 Natural resources and NRM

BiH is primarily a mountainous country covered in forests, with an average altitude of 500 meters. Of the total land area, 5% are lowlands, 24% hills, 42% mountains and 29% Karst area; forests cover about 50% of the total land area<sup>112</sup>. Agricultural land accounts for 42.2% of land, of which 19.7% is arable, 2% is permanent crops and 20.5% is permanent pasture<sup>113</sup>.

BiH has significant water resources. There are seven river basins - Una, Vrbas, Bosna, Drina, Sava, Neretva with Trebišnjica and Cetina - of which 75.7% belong to the Black Sea catchment and 24.3% to the Adriatic Sea catchment. The country has plenty of underground water collection, which occurs in loose depositions, around large riverbeds, karst fissures, trenches and caves.

BiH is also rich in biodiversity and is home to 1,800 endemic species of Balkan flora and numerous threatened species. Forests, abundant in BiH, are home to over one hundred tree species, including fruit trees (cherry, apple and pear). Only about 1% of BiH is protected, which is low considering the biodiversity richness found here. In terms of forest ownership, around 80% are public forests, and around 20% are privately owned<sup>114</sup>. Given its vast expanse of total land area, forests in BiH have a major role in sustaining high levels of biodiversity, prevention of erosion, mitigation of climate change effects and have otherwise important functions for the local and general community (e.g. collection of Non-Wood Forest Products (NWFPs)). In total, there are 119 fish species in BiH; the highest diversity is recognized within the Cyprinidae (26 genera and 51 species) and Salmonidae (5 genera and 8 species) families. Bird diversity numbers 326 species belonging to 60 families. Most of them are stationary, while migratory ones are found mainly in wetlands such as Buško Blato, Hutovo Blato, Bardača, and the Drina and Sava rivers.

The persistence of extensive agriculture and the relative isolation of most of the territory have favoured the conservation of a high diversity of local breeds of domestic animals, including horses, cattle, sheep, goats, pigs, dogs and pigeons, as well as many local cultivars of fruit trees, especially cherries, plums, apples and pears.

In BiH, there is no State-level strategy for agriculture and rural development, although one is in the process of being developed (the “Strategic Plan for Rural Development of Bosnia and Herzegovina”). In FBiH, there is the “Mid-Term Strategy of Agricultural Sector in FBiH (2014-2018)” and in the RS, the “RS Strategic Plan for Agriculture and Rural Development (2015-2020)”.

## A.3 Climate

There are three climate types in Bosnia and Herzegovina: temperate continental (northern and central parts), sub-mountainous and mountainous, and Adriatic and modified Adriatic. The climate is characterized by hot summers and cold winters; areas of high elevation have short, cool summers and long, severe winters, and mild, rainy winters along coast. Recorded mean annual temperatures in the period 1981-2010 were in the range of 1.6°C (Bjelašnica) to 15.2°C (Mostar). Temperatures during winter are in the range of -6.0°C to 6.2°C and during the summer from 9.8°C to 24.7°C. Temperature increase on annual level is evident in the entire area and even exceeds 1.5°C in the northwestern part (Banja Luka). Annual precipitation in the country is unevenly distributed, ranging from 792 mm in the northeastern part (Semberija-Bijeljina) to 1,707 mm (Herzegovina-Trebinje). Snow occurs regularly in winter, covering mountain peaks up to 6 months a year.

Climate changes have already begun to impact BiH. This can be seen in rising average annual temperatures and shifts in precipitation rates. Annual precipitation levels have not significantly changed, however the number of days per year with rainfall has decreased while the number of days with intense rainfall has increased. When combined with rising temperatures, this represents a

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<sup>112</sup>With regards to forest area, figures differ somewhat – estimates by the FAO 2015 “Forest Sector in Bosnia and Herzegovina” placed forest and other wooded land at 63% of the total territory of BiH.

<sup>113</sup>WB CIA Fact Book 2017. <https://www.cia.gov/library/publications/the-world-factbook/geos/bk.html>.

<sup>114</sup>Agency for Statistics Bosnia and Herzegovina [www.bhas.ba](http://www.bhas.ba), Taken from FAO. 2015. The Forest Sector in Bosnia and Herzegovina. FAO Regional Office for Europe and Central Asia.



significant change to the rainfall regime. According to climate models, the mean seasonal temperature changes for the period 2001- 2030 are expected to range from +0.8°C to +1.0°C above previous average temperatures. Winters are predicted to become warmer (from 0.5°C to 0.8°C), while the biggest changes will be experienced during the months of June - August, with predicted changes of +1.4°C in the north and +1.1°C in southern areas of the country<sup>115</sup>.

#### **A.4 Key Issues**

Major recorded environmental issues for the agriculture sector in BiH are related to climate change and water (due to climate change but also as a consequence of infrastructure destruction following the inter-ethnic strife) and, to a certain extent, soil degradation and forestry.

Although soil degradation has not been systematically studied in BiH, it has been noted that inadequate and uncontrolled application of inorganic fertilizers and other chemical inputs decreases soil fertility, contributes to erosion, change in soil pH values as well as other types of soil damage. Inadequate technical equipment and machinery for land cultivation also contributes to erosion and other types of soil damage. In addition to overall effects on agriculture, degradation, at least to some extent, also affects some agricultural processes and activities; changes in agriculture since 1992 have influenced the decrease in mineral fertilizers use, while the effect of reduction in livestock contributed to a decline in the application of organic fertilizer<sup>116</sup>.

Forested areas have been shrinking rapidly due to illegal logging and mining, forest fires, and land conversion. Approximately 10% of the forest cover has been declared as mined. Factors likely to impact on forest ecosystems include changes in soil structure, changes in temperatures causing frost and heat stress as well as changes in distribution and intensity of rainfall. Another significant threat to forests is an increase in forest fires. Having said that, climate change may also have some positive impacts on forests and forestry in that tree productivity may increase in areas with adequate water availability<sup>117</sup>.

According to the Third National Communication of BiH under the UN Framework Convention on Climate Change, agriculture is one of the sectors mostly affected by climate change in BiH. The consequences are predominantly but not exclusively negative - a positive effect on the yield and quality of winter crops due to the extended growing period can be expected, however areas of cultivation such as for fruits could be expanded due to the disappearance of very cold winters and late spring frosts. Spring crops though, would be negatively impacted due to higher temperatures and water shortages during the summer months. Heavy rains and strong winds can also affect pastures, and thermal stress can impact the yield and the quality of animals. The extension of the growing period due to the increase in winter and early spring temperatures can lead to greater incidence of pests, diseases and weeds. A more arid climate will require extended and improved irrigation schemes. Land erosion may also be expected as a consequence of different factors including land use change and increased rainfall intensity coupled with prolonged dry periods. Changes in the amount of rainfall are more seasonally, rather than annually, pronounced<sup>118</sup>.

### **B. Potential project's social, environmental, and climate change impacts and risks**

#### **B.1 Key potential impacts**

The project is not expected to generate significant negative social impacts. Through a value chain approach, READ is expected to work in the following sub-sectors: fruits and vegetables, medicinal

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<sup>115</sup>Climate Change Adaptation And Low-Emission Development Strategy For Bosnia And Herzegovina. 2013.

<sup>116</sup>Action Programme to Combat Land Degradation and Mitigate the Effects of Drought in Bosnia and Herzegovina. 2014. (In compliance with the UNCCD 10-Year Strategy and Reporting Process under UNCCD)

<sup>117</sup>FAO 2015 "Forest Sector in Bosnia and Herzegovina"

<sup>118</sup>Third National Communication and Second Biennial Update Report on Greenhouse Gas Emissions of Bosnia and Herzegovina under the United Nations Framework Convention on Climate Change was adopted by Council of Ministers of Bosnia and Herzegovina on 23 May 2017.

and aromatic plants, non-timber forest products and to a limited extent dairy. READ will also enhance beneficiaries' access to agriculture production and social infrastructure, such as feeder roads, small irrigation structures, and storage, processing and cooling facilities. In this context, some key potential Project-related impacts could include soil and water pollution due to inappropriate fertilizer or excessive pesticide application, soil erosion during construction and farming (if using unsustainable agricultural practices), worker health and safety issues due to lack of safety procedures during construction or pesticide spraying without safety clothing, and reduced biodiversity from unsustainable harvesting of wild plants. Environmental or climate change impacts are, however, negligible due to in part to the small-scale nature of interventions. They can be improved to result in positive impacts or avoided through technical advice and capacity building on, and implementation of, inter alia: sustainable agricultural practices, efficient water use, responsible social infrastructure construction, and support to product certification which will promote the adoption of higher environmental standards in production and processing activities carried out by partner enterprises, cooperatives and associated Producer Associations.

## **B.2 Climate change and adaptation**

In particular since the 1990s, BiH has been experiencing increased variability and intensity of extreme weather conditions (heat waves, intensive rainfall, windstorms, days with hail, etc.). In the last five years, Bosnia and Herzegovina has faced several significant extreme climate and weather-related episodes that caused substantial material and financial deficits, as well as casualties. The two most important events were the drought of 2012 and the floods of 2014.

According to the Climate Change Adaptation And Low-Emission Development Strategy For Bosnia And Herzegovina (2013), adaptation approaches will need to focus on improved water management and irrigation, farming systems appropriate for hotter and more arid environments, and varietal improvements of local crops to maximize agricultural production under more arid conditions.

There is significant scope of READ to provide climate adaptation benefits that also contribute to BiH's Climate Change Adaptation And Low-Emission Development Strategy For Bosnia And Herzegovina (2013). Mitigation actions for READ activities should include provision of technical advice and capacity building on sustainable agricultural practices including Integrated Pest Management and management of ecosystem services (e.g. pollination, soil fertility); cropping patterns advice/crop-variety selection; food, veterinary and phytosanitary standards; pesticide use and safety/handling best practice; irrigation water management; market standards (especially in light of improved international market access and compliance with international (including EU) standards and certification; organic agriculture and certification; increased use of hail nets; and use of solar panels (e.g. in the poultry sector) where appropriate. The capacity of stakeholders dealing with the provision of advisory services to reflect climate-adaptation actions could also be strengthened.

Mitigation of climate-related events will be positively affected by adaptation practices as per above, as well as through water efficient small-scale irrigation infrastructure and related training on best practice on irrigation system use, e.g. determining optimal irrigation and soil moisture.

The collection of Non-Wood Forest Products (NWFP - such as mushrooms, wild berries and medicinal and aromatic plants) can be an issue for forest biodiversity as this is largely unregulated and un-monitored. Cultivation of such products can be encouraged by including information on this issue when providing assistance to borrowers in the preparation of their Business Plans, to support the production and marketing chain of NWFPs.

## **C. Environmental and social category (A, B, C)**

This project is classified as category "B". It will invest in (small) market and social (rural) infrastructure through Municipalities but also according to the business plans prepared (and implemented) by the borrowers. It is envisaged that these will include, inter alia, secondary and tertiary irrigation infrastructure, cool storage facilities and processing facilities, and feeder roads. These activities will have site-specific environmental and social impacts. The social impacts are expected to be positive,

while the environmental impacts – while not major – can be mitigated through different means, including provision of technical advice and capacity building. To avoid impacts, an Environmental and Social Management Framework will be prepared for the Project, in accordance with the revised IFAD social and environmental impact assessment guidelines, prior to project start-up. The ESMF will describe how environmental assessment/related licenses and compliance with national legislation will be built into the project's formal operational procedures governing investment decision-making.

The project is expected to reduce pressure on natural resources by providing financial (e.g. credit) and social (e.g. infrastructure or pesticide safety equipment) incentives for primary producers for enforcing more environmentally sound natural resource management practices.

Environmental regulation in BiH is not covered by State law, but rests with entities – both FBiH and RS each have a Law on Environmental Protection, which regulates their respective Environmental Impact Assessment (EIA) procedures, together with their by-laws which determine the scope/size of projects, and the subsequent procedures these would follow, to obtain the relevant licenses. Environmental issues in Brčko District (BD) fall under the Department for Communal Works.

Bosnia and Herzegovina is party to the three major Multilateral Environmental Agreements (the Convention on Biological Diversity (CBD), United Nations Framework Convention on Climate Change (UNFCCC) and the Convention to Combat Desertification (CCD)).

#### **D. Climate risk category (High, Moderate, Low)**

While climate change is an issue for BiH, an analysis of climate risk in the context of this project categorizes it at moderate. Populations depended on agriculture are particularly exposed to negative climate-related effects. Projected heavy rainfall, storms, hail, floods, drought, heat waves and frost, and pronounced water scarcity during the summer are predominantly likely to compound poverty challenges, as they result in more frequent and severe climate related disasters. The project will seek to mitigate this by improving climate adaptation knowledge (training, capacity building) and climate-resilient infrastructure. Also, by contributing to the diversification of enterprises of rural populations, the project will increase the resilience of communities to the effects of climate change.

#### **E. Recommended features of project design and implementation**

##### **E.1 Mitigation measures**

Activities under READ are small-scale in nature and will not have significant negative environmental impacts. Having said that, and especially in light of the recent EU-membership application (EU integration) and approximation of the Common Agricultural Policy (CAP) but also of climate change, a variety of measures can be taken to mitigate potential negative impacts that will also have substantial social impacts and benefits to beneficiaries. These include training and capacity building throughout the Project Components, starting with the preparation of Business Plans through to building the capacity of A/PCU. These include issues on adaptation (agricultural management practices, pesticide use and safety, irrigation management, etc.), and the construction of climate-resilient infrastructure such as water efficient secondary and tertiary irrigation systems.

There are also opportunities to diversify income generation such as through the cultivation of NWFPs and developing agro-tourism.

With regards to pesticide use, safety clothing/equipment should be included in the input packages delivered to primary producers.

It is recommended that A/PCU retain a copy of all environmental-related licenses for works conducted, as requested (and as per entity sub-laws) by the responsible infrastructure owner, obtained from Municipalities.

It is also recommended that the Environmental Impact forms prepared for works, under the RBDP, if to be similarly used in READ, be improved to become more meaningful in order to appropriately

identify and consider potential environmental impacts and develop and monitor environmental mitigation measures.

## **E.2 Multi-benefit approaches**

READ will build upon previous IFAD projects in BiH (especially RBDP) and the recent RCDP<sup>119</sup>. In particular, READ will benefit from experiences in value chain development for specific sub-sectors (horticulture, wild and medicinal and aromatic plants and some dairy), and linkages/cooperation established with relevant stakeholders. Furthermore READ will build upon World Bank projects which established primary irrigation facilities but which require secondary and tertiary infrastructure to become operative and used by beneficiaries (farmers, Water Unions). READ could also link with the on-going UNDP project “Technology Transfer for Climate Resilient Flood Risk Management in Vrbas River Basin”, which, among other issues, addresses technical preconditions for flood risk management (e.g. hydro-meteorological stations, hazard and flood risk maps) and works directly with local communities on non-structural measures (e.g. reforestation, or training to agricultural producers on soil maintenance, for reducing erosion). Through this project, index-based insurance schemes (not only floods – also drought) for the agriculture sector and poor farmers are being developed.

## **E.3 Incentives for good practices**

In addition to the direct benefits obtained through READ (such as social infrastructure or better access to water resources), a major incentive for good practices is the approximation to EU standards, for improved market access. Improved market access will result in increased income generation opportunities but also improved environmental benefits from more stringent standards for production, processing and packaging. In addition, human health will not suffer as a result of improper handling of pesticides, when appropriate safety gear is used.

## **E.4 Participatory processes**

Training and building capacity for business plan preparation and implementation is an integral part of READ. Participatory processes will involve stakeholders including, among others, lead entities, SMEs, identified service providers, cooperatives, Water Unions, PAs, and with a focus on the involvement of women and youth - for example in identifying areas for the construction of small infrastructure works but also for promoting environmental sustainability and social cohesion through exchanges of knowledge amongst these groups. Participatory processes will follow the experiences and structures developed in the on-going IFAD projects (RBDP and RCDP).

## **F. Analysis of alternatives**

Not applicable.

## **G. Institutional analysis**

### **G.1 Institutional framework**

READ implementation in each of the two Entities will be carried out by the existing A/PCU<sup>120</sup> who are well-versed with the systems and procedures for IFAD projects implementing. Dedicated project managers, additional staff and technical service providers will be deployed for the core project activities. PCU/APCU will implement the project in accordance with annual work plans and budgets prepared in consultation with target group representatives, municipalities and service providers.

Key institutions in BiH, which are relevant for environmental mainstreaming in BiH within the context of READP, are presented in the following table:

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<sup>119</sup>Rural Business Development Project; Rural Competitiveness Development Project

<sup>120</sup>Agriculture Projects Coordination Unit/Project Coordination Unit

Key institutions in BiH	Role
BiH Ministry of Foreign Trade and Economic Relations (MoFTER). Sector for Natural Resources	Defining policies and coordinating activities between the Entity authorities and institutions at the international level, in the field of environmental protection, agriculture, energy and natural resources. Administering enforcement of the law and other regulations.
BiH Plant Health Administration	Regulates and administrates matters dealing with plant health, pesticides, plant seeds and seedling materials, and phytosanitary issues
FBiH Ministry of Environment and Tourism	Responsible for preparation of the environmental policy and strategy-related documents, quality standards for air, water, and soil, environmental monitoring as well as supervision of relevant institutions from the Environment sector.
FBiH, RS and DB Ministry of Agriculture, Water Management and Forestry	Responsible for water strategy and policy, the issue of approvals and permits, setting of standards and regulations; and the maintaining of compliance with laws and regulations through licensing and inspections; and overall control of Public Companies for Watershed Areas.
RS Ministry of Spatial Planning, Civil Engineering and Ecology	Preparing the Environmental Strategy, laws and other regulations and acts. Establishing and managing environmental information systems. Issuing environmental permits. Supervising the work of the local administrative units dealing with environmental protection. Keeping records of installations and devices and a register of major accidents reported. Setting up the environmental quality standards. Performing inspectional supervision.
Cantonal and municipal authorities	Responsible for assessing infrastructure proposals and issuance of relevant permits

## G.2 Capacity building

Capacity building is mainstreamed into all Components of READ, and will be undertaken through targeted training, demonstrations and study tours. Capacity building activities will be delivered to a range of stakeholders including lead financial institutions, small-and medium enterprises, Producer Organizations and Women's Organizations. More specifically, capacity building activities will take place during Business Plan development; Business Plan implementation and financing; institutional strengthening of Producer Organizations and in climate-resilient infrastructure development. Capacity of the Project Management Unit (Component 2) will also be built on environmental and social issues, to ensure that these are specifically considered (monitoring and oversight functions) in project implementation.

## G.3 Additional funding

Not applicable.

## H. Monitoring and Evaluation

The implementation of READ will be guided by the project's logical framework. The M&E system already in place in the A/PCU will be fine-tuned to meet the progress and impact monitoring requirements of READ, which will consist of output monitoring, outcome monitoring and impact evaluation. Progress monitoring will focus on measuring physical and financial progress with special emphasis on achievements against poorest household, gender and youth inclusion. The final indicators will be defined in the start-up workshop using the logframe as point of departure. This will include relevant first second and third level indicators of IFAD's Results and Impact Management System (RIMS). The A/PCU M&E staff will have lead responsibility for the coordination of all M&E activities of the project. The project will document and organize knowledge sharing events to capitalize on experiences and good practices emerging during implementation. Knowledge dissemination will be an integral part of PCU/APCU prerogatives.

### **I. Further information required to complete screening, if any**

A draft Environmental and Social Management Framework has been prepared for the Project, in accordance with the revised IFAD social and environmental impact assessment guidelines. This will be reviewed and finalized prior to project start-up.

### **J. Budgetary resources and schedule**

Funding has been allocated for mainstreaming and assessment related to climate change.

### **K. Record of consultations with beneficiaries, civil society, general public etc.**

A range of persons, groups, institutions, Ministries and other development agencies in both FBiH and RS were consulted. These included IFAD RBDP technical staff, on-going IFAD Project stakeholders such as members of Financial Institutions, SMEs, Cooperatives, Producer Associations, Women's Group, the Service Provider SERDA and University of Sarajevo. Ministries consulted were the Ministry of Tourism and Environment (FBiH), the Federal Ministry of Agriculture, Water Management and Forestry (BiH), the Ministry of Agriculture, Forestry and Water (RS) and the Ministry of Spatial Planning, Civil Engineering and Ecology (RS). Discussions were also held with the European Union (FBiH) and UNDP offices in both FBiH and RS.

## **Appendix 14: Contents of the Project Life File**

1. BiH RB-COSOP
2. READ - Concept Note
3. READ - OSC Issue Paper
4. READ - OSC Minutes
5. RCDP - Detailed Design (main report and appendices) RCDP - QE memo
6. RCDP - CPMT minutes
7. Bosnia and Herzegovina Country Portfolio Summary