

Bosnia and Herzegovina

Rural Business Development Project (RBDP)

Supervision Report

Main report and appendices

Contents

A. Introduction	3
B. Overall assessment of RLDP implementation	4
C. Outputs and outcomes	5
D. RLDP implementation progress FBiH and RS	14
E. Fiduciary aspects	16
F. Sustainability and Empowerment	24
G. Impact	25
H. Conclusion	25

Appendices

Appendix 1: Summary of project status and ratings	26
Appendix 2: Logical framework: Progress against objectives, outcomes and outputs	29
Appendix 3: Summary of key actions to be taken within agreed timeframes	31
Appendix 4: RIMS indicators (harmonised)	35
Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category	37
Appendix 6: Compliance with legal covenants: Status of implementation	49
Appendix 7: Knowledge management: Learning and Innovation	51
 Annex 1: Rural Finance Working Paper	 52

A. Introduction¹

1. The Rural Business Development Project (RBDP) is IFAD's sixth operation in BiH, envisaged to reduce rural poverty by raising the target groups' income, particularly the incomes and employment in rural communities within the project area. The development objective of the project is to help subsistence farmers transform to commercial farming and help in developing the non-farm enterprise sector for rural employment generation. The project target group includes smallholder farms interested in commercial agriculture, agriculture producer associations and cooperatives as well as women and unemployed youth interested in non-farm wage employment or self-employment. The project is expected to directly benefit 20,000 rural households in 47 selected municipalities: 27 municipalities in the Federation (FBiH) and 20 municipalities in Republika Srpska (RS).

2. The Project was approved by IFAD's Executive Board in December 2011, with an IFAD loan of USD 12.72 million and a grant of USD 0.78 million. With a total cost of USD 30.22 million, OFID will co-finance the project in the Federation with USD 5.35 million. Whilst the signing of the financing agreement with the BiH Government took place in December 2013, the project became effective on 26 March 2014. The commencement of project implementation in both entities was significantly delayed: signing of the Project Agreements with the two entities was just concluded in October 2015 and thus, 2016 is the first year of implementation of the project. Project implementation of the rural infrastructure component in the Federation is still delayed due to the pending signature of the Project Agreement between the Federation of BiH and OFID. OFID has extended the effectiveness deadline of the OFID financing to April 30, 2017. The signature of SLAs between the Entity Ministries of Finance and the PFIs is still pending; thus delaying the implementation of component 2.

3. The objective of this first supervision mission fielded in the period of 17 October to 3 November 2016 was to assess RBDP achievements against the first AWPB targets, efficiency and effectiveness of project management, compliance with loan covenants and in general pertinence and validity of project design in order to provide recommendations on how to improve implementation and, as needed, adjust activities and/or implementation arrangements for the next years.

4. Meetings were held with representatives of the Government, the Assistant Ministers responsible for Agriculture at Entity level, representatives of the Participating Financial Institutions (PFIs) as well as Municipality Mayors and staff of the Project Coordination Units (A/PCU). The mission team partially split into two teams and conducted field visits in eight Municipalities in RS, and seven Municipalities in FBiH, for a total of nine field days. The mission was accompanied in the Federation by the respective staff of PCU and representatives from the service provider and from micro-credit organisations. In RS, the newly appointed Project Manager together with the respective staff of APCU and the recruited field officers accompanied the mission team. The stakeholders met included representatives of farmer organizations, farmers and private sector actors active in the dairy, fruit, vegetable, MAPs and NTFPs value chains, and local authorities.

5. The mission would like to thank the Directors and staff of the APCU in the RS and PCU in FBiH and Municipality authorities for hosting the mission and providing it with comprehensive assistance, as well as for the hospitality extended. The findings and recommendations of the mission were presented to the APCU in RS, and PCU in FBiH respectively as well as to the Ministry of Finance and Treasury of BiH.

¹ Mission composition: Ms. Sigrid Giencke, Value Chain Specialist and Team Leader, Mr. Swandip Sinha, Rural Finance Expert, Mr Moez Makhoul, Finance and Accounting Specialist and Mr. Zeljko Vasko, Procurement and M&E Specialist; Ms Paola Di Stefano, IFAD Programme Assistant, NEN Division and Mr Mohamed Abdelgadir, IFAD Country Programme Manager (CPM) for BiH, NEN Division.

B. Overall assessment of RLDP implementation

6. The RBDP is a USD 30.2 million project, to be implemented in both the FBiH and RS, and financed through: an IFAD loan of SDR 8.05 million (approx. USD 12.7 million); an IFAD grant of SDR 0.5 million (approx. USD 0.78 million); PFIs contribution of USD 1.8 million; beneficiary contribution of USD 2.7 million; and Government contribution (FBiH and RS) of USD 3.36 million. Rural infrastructure investments will be financed in FBiH by an OFID loan of USD 5.35 million and in RS by the Entity Government contributing of approx. USD 3.43 million (originally financed by OFID).

7. The project was designed with three main components: **Component 1. The Rural Business Support Component** with three sub-components: (i) Farm Enterprise Development focussing on capacity building with an Enterprise Development Fund to provide limited financial assistance to producer associations (PAs) and cooperatives (coops) for small infrastructure, equipment, improved inputs and herd improvements; (ii) Business Development Services and (iii) Non-Farm Enterprise Development targeted at providing jobs mainly for women and unemployed youth in rural areas. **Component 2. Rural Business Investments Component** providing for a credit line for Partner Financial Institutions (PFIs) to deliver credit to individual producers and entrepreneurs, PAs and other groups and associations or firms qualifying as project target groups. PFIs can be both banks, micro credit organizations/ foundations (MCO/MCFs). **Component 3. The Rural Market Infrastructure** (financed on cost-sharing basis) should include marketing, grading, storage, and processing facilities, small-scale irrigation schemes, and green markets as well as water supply and rural roads to demonstrate linkages to structured VC development. Project implementation of RBDP will follow the value chain approach with specific focus on inclusive targeting.

8. In February 2015, IFAD fielded a mission to support the launch and start-up workshop of the RBDP. In view of the time elapsed since project effectiveness, the workshop reviewed project design and planning for effective implementation. During the project start-up workshop key principles underlying the project and its implementation modalities were agreed with the participants representing Entity Governments, A/PCU, development partners, Municipal representatives, and representatives of beneficiaries. Although the project components remain unchanged, the synergies across the components are greatly enhanced since the complementarity and linkages among project components along specific project-supported value chains have proved to be critical success factors to achieve maximum impact on the targeted households.

9. According to the Government (Ministry of Finance and Treasury) the initial deposit withdrawal at the end of October 2016 represents 16.52% (FBiH) and 12.23% (RS) of the loan amount and 39.5% (FBiH) and 59.75% (RS) of the grant. As of 30 September 2016 in year 2 after effectiveness, the total amount of actual expenditures financed by IFAD loan amounts only to 1 % of the total funds allocated for the project, due to the late start of project implementation. RBDP implementation has to accelerate to reach its initially envisaged goals in the remaining project term of 2.5 years: project completion date is 31 March 2019.

10. Despite the delayed start of project implementation (caused by late ratification, pending OFID loan effectiveness while still awaiting signature by the President of the FBiH, pending constitution of local councils after local elections on 2 October 2016), A/PCU have done the necessary preparatory activities for a full swing implementation (launching required studies and reports such as value chain analysis, baseline studies, PIMs, Gender study, M&E reports, AWPBs and related Action Plans providing the number and profiles of existing PAs in the project municipalities; meetings with municipalities, PAs and private sector companies; carrying out administrative preparations and launching tender processes for selecting service providers and PFIs, and establishment of the Project Steering Committee). Therefore, the base for project implementation is prepared; target group related activities are expected to commence soon.

11. The mission considers the **overall RBDP implementation progress to be moderately satisfactory**, taking into consideration the late project start.

12. As foreseen in project design, the Mid-term Review (MTR) should take place not later than 30 months after the effective date. The mission recommends to field the MTR in autumn 2017 to measure the progress against the set targets for the upcoming year and, as needed, to adjust activities and/or implementation arrangements for the remaining years. It has been agreed with the A/PCU that until the MTR actual disbursement should accelerate significantly (at MTR up to 40% committed or disbursed funds).

C. Outputs and outcomes

Part A. Federation of Bosnia and Herzegovina

13. The overall performance of the main components is rated **moderately satisfactory** taking into account the late project start was still affecting the implementation in 2016. The AWPB 2016 allocated funds of BAM 8,041 million for the different components providing advisory services, loans, equipment and in particular rural infrastructure to target group farmers in selected value chains. The PCU has contracted a service provider and preparatory studies have been prepared, the promotion of activities in the selected municipalities has just recently started due to local elections on 2 October 2016. The credit line facility is not yet operational awaiting the final signatures and rural infrastructure investments still depend on the signature of the OFID loan agreement. Thus, the set targets of 2016 will not be reached. Until 30 September 2016, BAM 388,000 have been spent; main expenditures of the project went into project management.

Component 1. The Rural Business Support Component.

14. Component 1 has three sub-components; (i) Farm Enterprise Development; (ii) Business Development Services and (iii) Non-Farm Enterprise Development. The implementation modalities and approaches are outlined in detail in the Project Implementation Manual (PIM) as well as in the AWPB 2016. As of 28 October 2016, the major activities implemented under this component refer to preparatory work such as recruitment of service providers, preparation of a baseline study, development of a targeting approach, selection of value chains, identification of target groups in the project municipalities as well as identification of potential buyers.

15. **Service Provider.** In FBiH, the absence of public and private advisory services complicates the identification/ selection of suitable and experienced service providers to ensure continuity and sustainability in project implementation. In the previous project PCU had contracted Oxfam Italy to implement the pilot projects in raspberry production. The cooperation with Oxfam was successful; interesting lessons learnt could be drawn from the pilot projects. Unfortunately, Oxfam bids for RBDP services far exceeded the project budget estimates and the PCU signed in April 2016 a three-year contract with SERDA d.o.o., to be renewed on a yearly base.

16. The scope of services as outlined in the contract is very detailed for the first year of implementation focussing on value chain analysis, targeting and preparation of an Investment and Action Plan (IAP) to be finalised until December 2016. These activities absorb 57% of the total budget of BAM 362,000. The services provided for the remaining 2 years of implementation are not yet defined in detail but focus will be on monitoring.

17. SERDA did an inventory in all selected municipalities collecting information on value chains, poverty status as well as identifying relevant PAs/Coops and buyers. The required value chain studies have been prepared as base for developing inclusive VC models. Still, the interconnection along the value chains and the possibilities of including poor households (as newcomers) in the value chains are missing. PCU rejected the lists of PAs/Coops and buyers asking SERDA to review the lists according to relationships of PAs and buyers as entry point for the target groups.

18. Discussions with SERDA showed the need for intensive guidance in the process of developing inclusive value chains. SERDA is facing problems in taking up the experiences from RLDP: a disadvantage in comparison to Oxfam. Oxfam's high price offer (the tender process followed QCBS) complicated a smooth transition from RLDP pilot projects to RBDP. It would have been an option to

contract Oxfam at least for the preparatory part of project implementation to allow a smooth project start helping SERDA to get acquainted with the approach.

19. **Starter Package.** Lessons learnt from RLDP refer to a core principle in project implementation: to start when all project facilities are in place. However, significant delays in project start and implementation risk a fast (and not targeted) implementation of project activities as response to a piling up demand. Although the rural finance component and rural infrastructure investments are not yet in place, PCU decided in September 2016 to start project activities with offering starter packages for autumn planting to rural households similar to the approach in the previous project.

20. Prior to the call for applications for the autumn planting, the PCU had already signed Memorandums of Understanding (MoU) with the municipalities in the project area defining the framework of financial support to associations and individual farmers: The MoUs define the support to Farmer Associations and Cooperatives as follows: 33,33 % RBDP grant, 33,33% municipality contribution, 33,33% own contribution of farmer association/cooperative (as outlined for the Enterprise Development Fund). For poor farmers, women and youth the project will provide 20% RBDP grant, 10% municipality contribution, 10% contribution of the VC partner/buyer (called 'leader') and 60% farmer's contribution. However, according to the design report, matching grants only available under the Enterprise Development Fund are foreseen to benefit farmers through PAs and Coops, not directly individual farmers.

21. On 15 September 2016 PCU and SERDA published a public call inviting interested farmers to apply for the autumn seeding of berry and deciduous fruits, and medicinal and aromatic plants. The autumn seeding included the crops of raspberry, wild and cultivated strawberry, blackberry, blueberry, chokeberry, and plum, apple, pear, cherry, peach, nectarine and immortelle. The Public Call remained open until 30 September 2016.

22. The timing and the preparation of the call was not favourable for the project: in contrast to RLDP, the call was not well received by the target groups and municipalities and ended in a comparable small number of applications (in total 384 applications). Mayors of the selected municipalities expected to benefit from promotion of starter packages since the call came during local election campaign², but the conditions were not in favour of the voters. The offer was based on 2 dyn of raspberry production including seedlings and inputs summing up to BAM 5,000 as equivalent for the other crops. A detailed conversion to the other crops (size of package) was missing. Farmers stated that prices set for seedlings were too high. Furthermore, some of the starter packages are physically not yet available: in terms of MAPs, in particular 'immortelle', even the sort and source of seedlings are still unknown.

23. The financing of the starter packages was based on 20% project grant, 10% municipality contribution, 10% buyers' contribution as grant and 60% beneficiaries contribution to be financed through micro loans, buyers' pre-financing or own sources. However, neither micro finance loans nor buyers' pre-financing is in place; the share of each partner in the package was not based on specific agreements with buyers or municipalities nor reflecting different poverty status of beneficiaries. Only a few farmers have expressed interest in the start-up package with rising demand from the municipalities to increase the grant package and reduce farmer contribution.

24. In general, the design of the call offering a broad range of products, to all municipalities and (more or less) to all interested rural households is not targeted and furthermore, not in lines with the envisaged project approach. The call was not sufficiently coordinated with buyers and input suppliers. It has been agreed to review the applications and to postpone implementation to spring 2017. Still, in cooperation with PFIs, autumn planting e.g. of raspberries could be supported; the provision of matching grants requires further considerations.

25. At present the PCU and SERDA guide the municipalities to play a central role in sensitisation, awareness development, beneficiary selection. The commercial project partners in the form of input suppliers, buyers have only peripheral involvement in the promotions. However, unless the

² At the municipalities posters for RBDP autumn planting initiative were placed next to campaign posters.

commercial partners lead the process from the beginning, they may abandon the project at an early stage due to high costs and risks involved. In discussions with SERDA and with the PCU, the mission emphasised the required integrated approach to get to the expected outreach in poverty reduction. The mission recommended not to focus exclusively on starter packages as access tool to the target groups, but to develop innovative approaches jointly with the private sector to integrate poor household in existing or new value chains.

26. The offer of the starter packages targeted especially individual households, not connected to any PA/Coop and resulted in scattered applications all over the selected municipalities applying for various products. It will be impossible to direct all applicants to existing groups or to get to functioning clusters. As outlined in project design, matching grants are only available under the Enterprise Development Fund to benefit farmers through PAs and Coops, not individually. The funds are foreseen to encourage upgrading of technical support to farmers to improve their productivity. As further outlined under component 2, the mission recommends that the project matching grant support should not be a standard offering but used selectively for more risky ventures and for enabling 'very poor' inclusion.

27. **Project Planning Workshop.** In view of the problems occurring from the autumn planting initiative as well as with regard to streamlining the approach in value chain development to get to proper targeting, the mission recommends to implement a planning workshop still in November 2016 as re-start of project implementation. The workshop should facilitate the preparation of AWPB 2017 as well as to define in detail the different activities relevant for implementation in the three components. Participation of PCU, field officers, SERDA teams for component 1 and component 3, as well as PFIs. The mission emphasised to engage Oxfam for external moderation due to their experiences in the RLDP pilots³. As output of the workshop a detailed action planning including timing, costs and responsibilities is expected. It has been agreed to share the proceedings of the workshop with IFAD.

28. **Business Development Services** will include training, technical assistance, marketing and certification assistance. The PCU has identified first (women) groups interested to improve production and marketing of their traditional products (in particular dairy products).

29. **Non-Farm Employment Generation** will be targeted at providing jobs mainly for women and unemployed youth in rural areas. PCU identified women groups, e.g. in the Herzegovina, active in producing traditional products as well as rural tourism since tourism provides interesting opportunities for women and youth.

Component 2. The Rural Business Investment Component

30. The rural business investment component includes a rural refinance facility in total of USD 9.2 million for offering credit lines at concessional rates to banks and microcredit organisations selected as participating financial institutions (PFI). The PFIs are expected to use these funds to develop linkages with 1,387 individual smallholder farmers and 46 enterprises in both entities. Individual loans to (i) smallholder farmers have a ceiling of USD 20,000 with average loan size of USD 5,000 for a maximum of five years. Similarly, (ii) SME loans have maximum ceiling of USD 150,000 with average loan size of USD 50,000 for a maximum of seven years. Majority of the loans are expected to finance investments in agricultural value chains with some provision for credit support to non-farm enterprises directed towards youth and women.

31. The Federation has 60% share of the refinancing facility, which translates to USD 5.85 million allocated for disbursement to 832 individual smallholders and 28 small enterprises. The Ministry of Finance has agreed to lend the IFAD funds to PFIs without interest thus allowing four potential PFIs to propose low on-lending interest rates. LoK and Eki, the two potential MFI partners have proposed to on-lend the IFAD funds at less than 6% while Bosna Bank International (BBI) and Vakufska Banka the two potential commercial bank partners intend to lend between 4-6% interest rates. The SLAs between the Ministry of Finance and the PFIs are delayed by the process of approving an amendment

³ The mission recommends Fedja Begovic from USAID as resource person for the project planning workshop. Mr. Begovic has an excellent experience in inclusive targeting and was part of the team who implemented OXFAM interventions in RLDP.

to the loan repayment period, which proposes to start counting the repayment period from the date of disbursement of each tranche instead of the date of disbursement of the first tranche. The mission recommends that the PCU should follow up to expedite the signing of the SLA between the Ministry of Finance and the PFIs by the end of November 2016.

32. The previous IFAD project had used matching grants to demonstrate to the PFIs the viability of financing target group farmers in coordination with financing other actors in the value chain. The demonstration was successful and LoK MFI fully adopted this approach and disbursed more than 300 loans according to this methodology. Eki MFI has also started adopting this approach. RBDP is expected to promote the market for such value chain linked loans by the PFIs instead of further offering matching grants to compete in the same market.

33. As mentioned earlier, RBDP municipalities have invited applications for autumn planting start-up packages comprising 40% matching grants from the project, municipalities and buyers and 60% own financing by the farmers. The availability of credit funds at low interest rates through the PFIs has not been promoted actively because the PFIs are not fully on board due to the delay in signing the SLA. The mission recommends that since the PFIs are already willing to finance farmers following the value chain approach, the PFIs should be invited to support any autumn financing opportunity from their own funds or from IFAD funds to them from previous projects (for LoK and BBI). These disbursements can be reimbursed once the SLAs are executed or be counted towards the 20% PFI contribution required to access the IFAD funds in RBDP. By the mid-term review in autumn 2017 the PCUs actual and committed disbursements should add to at least 40% of the total refinancing sum. The list of loan applicants generated directly through PCU led promotional activities should be allocated to specific PFIs from the beginning based on discussions regarding their comparative advantages. The PFIs can compete to generate applications for the IFAD supported loans through their own promotional and business development activities.

34. The mission observed that there is a possibility of delegating more responsibilities to the PFIs, mainly LoK and BBI which also partnered in previous IFAD projects and have a deeper understanding of the project methodology and poverty reduction mandate. In particular, LoK MFI was closely associated with OXFAM in the design and implementation of the pilot targeting approach in RLDP. The mission recommends that PCU should consider to sponsor 1-2 business development officers to be recruited and guided by LoK to lead the coordination between municipalities, buyers and clients in 5-7 municipalities for 2-3 seasons. The long term objective of these officers will be to widen the LoK client base from the IFAD target group by promoting: a) producer financing for linkage to the project promoted value chains; b) replacing supplier financing to small holder clients to enable the suppliers to expand their business to target group farmers; and c) service potential linkages between LoK and commercial banks like BBI for value chain financing. Based on satisfactory performance LoK will absorb these officers at the end of project support. The mid-term review will evaluate the progress achieved and the replication of this mechanism with other PFIs across the project.

35. The value chain financing mechanism currently promoted by the project can lead to relatively limited outreach as buyers prefer to expand their network of small farmers gradually. Relying solely on this approach may not achieve the required disbursement volumes and will miss some of the potential targeted beneficiaries. The mission recommends that the PFIs should adopt the following individual lending approach in the project area: (i) smallholder farmers directly linked to a partner buyer should be financed; (ii) other smallholder farmers from the same village cluster where the first group of producers are financed should be supported with or without offtake contracts. These borrowers should have the potential to join the project supported buyer value chains in the future. Project training and capacity building activities should focus on these borrowers through coordination between the PCU extension officers, PFI field officers and agronomists from the buyer companies; and (iii) non-farm enterprises should be supported targeting youth and women from the same village clusters where the first two categories of farmers are financed.

Component 3. The Rural Market Infrastructure.

36. PCU has contracted SERDA as service provider since Odraz, the previous contractor, went bankrupt. To allow smooth implementation of the component SERDA recruited 2 specialists from Odraz as responsible officers. Due to the still pending signature of the OFID loan agreement, in the coming weeks PCU will start to prepare for the implementation of this component, after final constitution of the local council. It is foreseen to introduce dialogue platforms at municipality level to discuss and agree on rural infrastructure investments. PCU is planning to recruit field officers in the five project regions to support the coordination of the process.

Agreed action	Responsibility	Agreed date
Implement a planning workshop to define in detail upcoming project activities and budgets as input to AWPB 2017	PCU	Immediate
Clarification of SERDAs role in project implementation in 2017 and 2018	PCU	Immediate
Plan to ensure that actual and committed disbursements by MTR adds to at least 40% of the total refinancing allocation	PCU, PFIs	Continuous
Follow up and complete the SLA between the MoF and the PFIs	PCU	30 Nov 2016
Until signature of SLAs, invite the PFIs to support any autumn financing opportunity from their own funds or from IFAD revolving funds	PCU	Immediate

Part B. Republika Srpska

37. It was agreed in the start-up workshop to focus is on inclusive value chain development selecting suitable pro-poor value chains to achieve poverty reduction. The mission is pleased to report that the APCU has taken up the agreed approach. Discussions and field visits during supervision showed the seriousness of the team in applying the new way forward.

38. The overall performance of the main components is rated **moderately satisfactory** taking into account the efforts of APCU in preparing for developing inclusive value chains in the sub-sectors of dairy, raspberries, vegetables and MAPs. The late project start was still affecting the implementation in 2016. The AWPB 2016 allocated funds of BAM 624,000 for the different components providing advisory services, loans, equipment and rural infrastructure to target group farmers in selected value chains. Since the concert of project activities has not yet been finally agreed with the target groups, relevant value chain actors and municipalities; rural business investments are conditional on the credit line facility becoming fully operational and implemented and rural infrastructure investments still depend on the constitution of the new local councils, the set targets of 2016 will not be reached. Until 30 September 2016, BAM 17,000 have been spent; main expenditures of the project went into project management.

Component 1. The Rural Business Support Component.

39. Component 1 has three sub-components; (i) Farm Enterprise Development; (ii) Business Development Services; and (iii) Non-Farm Enterprise Development. The implementation modalities and approaches are outlined in detail in the Project Implementation Manual (PIM) as well as in the AWPB⁴ and the additionally prepared action plan for 2016.

40. As of 28 October 2016, the major activities implemented under this component refer to preparatory work such as recruitment of service providers, preparation of a baseline study, development of a targeting approach, selection of value chains, identification of target groups in the project municipalities as well as identification of potential buyers. As agreed in the start-up workshop special emphasis will be paid to develop innovative models and partnerships with the private sector to promote an efficient inclusive value chain approach. The mission recommends to implement a detailed planning workshop still in November 2016 to facilitate the preparation of AWPB 2017 as well as to define in detail the different activities relevant for implementation in the three components. It has been recommended to invite the APCU staff as well as AESD, field officers and representatives from

⁴ As outlined in project design the initial AWPB is based on an 18-month procurement plan (01/2016-06/2017) with successive 12-month plans synchronised with the AWPB cycle.

PFI. The involvement of the designated coordinators at municipal level should be carefully assessed to avoid wrong expectations concerning the scope of support in the selected municipalities.

41. **Service Provider.** As in previous projects APCU is collaborating with the Agricultural Extension Service Department (AESD) as main service provider in support and capacity building of farmers. AESD has 8 offices of which 3 offices are based in RBDP municipalities. Out of a total staff of 43 employees 34 are agronomists (with 16 agronomist professional focus is still on livestock). As of 1 July, 2016, the APCU has completed the recruitment processes for field officers and signed contracts with 3 field officers to be based in the AESD offices in Prijedor (Milijana Vukomanović, Žarko Tubin) and in Doboj (Slađana Berić-Tovirac). The three field officers are directly contracted as consultants by the APCU with the option to be integrated in the AESD after project completion. Recruiting additional personnel (subject specialists) from the extension service for training and consultancy allows more tailor-made support to farmers and their groups alongside capacity building for the extension officers. APCU has signed a formal agreement with the AESD similar to the arrangements in previous projects. The approach of the APCU in cooperating with the local extension services is expected to have a positive impact on the implementation of the activities as well as on the sustainability of the project support.

42. The supervision mission team discussed with the APCU the role and responsibility of the AESD in project implementation since the cooperation is not based on detailed TORs but oriented at the general tasks of the AESD fitting well to the project activities. However, this more general agreement complicates a clear assignment of activities to the project and differentiation from regular activity of AESD. The ToR for the field officers are on the other hand very detailed and perhaps too ambitious for the junior officers. The role of the field officers (at least at project start) is seen more in mobilisation of the target groups.

43. Despite the needed improvements in the approach of APCU in cooperating with AESD, it is expected that the lessons learnt from RLDP will be transferred to RBDP and the involvement of field officers from RLDP as well as recruitment of new field officers to be integrated in AESD is an important step towards sustainability. With a project manager in the team to coordinate the project components and service providers, the APCU is well prepared for project implementation.

44. **Coordination of Services - MoU.** It is to be expected that different type of service providers will be involved in the RBDP in RS, e.g. technical assistance (AESD), financial services (PFIs), infrastructure works, or services provided by buyers or municipalities. The coordination of project implementation is with the APCU; however regarding the complexity of the project and activities it is of utmost importance to define the responsibilities and processes in detail to ensure interconnection. It is recommended to prepare MoU with the target groups and related municipalities as well as with other involved market actors (buyers). Roles and responsibilities and to be expected services and contributions should be defined as well as the relevant coordinators and contact persons. It is to be expected that the APCU will delegate certain coordination function to the AESD; still this requires clearly defining AESD's responsibilities.

45. **Training plans.** Since it will be necessary to identify farmer's needs for advisory and other services (in close cooperation with PAs, agricultural cooperatives –ACs- and buyers), the mission recommends a preparation of detailed training plans to be integrated in AWPB 2017. These plan should specify the training topics, the expected number of the targeted trainees, the geographical area, the duration of each training programme as well as the staff from the service providers (i.e. AESD). The training plans should also include the engagement of additional (external) expertise for specific topics. In this context, APCU should assess possibilities to cooperate with other donor projects such as USAID FARMA II, GIZ, Gender Centre in training activities to get to synergies.

46. In addition to a target group and value chain related training plan, it is recommended to define also the capacity building need of the newly recruited field officers.

47. **Value Chains.** The methodology to be applied in value chain selection is outlined in the PIM. The preliminary value chain selection relied on the data on paid agricultural incentives per each

municipality as well as agro-ecological conditions and comparative advantages of the area for certain agricultural production. In a second step, the identified value chains were assessed regarding their relevance in the selected municipalities, identifying relevant buyers and producer associations and agricultural cooperatives.

48. **Relevant value chains in the project region** are dairy production, berry production (raspberry, blackberry, blueberry), traditional and indigenous products, NWFP and MAP, tree fruit production, goat and sheep production, cow-calf system, vegetable and greenhouse production. In the first years the project will start supporting value chains for dairy, raspberry, gherkins and traditional products.

49. **Pilot models and partnerships.** The mission team appreciates the approach of the APCU including meetings with relevant buyers as well as producers in the mission program to get an overview of the selected value chain. The mission met with representatives of dairy, vegetable, berry value chains as well as groups producing traditional products. Discussion revealed that the envisaged VC projects are still at an early stage where further detailing the cooperation is required to get to a MoU. The mission recommends prioritising the targeted municipalities, value chains and appropriate project support to allow a stepwise implementation adjusted to the APCU and AESD capacities.

50. Exemplary for the envisaged VC projects is the project region around Kozarska Dubica, where the APCU identified relevant buyers, among others the dairy 'Mlijekoprodukt AD' as well as the German company Kuehne contracting smallholder farmers/rural households (especially women) for producing gherkins/cornichons for the German market. 'Mlijekoprodukt AD' as largest dairy in RS is focussing with its main product UHT milk especially on neighbouring markets. The company cooperates with 1,500 cooperants through more than 200 collection centres. The interest is in larger farmers although 50% of the supplied milk is coming from SMEs. The minimum size of a supplier is 5-10 cows. With a price sensitive product like UHT milk, economies of scale play an important role. The dairy is very different to the dairy 'Pađeni', an important project partner in RLDP. 'Pađeni' as small dairy is serving a niche market with traditional products and thus, is less affected by the constraints and competition that the overall dairy sector in BiH is facing. Therefore, a VC project in cooperation with 'Mlijekoprodukt AD' would have to focus on farms with minimum 5-10 cows with potential to grow.

51. A group of 300 cooperants around a milk collection center in Mrkonjic are suppliers of 'Mlijekoprodukt AD' and reported on their experiences in the cooperation. Half of the farmers in the group have below 5 cows but the members are aware of the problems caused by smallholders especially with regard to milk quality. Smallholders face severe difficulties in meeting the requested hygiene standards with impact on the milk quality of all collected milk. The group reported of irregular purchases or payments of the dairy in times of oversupplies. The farmers are not fully aware of the conditions in the dairy market and the impact of the product policy of their dairy in terms of pricing. However, according to their understanding of the market a young farmer with 15 to 20 cows would have potential to manage his farm with the currently paid prices and thus, remain in business. It became obvious that the project should not exclusively look at inclusive value chain development but also integrate a localised approach allowing additional measures in the community to reach out also to those who cannot remain in the dairy value chain. These households could be introduced to other pro-poor value chains such as raspberry production or contract farming with Kuehne, or to non-agricultural employment.

52. With regard to the raspberry value chain APCU identified a number of municipalities where raspberry production could play an important role in poverty reduction. The case of the producer association (PA) of Srbac could be exemplary for a comprehensive approach in rural development: with provision of market access, starter packages, agricultural machinery, access to finance, water and electricity to ensure production and storage. The group of currently 17 members could grow to 50 members including also smaller producers. Institutional capacity building for the PA as key actor between farmers and buyers should be supported with trainings and consultancy to strengthen their management capacities. A key success factor for the performance and cohesiveness of farmer organisations is leadership of their management, an observation particularly from the pilot project implementation in RLDP.

53. **Enterprise Support Fund:** This fund is designed to encourage upgrading of technical support to farmers to improve their productivity, which could be either through improved equipment, infrastructure, or technical input. Initial 'seed funds' of BAM 15,000 will be offered to each PA and Cooperative working with the project (i.e. 30 in RS). These project funds will need to be matched by, preferably, equal contributions from both the municipality and the beneficiaries.

54. In RS, implementation of the Enterprise Support fund will follow the approach of the previous projects focusing co-financed investments e.g. on office equipment for PAs/Coops as well as lacto-freezers, small farm equipment etc. Funds will be directed to PAs/cooperatives that are well managed and have the necessary attributes to be competitive in the relevant value chain. The level of organisation of the identified farmers in the selected value chains differs significantly. In some cases, farmers still require support in getting organized, in establishing PAs; other groups still require strengthening their management capacities. Since PAs/Coops are the entry point of the project at farm level, it is recommended to follow the group approach and not to redirect financial support to individual farmers due to lack of capable organisations.

55. **Business Development Services** will include training, technical assistance, marketing and certification assistance. The APCU has identified a number of farmers/groups interested to improve production and marketing of their traditional products (in particular dairy products). APCU is preparing to contract specialized service providers for geographical branding in particular to support certification processes and branding of traditional products. A first study tour to Croatia is in preparation to get insights in EU requirements for geographical branding. In addition, also MCOs as well as buyers are prepared to provide additional services.

56. **Non-Farm Employment Generation** will be targeted at providing jobs mainly for women and unemployed youth in rural areas. APCU has not yet started to concrete activities in this field. As outlined above, APCU should look into the entire cluster/pocket identifying those not able to join or stay in selected value chains. Rural tourism provides interesting opportunities for women and youth as well as employment in processing (buyer) companies.

Component 2. The Rural Business Investment Component

57. The RS has 40% share of the refinancing facility, which translates to USD 3.38 million allocated for disbursement to 555 individual smallholders and 18 enterprises. The APCU has identified LoK and FinCredit as the two potential PFIs. LoK, an experienced microcredit partner of the PCU in FBiH has proposed to charge an attractive interest rate of 6.99% to individual borrowers. It is registered as a microcredit foundation and is eligible to deliver loans upto BAM 10,000. FinCredit is a relatively new microfinance institution, which believes that its partnership with the IFAD project will boost its developmental credibility. It has proposed an interest rate of 11% to individual clients. FinCredit is registered as a microcredit company and is eligible to disburse loans up to BAM 50,000. Being microcredit institutions both the PFIs are already active in the individual credit segment of average USD 5,000 loans targeted by the project and are expected to be more agile with disbursements and flexible with collateral requirements compared to commercial banks.

58. Although the overall situation with PFI selection is more promising compared to previous projects, active collaboration between the potential PFIs and the APCU for planning, client identification and disbursements is yet to start as the subsidiary loan agreement (SLA) between the PFIs and the Ministry of Finance is still pending and will take at least 1 to 2 more months before finalisation. Meanwhile, the autumn planting season has arrived and missing this disbursement opportunity can cause serious gaps considering the limited project time remaining.

59. The mission recommends that the APCU should negotiate with the potential PFIs to start loan disbursements immediately in the project area from their own funds. Going forward these disbursements can be counted towards the 25% PFI contribution required to access the IFAD funds. Moreover, by the mid-term review in autumn 2017 the APCU's actual and projected disbursement till December 2017 should add to at least 40% of the total refinancing sum.

60. Both the potential PFIs have expressed their ability to disburse loans anywhere within the 20 RLDP municipalities and the APCU believes that they should be allowed to compete. Since the project geographical area is widely spread, project start there should be greater emphasis on wider geographical coverage by the IFAD credit funds before competing in limited pockets.

61. The mission recommends the APCU to consider for the first one or two years of implementation to direct the PFIs to deliver services to target group farmers in different financially unserved parts of the project area before they eventually overlap and start competing in same project municipalities.

62. In general, buyers are willing to explore the possibility of pre-financing smallholder farmers as a future linkage option and this can drive the demand for SME working capital loans from the IFAD refinancing facility. However, so far commercial banks that can disburse such large SME loans have not expressed interest in the IFAD funds and this can emerge as a major limitation in the future.

63. The mission recommends that the APCU should encourage the PFIs to first deliver the IFAD supported loans in separate locations/Municipalities before competing in the same project locations. The list of loan applicants generated directly through APCU led promotional activities should be allocated to specific PFIs from the beginning based on discussions regarding their comparative advantages. The PFIs can compete to generate applications for the IFAD supported loans through their own promotional and business development activities.

64. The APCU has reached an agreement with the RS Guarantee Fund to cover 50% of any PFI loan to a borrower for which the latter has to pay a premium of 1.1% per annum (half of the normal rate of 2.2%) directly to the guarantee fund. The guarantee fund is also willing to extend this facility to SMEs that pre-finance smallholder farmer within RBDP. Both these steps once effective should encourage rural lending.

65. In harmony with the value chain development approach of the project the APCU is currently discussing with buyers how their backward linkages to existing and new smallholder farmers in the project area can be strengthened through financing from the PFIs. While this is the ideal approach the outreach achieved through this mechanism can be relatively limited as buyers prefer to expand their network of small farmers gradually. Project implementation is already delayed and thus relying solely on this approach may not achieve the required disbursement volumes.

66. The mission recommends that the PFIs should adopt the following individual lending approach in the project area: (i) smallholder farmers directly linked to a partner buyer should be financed; (ii) other smallholder farmers from the same village cluster where the first group of producers are financed should be supported with or without offtake contracts. These borrowers should have the potential to join the project supported buyer value chains in the future. Project training and capacity building activities should focus on these borrowers through coordination between the APCU extension officers, PFI field officers and agronomists from the buyer companies; and (iii) Non-farm enterprises should be supported targeting youth and women from the same village clusters where the first two categories of farmers are financed.

Component 3. The Rural Market Infrastructure.

67. In Project design, rural market infrastructure in RS was originally financed from an OFID loan. In the Project Financing Agreement with IFAD, the RS Government secured adequate corresponding financing from own funds as published in the Official Gazette of RS on 12.03. 2013: revolving funds of USD 3,430,00 from the IFAD Livestock and Rural Finance Development Project (LRFDP) are allocated for rural infrastructure investments in RBDP, co-financing is expected from the participating municipalities.

68. Caused by the late project start and local elections beginning of October 2016, APCU will start the implementation of this component in the coming weeks, after final constitution of the local council. It is foreseen to introduce dialogue platforms at municipality level to discuss and agree on rural infrastructure investments. APCU has appointed municipal coordinators to guide the process.

Agreed action	Responsibility	Agreed date
Implement a planning workshop to define in detail upcoming project activities and budgets as input to AWPB 2017	APCU	Immediate
Prepare detailed MoU with service providers including AESD as well as with beneficiaries to facilitate coordination	APCU	January 2017
Prepare detailed training plans to be integrated in AWPB 2017 defining training topics, targeted trainees and expected numbers, geographical area and duration as well as the service providers (including staff of AESD) as well as partnering projects (e.g. USAID FAMA II)	APCU	Immediate
Follow up and complete the SLA between the MoF and the PFIs	APCU	30 Nov 2016
Till the SLA is signed, invite the selected potential PFIs to finance the autumn planting needs from their own funds	APCU	Immediate
Plan to ensure that actual and committed disbursements by MTR adds to at least 40% of the total refinancing allocation	APCU, PFIs	Continuous

D. RLDP implementation progress FBiH and RS

69. The Mission considers the overall project management **moderately satisfactory**.

70. **Quality of RBDP Management.** Under the overall oversight of the APCU director, a project manager to coordinate RBDP project has been recruited. The mission team appreciates the recruitment of the former Assistant Minister who has shown his commitment to the coordination role as well as his ability to integrate project activities into a broader context to access additional support measures/funding. In FBiH, the PCU has employed a Procurement Specialist to alleviate the Project Director with procurement issues.

71. **Project Steering Committee (PSC).** It is envisaged that conceptual, strategic and policy guidance is being provided by the PSC. In FBiH, the PSC is not yet formed; an experience from previous projects when the FBiH Government appointed 5 ministers as members of PSC with the Minister of Agriculture as appointed PSC chairman. Since their appointing the PSC never met.

72. In RS, the PSC is chaired by the Assistant Minister of Agriculture, and comprises representatives from the Ministry of Finance and the Banking Supervisory Agency. A first PSC meeting was held beginning of 2016. The supervision mission could meet the Assistant Minister for a debriefing in the APCU.

73. **Staffing.** The A/PCU teams are consolidated; each position is filled with officers with many years of working experience in the A/PCU. Positions and responsibilities (especially technical responsibilities by component) are defined; the targeting and gender position in APCU is also formalized. Due to the widely spread project regions, PCU is preparing to contract 5 field officers to be based in the fields.

74. Still, the A/PCU teams have to further develop their capacities to meet the requirements of successful project implementation. Also with regard to the technical capacities to translate project approaches into implementation modalities capacity building especially of PCU staff will be crucial for RBDP implementation. The mission recommends complementing the team with technically experienced (external) staff to support PCU in coordinating staff, service providers and field officers.

75. **Coherence between AWPB and its implementation is rated moderately unsatisfactory.** The PCU prepared a 12 months' AWPB 2016; APCU prepared as outlined in project design the initial AWPB as an 18-month procurement plan (01/2016-06/2017) with successive 12-month plans. An additional Action Plan for 2016 detailed the planned activities and allocated budgets for 2016. Both A/PCUs were too ambitious with regard to planning their activities for the first year of implementation. Both PCUs spent only 1% of the allocated budgets, whereas main expenditures went into project management costs. The mission recommends defining the activities and expenditures for 2017 in planning workshops at entity level as input to the AWPB 2017.

76. **Performance of monitoring and evaluation (moderately satisfactory).** The performance of the M&E systems remains an issue and has serious impact on reporting. Despite improvements in

recent years, the relevance of the M&E system for decision-making is still limited. Continuing capacity building of the technical staff and direct support from IFAD is required to improve the performance.

77. As in previous projects, the APCU and the PCU follow different approaches, using different methodologies in baseline and value chain studies, RIMS and M&E systems. With regard to RIMS and log-frame it would be helpful to harmonise the systems in the two entities choosing the same indicators to allow comparison of the achievements. The mission recommends harmonisation at least of indicators while a closer cooperation in M&E would facilitate this process. During the mission, the M&E specialist has started the exchange process and has started the exchange process harmonizing RIMS 1st and 2nd level indicators for project part A and B with quantitative targets. The process should be continued by (i) identifying suitable sub-indicators to allow an appropriate rating of RIMS 2nd level indicators; and (ii) connecting RIMS and M&E indicators.

78. During assessment of log-frame and RIMS indicators it became apparent that outputs, outcomes and indicators outlined in the PIM were not consistent with the Project Design and not clearly assigned to RIMS or log-frame. The mission agreed with the A/PCU to update the log-frame according to the Design Report.

79. As it is mentioned in Annex 6 of the Main Report, the A/PCUs should establish a central computerized database containing all relevant project data (on the level of project inputs, outputs and outcomes) facilitating also the analysis of project results and impact for annual reporting, midterm review and completion reporting. The M&E officer should maintain the database. Responsibility of data collection is with the M&E officer and A/PCU staff as well as obligatory for service providers (as well as MFIs, PAs, AESD, etc.). Format and frequency of data collection should be incorporated in the contracts and MoUs.

80. Furthermore, it is also important for the A/PCU to more systematically document the good results and 'success stories', in order to showcase achievements; in addition, some of the tools, processes, and methodologies adopted by the project should also be packaged and disseminated as knowledge products. In general, the A/PCU should take a more proactive approach in promoting the efforts and interventions undertaken over the project lifetime to a wider audience.

81. **Gender focus (moderately satisfactory).** The appointment of targeting and gender officers in both FBiH and RS will support project implementation in a pro-poor and gender sensitive manner. The current value chains envisaged through the project are particularly attractive for women's participation, e.g. gherkins for the processing industry, traditional dairy products as well as tourism. However, especially the APCU still have to define their approach in reaching out best to women and youth. PCU contracted Oxfam to conduct a detailed gender study in the selected municipalities; furthermore a gender action plan is available, mainly drawn from the design report.

82. **Poverty focus and effectiveness of targeting approach (moderately satisfactory).** The targeting approaches chosen in the two entities differ, APCU again focuses more on joint assessments with local beneficiaries, SERDA has followed the proven methodology applied by Oxfam in RLDP. However, further detailed targeting in the selected municipalities as well as for the value chains is required when project implementation starts. So far, APCU conducted three targeting workshop for selected value chains to discuss social categorisation and targeted measures in selected municipalities. According to the baseline studies, categorisation of the different poverty group is as follows:

Category	Monthly income per capita (BAM)
Very poor	Below 200 BAM per household member
Poor	201-400 BAM per household member
Borderline poor	401-500 BAM per household member

83. The mission team recommends to identify measures to differentiate the support to the different target groups in a value chain, e.g. to categorize the support in the value chains according to the poverty groups as done in a pilot project in Rudo (RLDP), where the cooperative provided raspberry starter packages to their members and the share of the grant contribution provided by the cooperative depended on the poverty status of the member households.

84. **Partnerships (moderately satisfactory).** In the value chain analysis the donor projects present in the targeted municipalities are listed. Cooperation with other donor-funded projects is still at an early stage: APCU and PCU will continue the cooperation with GIZ ProLocal project; with USAID FARMA II project both A/PCUs have agreed to exchange the names of PAs supported under the RLDP as well as FARMA II to avoid overlapping of support, especially with regard to matching grants. Further fields of cooperation are to share future training planning and programming information to ensure synergies and prevent overlapping. Training provided by USAID FARMA II includes also support of PAs in advocacy training and mentoring, ideally linked to strategic planning processes.

85. **Innovation and learning.** The project is still at an early stage, a rating for innovation and learning in the project requires further project implementation.

86. **Climate and environmental focus.** It is to be expected that environmental friendly and climate-change adaptation technologies within select value chains will be introduced, and being promoted in the project regions.

Agreed action	Responsibility	Agreed date
Expedite the process to form PSC	PCU, MoA	Immediate
Harmonize M&E indicators of APCU and PCU	APCU/PCU	Immediate
Establish computerized centralised database to facilitate data collection and reporting	APCU/PCU	Immediate
Improve promotional activities on project experiences	APCU/PCU	On-going
Intensify the cooperation with USAID FAMA II in training and information exchange	APCU/PCU	On-going
Preparation and submission of AWPB 2017	APCU/PCU	December 2016

E. Fiduciary aspects

87. **Financial management.** A Financial Management (FM) assessment was conducted to review the adequacy of the arrangements in place for the Project. The assessment also included an SOE review. The respective Ministries of Agriculture in the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska will be responsible for the financial management of the project and for coordinating all financial reports, through the A/PCUs. Based on the supervision, the FM rating of the overall Project is **moderately satisfactory**.

88. **Project cost.** The RBDP is a USD 30.2 million project (BAM 43.31 million), to be implemented in both the FBiH and RS, and financed through: an IFAD loan of SDR 8.05 million (approx. USD 12.7 million); an IFAD grant of SDR 0.5 million (approx. USD 0.78 million); PFIs contribution of USD 1.8 million; beneficiary contribution of USD 2.7 million; and Government contribution (FBiH and RS) of USD 3.36 million. Rural infrastructure investments will be financed in the FBiH by an OFID loan of USD 5.35 million and in RS by the Entity Government contributing of approx. USD 3.43 million. The project cost of Part A for the Federation of Bosnia and Herzegovina is USD 18.10 million and the project cost of Part B for the Republika Srpska is USD 12.12 million.

Part A. Federation of Bosnia and Herzegovina

89. **Financial management.** The PCU maintains a full set of accounts in accordance with IFAD's requirements and internationally accepted accounting standards. The PCU uses the financial management and accounting system already in place. Within the PCU, the Financial Manager is responsible for all financial aspects of the project. Based on the FM supervision, the financial management performance is assessed to be **moderately satisfactory**.

90. **Organization and Staffing (satisfactory).** The finance management team of PCU consists of one financial manager and one procurement specialist hired two months ago. The financial manager, responsible for the overall financial management of the project, had acquired acceptable experience with previous IFAD projects, which should be utilized for this project.

91. **Budgeting (satisfactory).** IFAD loan and grant budget is viewed by the Government as part of the national budget. Before the end of each fiscal year, the PCU prepares its Annual Work Plan Budget (AWPB) for the following year, including all its activities from the loan, grant and Government proceeds. The PCU submitted the AWPB for the fiscal year 2016, for IFAD No Objection on December 04, 2015 and IFAD approved this AWPB on December 14, 2015 although submission to IFAD for its No Objection should be no later than 60 days before the beginning of the relevant Project year.

92. However, the AWPB requires examination and approval of the Project Steering Committee (PSC) before submission to IFAD. Since the PSC is not appointed yet, the AWPB has been approved without consultation with the PSC. The mission recommends to expedite the appointment of the PSC, in particular for approval of the AWPB for the fiscal year 2017.

93. **Funds flow and Disbursement Arrangements (moderately satisfactory).** Disbursements from the project bank accounts are subject to a sufficient level of review, check and balance to ensure sufficient level of control exists. The Project has five bank accounts, opened at the Sparkasse Bank DD BiH, detailed as follows:

- One designated account in Euros to receive funds from IFAD loan.
- One designated account in Euros to receive funds from IFAD grant.
- One project account in BAM to receive funds from the loan designated account, to pay eligible expenditure of the project in local currency.
- One project account in BAM to receive funds from the grant designated account, to pay eligible expenditure of the project in local currency.
- One project account in BAM to receive Government contribution to pay taxes and VAT.

94. The Deputy Minister of Finance and PCU Director or Federal Minister of Agriculture, as joint signatories for the two designated accounts in Euros and the bank account for the Government contribution. However, the two project accounts in BAM are operated jointly by the project director and the financial manager. All payments on the loan are made using bank transfers, except for small expenditures.

95. The PCU maintains project account bank reconciliation updated for all bank accounts on monthly basis. As of 30 September 2016, closing balance of IFAD DA was Euros 800,000, IFAD grant was Euros 100,000, IFAD loan project account was BAM 19,560, IFAD grant project account BAM 97,791, Government contribution bank account was BAM 539,761 and petty cash was BAM 1,085.

96. Commitments and actual expenditures. The total amount of commitments (signed contracts) as of September 30, 2016 is BAM 3.708 million, financed by IFAD loan (BAM 2.862 million), IFAD grant (BAM 0.119 million), OFID loan (BAM 0.669 million) and Government (BAM 0.058 million) and represents 14% of the total project cost (FM Appendix 5, Table 1). The commitments on IFAD loan include the total amount of staff salaries for the whole project duration. Deducting the salaries for the next years (2017 to 2020) for a total amount of BAM 2,016 million, the commitments will be only BAM 1,692 million and represent 7% of the project cost.

97. The total amount of actual expenditures as of September 30, 2016 is BAM 0.388 million, financed by IFAD loan (BAM 0.371 million) and Government (BAM 0.018 million). It represents 1% of the total funds allocated for the project and 10% of the total commitments (FM Appendix 5, Table 1). The mission notes that 77% of the payments are related to component 4 (Project Management and Coordination Unit).

98. Two years after the effectiveness, the actual expenditures on IFAD loan are still too low. From IFAD loan which totals about USD 7.610 million, the actual expenditures are USD 0.209 million (Euros

0.189 million) and represent 3% of the loan amount. However, there are no payments on the grant and the effectiveness of the OFID loan still awaits signature. According to the PCU, OFID loan will be effective by the end of the year 2016. The expenditures by category on IFAD loan are presented in the FM Appendix, Tables 3.

99. **Actual expenditures on AWPB 2016.** The total amount of the actual expenditures, including the Government contributions, against 2016 AWPB as of September 30, 2016 is considerably low. The total expenditures is equal to BAM 0.388 million which represents 5% (FM Appendix 5, Table 2) of the total planned amount (BAM 8,041 million).

100. According to the PCU, the forecasts of commitments for the last quarter 2016 will be BAM 0.685 million and those for payments will be BAM 0.967 million. So the total payments on AWPB 2016 will be BAM 1.355 million and represent 17% the total planned amount.

101. **Internal Control (satisfactory).** The internal control system in place within the PCU conforms to the Government system and has been deemed satisfactory by the IFAD. Indeed, the PCU guarantees the separation of the functions through several controls mechanisms. The payments from project bank accounts are subject to a high level of control. Most payments are made using bank transfers, only small payments from IFAD loan, are allowed to be done by cash as advances and which then justified by presenting the supporting documents.

102. **Project Implementation Manual (PIM).** The PCU prepared and submitted a PIM to IFAD for approval, in December 2015.

103. **Accounting (moderately satisfactory).** The PCU is using FMS accounting software for the financial monitoring. The financial management software is in line with IFAD requirements but needs upgrading in order to enhance performance and accommodate the comparison between budgeted expenditures under the Financing Agreement, the AWPB and actual figures. The statements of commitments by component, sub-components, category and financing source are not automatically produced by the system. The information are generated by the system, then the tables are prepared on Excel sheet.

104. **Financial Reporting and Monitoring (moderately satisfactory).** Financial reports prepared by the PCU, on Excel sheet, include a statement of expenditures by component, category and by financier. However, the financial reports do not include commitments by financier, category, component, and sub-component. The mission recommends using the attached financial statements template for the follow up of the project actual expenditures and commitments in the future and also to include a statement of sources and uses of funds by component.

105. **Internal Audit (moderately satisfactory).** At the PCU level, there is no internal auditor. However, in the Ministry of Agriculture, there is an office for audit of institutions in the Federation of BiH, under the Federal Government and the project transactions could be subject to ex-post review by them.

106. **Fixed assets register.** The PCU follows the assets on an excel sheet registry and it is in line with Government's established procedures.

107. **Designated accounts (moderately unsatisfactory).** As of 30 September 2016, only two withdrawal applications (WAs), one under IFAD loan and one under IFAD grant had been submitted and disbursed, for Euros 1 million and Euros 0.150 million corresponding to the initial advances. The mission recommends timely submission of WAs every three months or when the requested WA is at least 30% of the authorized allocation.

108. **Disbursement (moderately unsatisfactory).** The disbursement percentages, including the authorised allocation to the Designated accounts for the loan and the grant were 17% and 40% respectively.

109. **Counterpart Funds (moderately satisfactory).** The counterpart funds include the contribution of the Government of BiH, the beneficiaries of the infrastructure investments (municipalities), the

clients of the credit line, and the financial institutions (PFIs). Only the Government transfers an advance on its contribution to the project for an amount of BAM 0.540 million (Euros 0.276 million) which represents 57% of its contribution to AWPB 2016. As the activity on component 2 (Rural Business Investments) and 3 (Rural Market Infrastructure) did not start yet, the other co-financers did not transfer their contribution to the project.

110. Compliance with Loan Covenants (satisfactory). The Project's compliance with Loan Covenants is rated as satisfactory. The details with regards to the status of implementation and compliance with Project Financing Agreement covenants are presented in Appendix 6.

111. Procurement (moderately satisfactory). The overall procurement assessment carried out by the mission shows that in general, Goods, Works & Services financed by IFAD have been procured in accordance with the national shopping procurement method, except for some contracts which have been procured on single-source selection basis with no prior IFAD No Objection.

112. SOE review. The mission selected and reviewed 13 payment orders related to IFAD loan for a total amount of BAM 0.153 million (Euros 0.078 million) and found the supporting documents are adequate and easily retrievable. The main findings are as follows (FM Appendix. Table 4):

- Single-source selection with no prior IFAD No Objection for contracts signed with AS Company Doo (BAM 9,000 on IFAD loan); KM Engineering (BAM 15,000 on IFAD loan); Avaz-roto press (BAM 670 on IFAD loan); Emis (BAM 5,208 on IFAD loan).
- Offers to purchase computers and printers were received by email and not in closed envelope. The technical criteria prepared by the PCU asked for brands (HP; Dell etc.). This is in accordance with IFAD procurement Handbook guideline (page 41), allowed "in exceptional cases" with clause "or equivalent" which they use in technical specification.
- Offers for printing manual for farmers were received by email and not in closed envelope, and there is no comparative table prepared by PCU. In according to IFAD Project Procurement Guideline "quotations may be submitted by mail, electronical mail or facimile" (for NCB method of procurement).
- Payment to the Ministry of finance the balance of the audit fees related to another project (RLDP FY 2015) for an amount of BAM 1,249.

113. Audit (satisfactory). As it is the first year for the project implementation, so the audit report for the fiscal year 2016 is due no later than 30 June 2017. The external audit for the previous project (RLDP) is DELOITTE, and in general, it is observed that audit work throughout the project's life has been completed following IFAD's Project Audit Guidelines. The audit risk rating for the previous project was satisfactory.

Agreed action	Responsibility	Agreed date
Expedite the process to form PSC	PCU, MoA	Immediate
Prepare and submit the AWPB for the fiscal year 2017, for IFAD No Objection.	PCU	31 December 2016
Submit of WAs every three months or when the requested WA is at least 30% of the authorized allocation.	PCU	31 December 2016
The project to prepare financial reports for the year as well as for cumulative period since the beginning of the project life by component, sub-component, financing source and by category.	PCU	Quarterly basis
Utilize the attached financial statements template for the follow up of the project actual expenditures and commitments in the future.	PCU	On-going
Ask for an exceptional retroactive IFAD no objection for all contracts subject to IFAD prior review and for the payment related to the audit fees of RLDP. In the future, the PCU should ask for IFAD prior NO for all single-source selection.	PCU	31 December 2016
No brands should be mentioned in the technical criteria and ask the suppliers to send their offers in closed envelopes which must be opened by an evaluation committee.	PCU	Ongoing

Procurement in FBiH

114. **Procurement (moderate satisfactory).** Procurement is mostly carried out in line with "IFAD Procurement Guidelines" and procurement procedures and thresholds stipulated in Letter to the Borrower and PIM.

115. Procurement officer has been recently employed in PCU and although she has a previous experience with the procurement she is not yet fully familiar with IFAD procurement procedures. Therefore, there is still need to support the new procurement officer by experienced members of project team and IFAD staff and enable additional appropriate training.

116. PCU has not established a Register of Contracts with all relevant data relating to the procedure that preceded the signing of the contracts. The numbering of contracts follows protocol numbers, but it is recommended to codify contracts with a combination of numbers and letters that would indicate the project title or number, type of purchase, project component and ordinal number of contracts. It is recommended to re-establish Register of Contract in a format similar attached to this report. Procurement documentation might be more systematically grouped and filed (each procurement activity should have its own file/folder where records are kept properly coded in chronological order).

117. The first **Procurement Plan** was prepared and attached to AWPB 2016, only approved by IFAD, since the PSC is not yet appointed. Procurement under post review are not all carried out in line with IFAD Procurement Guidelines and procurement procedures and thresholds stipulated in Letter of Borrower and PIM:

- Award of contract no 02-07/2016-EQ (for plastic crates) on the basis of direct contracting without prior no objection from CPM;
- Procurement under contract 01-07-16-PUBL (printing publication) was originally planned as direct contracting, finally purchased as local shopping based on only two bids.

118. In general there were no appointed evaluation committees for procurement provided under direct contracting and local shopping methods. The mission recommends nominating a bid evaluation committee for each contract award regardless of value and method of procurement and compulsory preparation of minutes of the evaluation process.

Agreed action	Responsibility	Agreed date
Complete the procedure with approval and contracting MCOs as intermediaries for the project credit line	PCU, MoA	Immediate
Appoint bid evaluation committee for all contracting regardless method of procurement	PCU	31 December 2016
Establish Register of Contracts in a more detailed format	PCU	31 December 2016
Strictly follow procurement procedures for each contract	PCU	Immediately

Part B. Republika Srpska

119. **Financial management.** The APCU maintains a full set of accounts in accordance with IFAD's requirements and internationally accepted accounting standards. The APCU uses the financial management and accounting system already in place. Within the APCU, the Financial Manager is responsible for all financial aspects of the project. Based on the FM supervision, the financial management performance is assessed to be **moderately satisfactory**.

120. **Organization and Staffing (satisfactory).** The finance management team of APCU consists of one financial manager, one accountant and one procurement specialist. The fiduciary team is working on IFAD and World Bank projects. The financial manager had acquired acceptable experience with previous IFAD and World Bank projects, and she is responsible for the overall financial management of the project.

121. **Budgeting (satisfactory).** IFAD loan and grant budget is viewed by the Government as part of the national budget. Before the end of each fiscal year, the APCU prepares its Annual Work Plan Budget (AWPB) for the following year, including all its activities from the loan, grant and Government

proceeds and submit it to the Project Steering Committee (PSC) for examination and approval, then submitted to IFAD for its No Objection no later than 60 days before the beginning of the relevant Project year. The APCU submitted the AWPB for the fiscal year 2016 (18 months), for IFAD No Objection on December 24, 2015 and IFAD approved this AWPB on December 29, 2015. The mission recommends to prepare and submit the AWPB for the fiscal year 2017, for IFAD No Objection as soon as possible.

122. **Funds flow and Disbursement Arrangements (*moderately satisfactory*)**. Disbursements from the project bank accounts are subject to a sufficient level of review, check and balance to ensure sufficient level of control exists. The Project has two designated bank accounts, opened at the Sbar Bank, detailed as follows:

- One designated account in Euros to receive funds from IFAD loan. The payment of eligible expenditure of the project in local currency are done directly from this account.
- One designated account in Euros to receive funds from IFAD grant. The payment of eligible expenditure of the project in local currency are done directly from this account.

123. The project will open two other bank accounts, one to receive Government contribution to pay taxes and VAT and one to receive beneficiaries' contribution.

124. The Deputy Minister of Agriculture and APCU Director, as joint signatories for the two designated accounts in Euros. All payments on the loan are made via bank transfers, no cash payments from IFAD loan proceeds are allowed.

125. The APCU maintains project accounts bank reconciliation updated for the all the bank accounts on monthly basis. As of 30 September 2016, closing balance of IFAD DA was Euros 402,861 and IFAD grant was Euros 150,000. However, the Government did not transfer yet its contribution.

126. Commitments and actual expenditures. The total amount of commitments (signed contracts) as of September 30, 2016 is BAM 0.345 million, financed by IFAD loan (BAM 0.324 million) and Government (BAM 0.021 million) and represents 2% of the total project cost (FM Appendix 5, Table 1).

127. The total amount of actual expenditures as of September 30, 2016 is BAM 0.190 million, financed by IFAD loan. It represents 1% of the total funds allocated for the project and 55% of the total commitments (FM Appendix 5, Table 1). The mission notes that 91% of the payments are related to component 4 (Project Management and Coordination Unit).

128. As the Government did not transfer its contribution, all the payments related to VAT for a total amount of BAM 0.013 million, have been paid by IFAD loan. These expenditures are considered as not eligible for the financing on the loan. The APCU promises to reimburse this amount once the Government transfers its contribution.

129. Two years after the effectiveness, the actual expenditures on IFAD loan still too low. From IFAD loan which totals about USD 5.110 million, the actual expenditures are USD 0.107 million (Euros 0.097 million) and represent 2% of the loan amount. However, there is no payment on the grant. The expenditures by category on IFAD loan are presented in the FM Appendix, Tables 3. The payments on OFID loan did not start and according to the APCU, the Ministry of finance of Republika Srpska prefers to finance the contribution of OFID on the budget of the Ministry of Agriculture.

130. Actual expenditures on AWPB 2016. The total amount of the actual expenditures, including the Government contributions, against 2016 AWPB as of September 30, 2016 is considerably low. The total expenditures is equal to BAM 0.190 million which represents 6% (FM Appendix 5, Table 2) of the total planned amount (BAM 8,041 million).

131. According to the PCU, the forecasts of commitments for the last quarter 2016 will be BAM 6,203 million (BAM 6,200 million for the realization of credit line) and those for payments will be BAM 0.088 million. So the total payments on AWPB 2016 will be BAM 0.088 million and represent 8% the total planned amount. The procedure to select PFIs has been completed and the APCU sent a

request to IFAD, on 11 October 2016, for no objection to sign the contract with LoK and FinCredit for a total amount of BAM 6,200 million.

132. **Internal Control (satisfactory).** The internal control system in place within the APCU conforms to the Government system and has been deemed satisfactory by the IFAD. Indeed, the APCU guarantees the separation of the functions through several controls mechanisms. The payments from project bank accounts are subject to a high level of controls. All payments are made using bank transfers, no cash payments from IFAD loan proceeds are allowed.

133. **Project Implementation Manual (PIM).** The PCU prepared and submitted a PIM to IFAD for approval, on December 2015.

134. **Accounting (moderately satisfactory).** The APCU is using an accounting software for the financial monitoring, developed by the project team on 'MS Access'. The financial management software is in line with IFAD requirements but needs upgrading in order to enhance performance and to accommodate the comparison between budgeted expenditures under the Financing Agreement, the AWPB and actual figures. The statements of commitments and payments by component, sub-components, category and financing source are not automatically produced by the system. The information are generated by the system, then the tables are prepared on Excel sheets.

135. **Financial Reporting and Monitoring (moderately satisfactory).** Financial reports prepared by the APCU, on Excel sheet, include a statement of expenditures by component, category and by financier. However, the financial reports do not include commitments by financier, category, component, and sub-component. The mission recommends to use the attached financial statements template for the follow up of the project actual expenditures and commitments in the future and also to include a statement of sources and uses of funds by component.

136. **Internal Audit (moderately satisfactory).** At the APCU level, there is no internal auditor. However, in the Ministry of Agriculture, there is an internal Audit Unit and the project transactions could be subject to ex-post review by them.

137. **Fixed assets register.** The APCU follows the assets for all APCU assets and not only for those related to this project, and it is in line with Government's established procedures.

138. **Designated accounts (moderately unsatisfactory).** As of 30 September 2016, only two withdrawal applications (WAs), one under IFAD loan and one under IFAD grant had been submitted and disbursed, for Euros 0.500 million and Euros 0.150 million corresponding to the initial advances. The mission recommends timely submission of WAs every three months or when the requested WA is at least 30% of the authorized allocation.

139. **Disbursement (moderately unsatisfactory).** The disbursement percentages, including the authorised allocation to the Designated accounts for the loan and the grant were 12% and 60% respectively.

140. **Counterpart Funds (moderately unsatisfactory).** The counterpart funds include the contribution of the Government of BiH, the beneficiaries of the infrastructure investments (municipalities), the clients of the credit line, and the financial institutions (PFIs). Since the project components on rural finance and rural infrastructure are not yet in place no counterpart payments are recorded as of 30 September 2016.

141. **Compliance with Loan Covenants (moderately satisfactory).** The details with regards to the status of implementation and compliance with Project Financing Agreement covenants is presented in Appendix 6.

142. **SOE review.** The mission selected and reviewed 4 payment orders related to IFAD loan for a total amount of BAM 0.023 million (Euros 0.012 million) and found the supporting documents are adequate and easily retrievable. The main findings are as follows (FM Appendix. Table 4):

- Payment on IFAD loan proceeds of VAT for a total amount of BAM 0.013 million. These expenditures are considered as not eligible for the financing on loan and must be reimbursed.

143. **Audit (satisfactory).** As it is the first year for the project implementation, so the audit report for the fiscal year 2016 is due not later than 30 June 2017. The external audit for the previous project (RLDP) is DELOITTE, and in general, it is observed that audit work throughout the project's life has been completed following IFAD's Project Audit Guidelines. The audit risk rating for the previous project was satisfactory.

Agreed action	Responsibility	Agreed date
Prepare and submit the AWPB for the fiscal year 2017, for IFAD No Objection.	APCU	31 December 2016
Submit of WAs every three months or when the requested WA is at least 30% of the authorized allocation.	APCU	31 December 2016
The project to prepare financial reports for the year as well as for cumulative period since the beginning of the project life by component, sub-component, financing source and by category.	APCU	Quarterly basis
Utilize the attached financial statements template for the follow up of the project actual expenditures and commitments in the future.	APCU	On-going
Reimburse the total amount of VAT paid on IFAD loan proceeds.	APCU	31 December 2016

Procurement RS.

144. **Procurement (satisfactory).** The overall procurement assessment carried out by the mission shows that in general, Goods, Works & Services financed by IFAD have been procured in accordance with the national shopping procurement method. The procurement department's performance is rated as satisfactory.

145. Review of procurement is done to check the compliance of procurement procedures carried out from RBDP start to middle of October 2016 with IFAD Procurement Guidelines, Final Design Report (Annex 8: Procurement), updated Project Implementation Manual (part D. Procurement) and the first 18-month Procurement Plan. APCU keeps accurate Register of Contracts with dates of their approval by IFAD and other key data.

146. APCU has experienced procurement manager with 10 years of experience in procurement in accordance with the IFAD and the World Bank procedures. The dynamics of procurement may be affected by the number of projects under the procurement manager's responsibility.

147. Initial 18-month **Procurement Plan** as a part of Design Report was adjusted in process of preparation and approval the first AWPB and accordingly harmonized with planned activities for 2016. The Procurement Plan as a part of AWPB was approved by PSC and IFAD CPM.

148. Direct purchase or contracting of procurements items or services amounting to less than USD 15,000 are subject of IFAD prior review (RBDP Main report, p. 39, which differs from par. 19 of Letter to the borrower). APCU operations and procurement are subject of ordinary supervision and verification by The Supreme Office for the Republic of Srpska Public Sector Auditing. The Public Auditor insists to sign contracts for all goods and services, irrespective of their amount. APCU contracts all services and goods regardless of amount asking prior for NO. The mission recommends to reconsider this issue again with a public auditors during the next audit.

149. In accordance to Procurement plan, PIM and IFAD procurement guidelines Participating Financial Institutions are select based on a two-stage process of pre-qualification and final bid submission. The request for pre-qualification for PFIs was advertise in June 2016 and interest for participation in project credit line expressed 3 MCS/MCF and 2 banks. In the second stage all prequalified PFIs were invited to submit their bids on July, 4, 2016. Bids were submitted by three financial institutions. Evaluation Committee consisted from representatives of APCU and Ministry of Finance evaluate bids and additionally negotiated with a three micro credit institutions and proposed award of contracts to two of them. IFAD provided no objection for awarding the contracts.

Agreed action	Responsibility	Agreed date
Complete the procedure with approval and contracting MCOs as a intermediaries for project credit line	APCU, CPM	immediate
Develop and prepare in advance drafts of terms of reference, specifications, contracts and procurement templates for expected purchases of works, services and goods	APCU	31 March 2017
Continue with no objection approval for all contracts regardless of their amount and re-consider this issue again with the Public auditors	APCU, CPM	31 May 2017

F. Sustainability and Empowerment

150. **Institutional sustainability (moderately satisfactory).** The mission has emphasised on the need to strengthen the capacity of project-implicated institutions and organizations (namely PAs and cooperatives). Therefore, institutional capacity building support for PAs is required to ensure sustainability, especially for groups just starting with joint activities. Besides service providers and AESD, additional support could be arranged to link PAs to other projects/services, e.g. USAID FAMA II, offering the requested capacity building. Still, the lack of an established extension system in the Federation and overall dependence on donors in BiH results in spotty technical capacity building among producers and their organizations.

151. **Empowerment (moderately satisfactory).** Direct poverty focus and gender orientation has improved in the A/PCU. Experiences from RLDP with participatory planning exercises, processes and dialogue that have taken place as part of the 'pilot' initiatives, should be transferred to RBDP to get to an elevated level of empowerment amongst small farmers and their organizations. The value chain partnership is also expected to serve to a growing interest/ demand from the rural population to invest their limited resources and engage in the selected value chains; this will contribute to their sense of ownership.

152. **Economic and Financial Sustainability (moderately satisfactory).** Economic and financial sustainability is affected especially by the limited business orientation of the PAs as core building block of the project, manifested in weak business planning of PAs. Therefore, special attention has to be given to further institutional capacity building support for PAs.

153. **Quality of beneficiary participation (moderately satisfactory).** The quality of beneficiary participation is not yet possible to measure although potential beneficiaries showed interest to participate in the project interventions and especially Municipalities have promised their support in the implementation of the project.

154. **Responsiveness of service providers (moderately satisfactory).** The APCU is continuing the cooperation with AESD with recruiting additional field officers, a proven approach from previous projects. With SERDA, the PCU has contracted a new service provider, still requiring guidance from the PCU in implementing the inclusive value chain development model. Amongst the rural finance services providers, the LOK MKF and EKI will be the main FIs in FBiH targeting at smallholder farmers, besides BBI and Vakufska Banka targeting at SMEs. In the RS, LOK MKF and FinCredit will be contracted as MFIs. The APCU is still considering to involve also a bank, e.g. ProCredit, to service SMEs as well with inclusive value chain finance.

155. **Exit strategy (moderately satisfactory).** With the project it is envisaged to facilitate real working partnerships between small farmers and the private sector; this would serve to contribute to an exit strategy, where the demands of the market are influencing the interest of value chain actors and creating growth.

156. **Potential for scaling up (moderately satisfactory).** With the expected demand and interest in the activities promoted by the project, there is a promising potential for scaling-up efforts, particularly when the market for the selected value chains shows good potential and sufficient absorption capacity.

G. Impact

157. As the project is still in the first year of implementation, impact is not yet measureable. Still, there is need to prepare M&E for continuous impact assessments.

H. Conclusion

158. The overall project implementation is still at an preparatory stage and thus, progress has not yet gained momentum taking into consideration the significant delays regarding the late ratification of subsidiary loan agreements as well the still pending ratification of the OFID loan. However, the project is already effective since 2014 and thus, is in its third year of the project term.

159. In the upcoming period, in order to overcome the identified challenges to ensure accelerated implementation the following tasks need to be completed:

- The Mid-Term Review (MTR) should be fielded in autumn 2017. It has been agreed with APCU and PCU to set milestones for MTR, in particular related to disbursement of funds: it is envisaged to reach an actual disbursement rate of up to 40% taking into account also committed or earmarked expenditures.
- At this stage of implementation, there is an urgent need to provide conceptual, strategic and policy guidance by the Project Steering Committee (PSC). In the FBIH, the PSC still needs to be appointed and should meet at the earliest opportunity, particularly prior to initiating the 2017 AWPB process.
- Both A/PCU are requested to implement project planning workshops to define the activities, expenditures and responsibilities for the upcoming year 2017 and beyond. In particular the PCU in the Federation is advised to re-start project implementation after the planning workshop to ensure cohesiveness of the different project components in line with an inclusive value chain approach.
- The mission underlines that the objective of maintaining an M&E system is to have a “living”, thus dynamic, decision making tool to guide project management’s daily decisions. An important step to improve data collection and processing is the installation of a joint database at A/PCU level. Furthermore, the process of harmonisation of log-frame indicators as well as RIMS indicators between the two PCUs should be finalised until submitting AWPB 2017.

Appendix 1: Summary of project status and ratings

Basic Facts

Country	Bosnia and Herzegovina		Project ID		Loan/DSF Grant No.	859
Project	Rural Business Development Project				Supp. Loan/DSF Grant	
Date of Update	October 2016				Financing terms	O
Supervising Inst.	IFAD/IFAD					
No. of Supervisions	1	No. of Implementation Support/Follow-up missions				
Last Supervision		Last Implementation Support/ MTR		March-2015		

USD million Disb. rate %

Approval	17-Dec-2011			Total costs	30.22	1
Agreement	04 Dec 2013	Effectiveness lag		IFAD Total	13.50	3
Effectiveness	26-March-2014	PAR value		IFAD loan	12.72	3
MTR	Autumn 2017			DSF grant		
Current completion	31-March-2019	Last Amendment		IFAD grant	0.78	0
Current closing	30-June-2019	Last Audit		Domestic Total	11.29	0
No. of extensions	0			Beneficiaries	2.7	0
				Government (National)	6.79	0
				Domes. Fin. Inst.	1.8	0
				Co-financing Total	5.35	0
				OFID	5.35	0

Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management		4	1. Quality of project management		4
2. Acceptable disbursement rate		3	2. Performance of M&E		3
3. Counterpart funds		4	3. Coherence between AWPB & implementation		3
4. Compliance with loan covenants		4	4. Gender focus		4
5. Compliance with procurement		4	5. Poverty focus		4
6. Quality and timeliness of audits			6. Effectiveness of targeting approach		4
			7. Innovation and learning		4
			8. Climate and environmental focus		4
B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Rural Business Support		4	1. Institution building (organizations, etc.)		4
2. Rural Business Investment		4	2. Empowerment		4
3. Rural Market Infrastructure		4	3. Quality of beneficiary participation		4
			4. Responsiveness of service providers		4
			5. Exit strategy (readiness and quality)		4
			6. Potential for scaling up and replication		4

B.5 Justification of ratings

The overall RBDP implementation progress is considered to be moderately satisfactory taking into consideration the late project start. Whilst awaiting the start of project implementation (delays caused by late ratification, pending OFID loan effectiveness while still awaiting signature by the President of the FBiH, pending constitution of local councils after local elections on 2 October 2016) A/PCU have done the necessary preparatory activities (launching required studies and reports such as value chain analysis, baseline studies, PIMs, Gender study, M&E reports, AWPBs and related Action Plans providing the number and profiles of existing PAs in the project municipalities; meetings with municipalities, PAs and private sector companies; carrying out administrative preparations and launching tender processes for selecting service providers and PFIs, and establishment of the Project Steering Committee). Therefore, the base for project implementation is prepared; target group related activities are expected to commence soon.

As foreseen in project design, the Midterm Review (MTR) should take place not later than 30 months after the effective date. The mission recommends to field the MTR in autumn 2017 to measure the progress against the set targets for the upcoming year and, as needed, to adjust activities and/or implementation arrangements for the remaining years. It has been agreed with the A/PCU that until the MTR actual disbursement should accelerate significantly (at MTR up to 40% committed or disbursed funds).

Overall Assessment and Risk Profile

	Last	Current
C.1 Physical/financial assets		4
C.2 Food security		4
C.3 Quality of natural asset improvement and climate resilience		4
C.4 Overall implementation progress (Sections B1 and B2)		4

Rationale for implementation progress rating

The overall RBDP implementation progress is rated moderately satisfactory, taking into consideration the late project start.

C.5 Likelihood of achieving the development objectives (section B3 and B4)		4
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Rationale for development objectives rating:

As this Project is being implemented using a proven effective targeting and delivery system, building on the predecessor project, it is most likely that the objectives will be achieved. In Particular, more effort is now being made to ensure better linkages and synergies in the different interventions, which are mutually reinforcing the longer-term sustainability of the activities.

C.6	Risks Short description of major risks for each section and their impact on achievement of development objectives and sustainability	
Fiduciary aspects	The AWPB and its PP for 2015 are still pending IFAD's no-objection; hence the project in the first half of 2015 was working on an ad-hoc basis. There is need to ensure more transparent and effective coordination and planning between financial units and the technical units, and this should be reflected in better quality and relevant AWPBs/PPs.	
Project implementation progress	The Project has been operational for 32 months or 53% of its 60-month implementation period. The IFAD loan disbursement amounts to 3% (2% for RS and 3% for FBiH). The disbursement is moderately unsatisfactory. At this stage of implementation, there is an urgent need to provide conceptual, strategic and policy guidance by the Project Steering Committee (PSC). In the RS, the PSC has been formed and held a first meeting. In the FBiH, the PSC still needs to be appointed and should meet at the earliest opportunity, particularly prior to initiating the 2017 AWPB process.	
Outputs and outcomes	The major activities implemented refer to preparatory work such as recruitment of service providers, preparation of baseline studies, development of a targeting approach, selection of value chains, identification of target groups in the project municipalities as well as identification of potential buyers. The mission recommends to implement a detailed planning workshop still in November 2016 to facilitate the preparation of AWPB 2017 as well as to define in detail the different activities relevant for implementation in the three components. The SLAs still require signature of MoF and PFIs. It has been recommended till the SLA ii signed, to invite the selected potential PFIs to finance the autumn planting needs from their own funds to accelerate project implementation.	
Sustainability	Institutional sustainability. The mission has emphasised on the need to strengthen the capacity of project-implicated institutions and organizations (namely PAs and cooperatives). Therefore, institutional capacity building support for PAs is required to ensure sustainability, especially for groups just starting with joint activities. Besides service providers and AESD, additional support could be arranged to link PAs to other projects/services, e.g. USAID FAMA II, offering the requested capacity building. Still, the lack of an established extension system in the Federation and overall dependence on donors in BiH results in spotty technical capacity building among producers and their organizations. Empowerment. Direct poverty focus and gender orientation has improved in the A/PCU. Experiences from RLDP with participatory planning exercises, processes and dialogue that have taken place as part of the 'pilot' initiatives, should be transferred to RBDP to get to an elevated level of empowerment amongst small farmers and their organizations. The value chain partnership is also expected to serve to a growing interest/ demand from the rural population to invest their limited resources and engage in the selected value chains; this will contribute to their sense of ownership. Economic and Financial Sustainability. Economic and financial sustainability is affected especially by the limited business orientation of the PAs as core building block of the project, manifested in weak business planning of PAs. Therefore, special attention has to be given to further institutional capacity building support for PAs.	

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
Project coordination	Implement a planning workshop to define in detail upcoming project activities and budgets as input to AWPB 2017	APCU	Immediate
M&E and Impact Survey	The mission underlines that the objective of maintaining an M&E system is to have a "living", thus dynamic, decision making tool to guide project management's daily decisions. An important step to improve data collection and processing is the installation of a joint database at A/PCU level. Furthermore, the process of harmonisation of log-frame indicators as well as RIMS indicators between the two PCUs should be finalised until submitting AWPB 2017.	July 2015	On-going
2017 AWPB	In light of the extension and priorities, streamline the 2015 AWPB and PP, and submit for IFAD's no-objection; in the RS, the strategies in support of the dairy and raspberry VCs need to be included.	Immediate	On-going

Additional observations

Appendix 2: Logical framework: Progress against objectives, outcomes and outputs

Narrative Summary	Objectively Verifiable Indicators	Monitoring Mechanism & Information Sources	Assumptions/ Risks
A. PROJECT GOAL			
<p>The <u>Project Goal</u> would be to enable poor rural people to improve their food security, raise their incomes and strengthen their resilience by building profitable farm and non-farm enterprises in Bosnia-Herzegovina.</p> <p>(18% of the population of BiH was estimated to be living below the poverty line with another 20% in danger of slipping into poverty).</p>	<ul style="list-style-type: none"> Percentage of households who have renovated their homes and up-graded household assets in targeted municipalities. Consolidating the gains in reducing child malnutrition. 	<p>Living Standard Measurement Surveys (LSMS), Household Budget Surveys (HBS) by the Agency for Statistics of Bosnia Herzegovina. Multi-Cluster Indicator Survey by UNICEF (2011 and subsequent years).</p>	<p>Peace and stability;</p>
B. PROJECT OBJECTIVE			
<p>The <u>development objective</u> of the project would be to help subsistence farmers transform to commercial farming\40 and help in developing the non-farm enterprise sector for rural employment generation.</p> <p>The project is expected to directly benefit 20,000 rural households.</p>	<ul style="list-style-type: none"> At least 75% of the targeted 20,000 HHs report increased incomes from agriculture. 30% increase in average HH incomes from agriculture income. 50% increase in non-farm income of participants. Increase in share of women in wage employment in the non-farm sector increased by 5% from 35% to 40% in the project municipalities. Increase in share of youth in non-farm wage employment increased by 5% and reduction in unemployment rate of youth from 48% to 43% in project municipalities. 	<p>Panel surveys at baseline, Mid-term and project completion Surveys ; Labour Force Survey 2011. Millennium Development Goals Report for 2015. Records of Participating Municipal Governments. All surveys gender-disaggregated.</p>	<p>Peace and stability.</p>
C. COMPONENT OUTCOMES AND OUTPUTS			
COMPONENT 1: Rural Business Support			
<p>Outcome 1: <u>Increase in productivity and enterprise</u> through strengthened business and advisory services.</p>	<ul style="list-style-type: none"> Increase in the volume and quality of agriculture products marketed (20%). No of jobs generated for women and the unemployed disaggregated by gender and age (600 jobs). No of enterprises operating on a sustainable basis. 	<p>Panel (baseline, mid-term and completion) surveys, Service provider reports. Internal Project database. Municipality Reports.</p>	<p>Minimum disruption of the agriculture sector by incidence of disease, extreme weather events and economic or financial crisis.</p>
<p>OUTPUTS: Strengthened Producer Associations and Agriculture Cooperatives.</p>	<p>60 Marketing Groups (PAs and ACs) with a membership of 4200 of whom at least 35% are women.</p>	<p>PA/Ag cooperative reports. Service provider reports. Panel surveys.</p>	<p>Farmers interest in joining PAs and ACs. Competent service providers.</p>

Narrative Summary	Objectively Verifiable Indicators	Monitoring Mechanism & Information Sources	Assumptions/ Risks
Farmers and enterprises with upgraded technical and business skills.	6000 farmers and entrepreneurs provided technical and business skills of whom at least 30% are women.	Internal Project database.	
COMPONENT 2: Rural Business Investments			
Outcome 3: Increased access to sustainable financial services	Operational Self-Sufficiency Operating Expenses Ratio Active Borrowers/Personnel Portfolio at Risk.	PFI's interim and annual reports Audit reports of PFIs External databases (MIX market, Planet rating, etc.)	Minimum disruption of the agriculture sector by incidence of disease, extreme weather events and economic or financial crisis.
OUTPUTS: No of loans. Volume of funds No of Participating PFIs.	2000 new loans of which at least 40% are provided for women. Value of gross loan portfolio increased by No of participating Financial Institutions (PFIs).	PFI's interim and annual reports Audit Reports.	PFI interest in participation in project activities Effective lending procedures Gender sensitive credit appraisal
COMPONENT 3: Rural Market Infrastructure			
Outcome 3: Increased access to markets and business opportunities.	Decrease in travelling time to social services, markets and business centres. Increase in the volume of products marketed. No of functioning infrastructure after three years.	Panel (baseline, mid-term and completion) surveys. Internal Project database.	Availability of co-financing Cost effective project selection Proper infrastructure maintenance
Output 3.1: Rehabilitated rural roads including structures such as bridges and drainage facilities. Water supply and/or sewerage schemes. Water points in pastures, small-scale irrigation and river bank protective works, etc.	60 roads improved with a length of 85 kilometers. 14 new water supply and/or sewerage schemes. 20 new water points in pastures, small-scale irrigation and river bank protective works, etc. 16,000 households with improved access to roads, domestic water supply, sewage facilities and irrigation facilities.	Technical design documentation Contractor Reports. Minutes of Scheme Takeover Experts Assessments Supervision Reports	Transparent and objective criteria for screening.
COMPONENT 4: Project Management & Coordination			
OUTCOME: Efficient, cost effective and equitable use of project and resources.	Disbursement Rate.	Project accounting system Project progress reports Project audit reports Supervision, MTR and completion reports	Government and IFAD contribution is delivered on time and all resources are acquired on time. Project staff assigned is competent and qualified for the tasks assigned.

Appendix 3: Summary of key actions to be taken within agreed timeframes

Action Area	Action Agreed	Whom	Date
Project Implementation	– Expedite the process to form PSC	PCU, MoA	Immediate
	– Harmonize M&E indicators of APCU and PCU	APCU/PCU	Immediate
	– Establish computerized centralised database to facilitate data collection and reporting	APCU/PCU	Immediate
	– Improve promotional activities on project experiences	APCU/PCU	On-going
	– Intensify the cooperation with USAID FAMA II in training and information exchange	APCU/PCU	On-going
Outputs	FBiH		
	– Implement a planning workshop to define in detail upcoming project activities and budgets as input to AWPB 2017	PCU	Immediate
	– Clarification of SERDAs role in project implementation in 2017 and 2018	PCU	Immediate
	– Plan to ensure that actual and committed disbursements by MTR adds to at least 40% of the total refinancing allocation	PCU, PFIs	Continuous
	– Follow up and complete the SLA between the MoF and the PFIs	PCU	30 Nov 2016
	– Until signature of SLAs, invite the PFIs to support any autumn financing opportunity from their own funds or from IFAD revolving funds	PCU	Immediate
	RS		
	– Implement a planning workshop to define in detail upcoming project activities and budgets as input to AWPB 2017	APCU	Immediate
	– Prepare detailed MoU with service providers including AESD as well as with beneficiaries to facilitate coordination	APCU	January 2017
	– Prepare detailed training plans to be integrated in AWPB 2017 defining training topics, targeted trainees and expected numbers, geographical area and duration as well as the service providers (including staff of AESD) as well as partnering projects (e.g. USAID FAMA II)	APCU	Immediate
	– Follow up and complete the SLA between the MoF and the PFIs	APCU	30 Nov 2016
	– Till the SLA is signed, invite the selected potential PFIs to finance the autumn planting needs from their own funds	APCU	Immediate
	– Plan to ensure that actual and committed disbursements by MTR adds to at least 40% of the total refinancing allocation	APCU, PFIs	Continuous

Action Area	Action Agreed	Whom	Date
Fiduciary	FBiH		
	– Expedite the process to form PSC	PCU, MoA	Immediate
	– Prepare and submit the AWPB for the fiscal year 2017, for IFAD No Objection.	PCU	31 December 2016
	– Submit of WAs every three months or when the requested WA is at least 30% of the authorized allocation.	PCU	31 December 2016
	– The project to prepare financial reports for the year as well as for cumulative period since the beginning of the project life by component, sub-component, financing source and by category.	PCU	Quarterly basis
	– Utilize the attached financial statements template for the follow up of the project actual expenditures and commitments in the future.	PCU	On-going
	– Ask for an exceptional retroactive IFAD no objection for all contracts subject to IFAD prior review and for the payment related to the audit fees of RLDP. In the future, the PCU should ask for IFAD prior NO for all single-source selection.	PCU	31 December 2016
Procurement	– No brands should be mentioned in the technical criteria and ask the suppliers to send their offers in closed envelopes which must be opened by a evaluation committee.	PCU	Ongoing
	– Complete the procedure with approval and contracting MCOs as a intermediaries for project credit line	PCU, MoA	Immediate
	– Appoint bid evaluation committee or all contracting regardless method of procurement	PCU	31 December 2016
	– Establish Register of Contracts in more detailed format	APCU	31 December 2016
	– Strictly follow procurement procedures for each contract	APCU	Immediately
	– Complete the procedure with approval and contracting MCOs as a intermediaries for project credit line	PCU, MoA	Immediate
	RS		
Procurement	– Prepare and submit the AWPB for the fiscal year 2017, for IFAD No Objection.	APCU, SC	immediate
	– Submit of WAs every three months or when the requested WA is at least 30% of the authorized allocation.	APCU	31 May 2015
	– The project to prepare financial reports for the year as well as for cumulative period since the beginning of the project life by component, sub-component, financing source and by category.	APCU	31 May 2015
	– Utilize the attached financial statements template for the follow up of the project actual expenditures and commitments in the future.	APCU	immediate
	– Reimburse the total amount of VAT paid on IFAD loan proceeds.		
	– Complete the procedure with approval and contracting MCOs as a intermediaries for project credit line	PCU, MoA	Immediate
	– Develop and prepare in advance drafts of terms of reference, specifications, contracts and procurement templates for expected purchases of works, services and goods	APCU	31 March 2017

Action Area	Action Agreed	Whom	Date
	– Continue with no objection approval for all contracts regardless of their amount and re-consider this issue again with the Public auditors	APCU, CPM	31 May 2017
	– Develop and prepare in advance drafts of terms of reference, specifications, contracts and procurement templates for expected purchases of works, services and goods	APCU	31 March 2017

Appendix 4: RIMS indicators (harmonised between APCU/PCU)

RBDP RIMS 1 st and 2 nd level indicators					
		Target - original			
1st (output) level indicators		Total	FB&H	RS	2nd (outcome) level indicators
TOTAL PROJECT OUTREACH					
1. Individuals receiving project services (by gender)		80.000	45.600	34.400	
2. Households receiving project services		20.000	11.400	8.600	
3. Group receiving project services (PA, Credit groups, Women groups)		60	34	26	
4. Communities receiving project services		47	27	20	
A) RURAL BUSINESS SUPPORT COMPONENT		6.300	3.591	2.709	
AGRICULTURE TECHNOLOGY AND PRODUCTION	1. People trained in animal production practices and technology (total)	1.700	1.000	700	Effectiveness: Improved agricultural or livestock production
	male	60%	600	420	Effectiveness: improved performance of service providers
	female	40%	400	280	Effectiveness: producers benefiting from improved access to markets
	2. People trained in horticulture production and technologies	3.500	2.000	1.500	Likelihood of sustainability of the marketing groups formed/strengthened
	male	60%	1.200	900	Likelihood of sustainability of marketing facilities
	female	40%	800	600	Likelihood of sustainability of storage facilities
	3. People accessing facilitated advisory services (total)	1.100	591	509	
	male	60%	355	305	
	female	40%	236	204	
	4. Marketing groups (PAs/Cooperatives) formed/strengthen	60	34	26	
MARKETS	5. People in marketing group (PAs/Cooperatives)	4.200	2.394	1.806	
	male	2.730	1.556	1.174	
	female	1.470	838	632	
	6. Marketing group (PAs/Cooperatives) with women in leadership	21	12	9	
	7. Processing facilities constructed and/or rehabilitated	50	25	25	
	8. Storage facilities constructed and/or rehabilitated	10	5	5	
	9. People trained in post production, processing and marketing (by	100	57	43	
B. RURAL BUSINESS INVESTMENT COMPONENT					
RURAL FINANCE SERVICES	1. Financial institutions (MFI) participating in the program	8	4	4	Sustainability: Improved performance of the financial institutions
	2. Staff of financial institutions trained (total)	64	40	24	Effectiveness: Improved access of the poor to financial services
	male	26	16	10	Effectiveness: creation of employment opportunities
	female	38	24	14	
	3. Active borrowers (individuals) (total)	1.387	832	555	
	male	832	499	333	
	female	555	333	222	
	4. Active borrowers (enterprises)	46	26	20	
	5. Value of gross loan portfolio (individuals) (USD)	6.590.000	4.151.700	2.438.300	
	6. Value of gross loan portfolio (enterprises) (USD)	2.186.000	1.377.180	808.820	
ENTERPRISE DEVELOPMENT AND EMPLOYMENT	7. People trained in bussiness and enterpreunership (total)	1.000	600	400	
	male	400	240	240	
	female	600	360	160	
	8. People receiving vocational training (total)	100	57	43	
	male	50	29	22	
	female	50	29	22	
C. RURAL MARKET INFRASTRUCTURE COMPONENT					
SOCIAL INFRASTRUCTURE	1. Feeder road constructed/rehabilitated	60	34	26	Likelihood of sustainability of roads constructed/rehabilitated
	2. Drinking water system constructed/rehabilitated	14	8	6	Effectiveness of social infrastructure - Drinking water systems
	3. Livestock water points constructed/rehabilitated	20	11	9	Effectiveness of social infrastructure - Other
	4. Other infrastructure/facility constructed/rehabilitated	10	6	4	Likelihood of sustainability of social infrastructure - Drinking water system
					Likelihood of sustainability of social infrastructure - Other

Appendix 5: Financial: Actual financial performance by financier; by component and disbursements by category

Part A - Federation BiH

Table 5A: Financial performance by financier at of 30-09-2016

Financier	Appraisal (USD '000)	Disbursement (USD '000)	Balance	% disbursement
IFAD Loan	7.610	209	7.401	3%
IFAD Grant	460	0	460	0%
OFID	5.350	0		
Government	1.950	10	1.940	1%
Beneficiaries	2.730	0	2.730	0%
Total	18.100	219	12.531	1%

Table 5 B: Financial performance by financier by component as of 30-09-2016 (USD '000)

Components	IFAD Loan			IFAD Grant			OFID			Government			Beneficiaries & PFI			Total		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
1. Rural Business Support	880	46	5%	390	0	0%	0	0		290	5	2%	180	0		1.740	51	3%
2. Rural Business Investments	4.680	0	0%	0	0		0	0		0	0		1.170	0	0%	5.850	0	0%
3. Rural Market Infrastructure	490	0	0%	0	0		5.350	0	0%	1.480	0	0%	1.380	0	0%	8.700	0	0%
4. Project Management and Coordination Unit	1.560	163	10%	70	0	0%	0	0		180	5	3%	0	0		1.810	168	9%
Total	7.610	209	3%	460	0	0%	5.350	0		1.950	10	1%	2.730	0	0%	18.100	219	1%

1 \$ 1,7737 BAM

Table 5C a: IFAD grant disbursement as at 31-05-2015 (SDR '000)

Category	Initial Allocation (1)	Disbursement (2)	Balance (1) - (2)	% disbursement (2)/(1)
Authorized Allocation Designated Account		794	-794	100%
1. Enterprise support fund	31	0	31	0%
2. Revolving investment fund	2.810	0	2.810	0%
3. Civil Works	275	0	275	0%
4. National TA, training, workshops & studies	585	0	585	0%
5. Equipment	91	0	91	0%
6. Incremental operating costs	775	0	775	0%
Unallocated	238	0	238	0%
Total	4.805	794	4.011	17%

Table 5C b: IFAD grant disbursement as at 30-09-2016 (SDR '000)

Category	Initial Allocation (1)	Disbursement (2)	Balance (1) - (2)	% disbursement (2)/(1)
Authorized Allocation Designated Account		119	-119	100%
1. Enterprise support fund	32	0	32	0%
4. National TA, training, workshops & studies	255	0	255	0%
5. Equipment	14	0	14	0%
Total	301	119	182	40%

Table 5.1: Commitments and actual expenditures by financier & by component as at 30-09-2016 (BAM '000)

Components / Sub-components	Total Appraisal	Commitments							Payments							
		Loan	Grant	OFID	Gvt	Bnf&PFI	Total	% Apprai	Loan	Grant	OFID	Gvt	Bnf&PFI	Total	% Apprai	%Com
1. Rural Business Support	2.498	217	0	0	37	0	254	10%	82	0	0	9	0	91	4%	30
1.1. Farm enterprise development	1.058	217	0	0	37	0	254	24%	82	0	0	9	0	91	9%	30
1.2. Business development services	670	0	0	0	0	0	0	0%	0	0	0	0	0	0	0%	
1.3. Non-farm enterprise development	770	0	0	0	0	0	0	0%	0	0	0	0	0	0	0%	
2. Rural Business Investments	8.409	0	0	0	0	0	0	0%	0	0	0	0	0	0	0%	
3. Rural Market Infrastructure	12.476	0	0	669	0	0	669	5%	0	0	0	0	0	0	0%	
4. Project Management and Coordination Unit	2.594	2.646	119	0	21	0	2.786	107%	288	0	0	9	0	298	11%	10
Total	25.976	2.862	119	669	58	0	3.708	14%	371	0	0	18	0	388	1%	10

* Commitments mean signed contracts

The commitments on component "4. PMCU" takes account of the salaries for the total project period. The salaries for 2017 to 2020 are 2,016,000 BAM

Table 5.2: Actual expenditures on AWPB 2016 by financier & by component as of 30-09-2016 (BAM '000)

	Allocated						Commitments							
	Loan	Grant	OFID	Gvt	Bf & PFI	Total	Loan	Grant	OFID	Gvt	Bf & PFI	Total	Loan	Grant
1. Rural Business Support	604	59	0	183	232	1.079	217	0	0	37	0	254	82	
2. Rural Business Investments	1.600	0	0	0	400	2.000	0	0	0	0	0	0	0	
3. Rural Market Infrastructure	8	0	2.490	716	996	4.210	0	0	669	0	0	669	0	
4. Project Management and Coordination Unit	704	0	0	48	0	752	475	119	0	21	0	615	288	
Total	2.917	59	2.490	947	1.628	8.041	692	119	669	58	0	1.537	371	

Table 5.3: IFAD Loan actual expenditures as of 30-09-2016 (€ '000)

Category	Initial Allocation SDR	Initial Allocation € (1)	Payments 2016	Total payments (2)	% payments (2)/(1)
1. Enterprise support fund	31	39	12	12	31%
2. Revolving investment fund	2.810	3.540	0	0	0%
3. Civil Works	275	346	0	0	0%
4. National TA, training, workshops & studies	585	737	43	43	6%
5. Equipment	91	115	6	6	5%
6. Incremental operating costs	775	976	128	128	13%
Unallocated	238	300	0	0	0%
Total	4.805	6.054	189	189	3%

1 SDR 1,25986 €
1 € 1,95583 BAM

Part B - Republika Srpska

Table 5 A: Financial performance by financier at of 30-09-2016

Financier	Appraisal (USD '000)	Disbursement (USD '000)	Balance	% disbursement
IFAD Loan	5.110	107	5.003	2%
IFAD Grant	310	0	310	0%
Government RS	3.430	0		
Government	1.420	0	1.420	0%
Beneficiaries	1.860	0	1.860	0%
Total	12.130	107	8.593	1%

Table 5B: Financial performance by financier by component as of 30-09-2016 (USD '000)

Components	IFAD Loan			IFAD Grant			Government RS			Government			Beneficiaries & PFI			Total		
	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
1. Rural Business Support	850	10	1%	260	0	0%	0	0		270	0	0%	180	0		1.560	10	1%
2. Rural Business Investments	2.710	0	0%	0	0		0	0		0	0		680	0	0%	3.390	0	0%
3. Rural Market Infrastructure	350	0	0%	0	0		3.430	0	0%	980	0	0%	1.000	0	0%	5.760	0	0%
4. Project Management and Coordination Unit	1.200	98	8%	50	0	0%	0	0		170	0	0%	0	0		1.420	98	7%
Total	5.110	107	2%	310	0	0%	3.430	0		1.420	0	0%	1.860	0	0%	12.130	107	1%

1 \$ 1,7737 BAM

Table 5C a: IFAD grant disbursement as at 31-05-2015 (SDR '000)

Category	Initial Allocation (1)	Disbursement (2)	Balance (1) - (2)	% disbursement (2)/(1)
Authorized Allocation Designated Account		397	-397	100%
1. Enterprise support fund	50	0	50	0%
2. Revolving investment fund	1.626	0	1.626	0%
3. Civil Works	190	0	190	0%
4. National TA, training, workshops & studies	560	0	560	0%
5. Equipment	50	0	50	0%
6. Incremental operating costs	615	0	615	0%
Unallocated	154	0	154	0%
Total	3.245	397	2.848	12%

Table 5C b: IFAD grant disbursement as of 30-09-2016 (SDR '000)

Category	Initial Allocation (1)	Disbursement (2)	Balance (1) - (2)	% disbursement (2)/(1)
Authorized Allocation Designated Account		119	-119	100%
1. Enterprise support fund	13	0	13	0%
4. National TA, training, workshops & studies	160	0	160	0%
5. Equipment	26	0	26	0%
Total	199	119	80	60%

Table 5.1: Commitments and actual expenditures by financier & by component as at 30-09-2016 (BAM '000)

Components / Sub-components	Total Appraisal	Commitments							Payments							
		Loan	Grant	GVT RS	Gvt	Bnf&PFI	Total	% Apprai	Loan	Grant	Gov RS	Gvt	Bnf&PFI	Total	% Apprai	%Commit
1. Rural Business Support	2.235	38	0	0	5	0	44	2%	17	0	0	0	0	17	1%	39%
1.1. Farm enterprise development	1.057	38	0	0	5	0	44	4%	9	0	0	0	0	9	1%	20%
1.2. Business development services	670	0	0	0	0	0	0	0%	8	0	0	0	0	8	1%	
1.3. Non-farm enterprise development	508	0	0	0	0	0	0	0%	0	0	0	0	0	0	0%	
2. Rural Business Investments	4.858	0	0	0	0	0	0	0%	0	0	0	0	0	0	0%	
3. Rural Market Infrastructure	8.254	0	0		0	0	0	0%	0	0	0	0	0	0	0%	
4. Project Management and Coordination Unit	2.035	285		0	16	0	301	15%	173	0	0	0	0	173	9%	57%
Total	17.381	324	0	0	21	0	345	2%	190	0	0	0	0	190	1%	55%

Table 5.2: Actual expenditures on AWPB 2016 by financier & by component as of 30-09-2016 (BAM '000)

	Allocated						Commitments						Payments						
	Loan	Grant	GVT RS	Gvt	Bf & PFI	Total	Loan	Grant	GVT RS	Gvt	Bf & PFI	Total	Loan	Grant	GVT RS	Gvt	Bf & PFI	Total	%Alloc
1. Rural Business Support	297	84	0	78	0	459	38	0	0	5	0	44	17	0	0	0	0	17	4%
2. Rural Business Investments	692	0	0		207	899	0	0	0	0	0	0	0	0	0	0	0	0	0%
3. Rural Market Infrastructure	64	0	0	954	254	1.272	0	0	0	0	0	0	0	0	0	0	0	0	0%
4. Project Management and Coordination Unit	641	43	0	75	0	760	285	0	0	16	0	301	173	0	0	0	0	173	23%
Total	1.694	127	0	1.108	461	3.390	324	0	0	21	0	345	190	0	0	0	0	190	6%

Table 5.3: IFAD Loan actual expenditures as of 30-09-2016 (€ '000)

Category	Initial Allocation SDR	Initial Allocation € (1)	Payments 2016	Total payments (2)	% payments (2)/(1)
1. Enterprise support fund	50	63	0	0	0%
2. Revolving investment fund	1.626	2.049	0	0	0%
3. Civil Works	190	239	0	0	0%
4. National TA, training, workshops & studies	560	706	9	9	1%
5. Equipment	50	63	0	0	0%
6. Incremental operating costs	615	775	88	88	11%
Unallocated	154	194	0	0	0%
Total	3.245	4.088	97	97	2%

1 SDR 1,25986 €
1 € 1,95583 BAM

Procurement

Table 5.4: List of contracts signed within the part A (Federation B&H) of RBDP until mid October 2016

Contract No.	Description	Expenditure category	Initial data				Biding document		Biding period		Bid evaluation report		Contractor
			Estimated amount BAM	Procurement method	Type of procurement	Pre or post review	Date of proposal	Date of NO	Bid invitation date	Bid closing or opening	Bid evaluation report submitted	Date of NO	
Component A - Rural Business Support													
09-01-86/2016	Rural Business Support Lot: 01/859-BA	IV	250.000,00	ICB	CS	Prior	07.12.15.	07.01.16.	14.01.16.	08.02.16.	29.02.16.	05.04.16.	Sarajevo Regional Development Agency "SERDA"
02-07/2016-EQ	Procurement of Plastic crates for berry collection	I		LS	G	Post	n/a	n/a	07.07.16.	07.07.16.	n/a	n/a	"AS Company" d.o.o. Goražde
Component C- Rural Market Infrastructure													
09-01-01-179/2016	Service provider for administering services Lot-03/859-BA (Rural Market Infrastructure)	III	10.000,00	ICB	CS	Prior	07.12.15.	07.01.16.	09.02.16.	07.03.16.	09.08.16.	13.09.16.	Sarajevo Regional Development Agency "SERDA"
Component D - Project Management and Coordination													
09-01-68/2016	Baseline Survey Lot-04/859-BA	IV	30.000,00	NCB	CS	Prior	09.12.15.	07.01.16.	15.01.2016.	29.01.16.	09.02.16.	10.02.16.	"Agrolink" d.o.o. Sarajevo
09-01-84/2016	Gender study	IV	30.000,00	NCB	CS	Prior	12.02.16.	09.02.16.	12.02.16.	26.02.16.	04.03.16.	12.3.2016	"Oxfam" Italia
01-07-16-PUBL	Writing, editing and printing out of Publication for BERRY FRUIT TECHNOLOGY	IV	10.000,00	LS	TS	Post	n/a	n/a	30.06.16.	18.07.16.	n/a	n/a	"Graficar promet Sarajevo"
03-07/16 PCU IT EQ	Procurement of computers and a copy machine	V	16.000,00	LS	G	Post	n/a	n/a	13.07.16.	20.07.16.	n/a	n/a	"Emado" d.o.o. Sarajevo

Table 5.5.: List of contracts signed within the part B (The Republic of Srpska) of RBDP until mid-October 2016

Contract No.	Description	Expenditure category	Initial data				Biding document		Biding period		Bid evaluation report		Contract finalization					Procurement reviewed during Supervision Mission
			Estimated amount BAM	Procurement method	Type of procurement	Prior post review	Date of proposal	Date of NO	Bid invitation date	Bid closing or opening	Bid evaluation report submitted	Date of NO	Contractor	Contract amount BAM	Date of contract award	Date of contract signature	Date of contract expire	
Component A - Rural Business Support																		
APCU/06/A/001	Establishment of VCs	IV	21.600,00	Indi. Consultant selection	CS	Pre	05.01.2016	11.01.16.	28.04.16.	10.05.16.	15.06.16.	15.06.16.	Žarko Tubin, Prijedor	9.767,28	17.06.16.	01.07.2016	31.12.16.	Yes
APCU/06/A/002	Establishment of VCs	IV	21.600,00	Indi. Consultant selection	CS	Pre	05.01.2016.	11.01.16.	28.04.16.	10.05.16.	15.06.16.	15.06.16.	Milijana Vukomanović, Banj.Luka	9.768,28	17.06.16.	01.07.16.	31.12.16.	Yes
APCU/06/A/003	Establishment of VCs	IV	21.600,00	Indi. Consultant selection	CS	Pre	05.01.2016.	11.01.16.	28.04.16.	10.05.16.	14.06.16.	15.06.16.	Sladana Berić-Tovirac, Šamac	9.769,28	17.06.16.	01.07.16.	31.12.16.	Yes
APCU/06/A/004	Novi Sad Fair Study Tour	IV	10.000,00	NS	TS	Pre	20.04.2016.	04.05.16.	04.05.16.	11.05.16.	N/A	04.05.16.	"BIG-tours", Banj.Luka	5.541,20	12.05.16.	16.05.16.	18.05.16.	No
APCU/06/A/005	Round Table	IV	6.000,00	DC	CS	Pre	29.08.2016.	30.08.16.	07.09.16.	14.09.16.	N/A	30.08.16.	"Faculty of Agric. Institute for EARD", Banj.Luka	5.128,21	15.09.2016.	15.09.16.	17.09.16.	No
														39.974,25				

Component D - Project Management and Coordination																		
APCU/06/D/001	Baseline Review Study Design	IV	32.000,00	QCBS	CS	Pre	14.10.2015.	23.10.2015.	28.10.2015.	09.11.2015.	N/A	N/A	Cancelled	N/A	N/A	N/A	N/A	No
APCU/06/D/002	Baseline Review Study Design	IV	32.000,00	DC	CS	Pre	04.03.2016.	04.03.2016.	07.03.2016.	14.03.2016.	05.04.16.	05.04.2016.	"Faculty of Agriculture - Institute for EARD", Banja Luka	28.562,39	05.04.2016.	14.04.2016.	07.07.2016.	No
APCU/06/D/003	Supply of Fuel for APCU's Vehicles	VI	4.400,00	DC	G	Pre	08.08.2016.	24.08.2016.	03.08.2016.	31.08.2016.	N/A	24.08.2016.	"Nestro Petrol", Banja Luka	3.939,49	31.08.2016.	01.09.2016.	31.12.16.	No
APCU/06/D/004	Maintenance of APCU's Vehicles	VI	1.000,00	DC	TS	Pre	08.08.2016.	24.08.2016.	03.08.2016.	04.08.2016.	N/A	24.08.2016.	"Sladaboni", Banja Luka	1.000,00	31.08.2016.	02.09.2016.	31.12.16.	No
APCU/06/D/005	Supply of Plane Tickets - Cancelled	VI	1.500,00	NS	G	Post												Yes
APCU/06/D/006	Supply of Business Cards	VI	95,00	NS	G	Post	N/A	N/A	07.09.2016.	08.09.2016.	N/A	N/A	"Vilux", Banja Luka	95,00	20.09.2016.	27.09.2016.	28.09.16.	Yes
APCU/06/D/007	Supply of Plane Tickets	VI	1.500,00	NS	TS	Post	N/A	N/A	07.09.2016.	08.09.2016.	N/A	N/A	"F PLUS", Banja Luka	1.076,00	08.09.2016.	08.09.2016.	13.09.16.	Yes
														34.672,88				
Total amount contracted														74.647,13				

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action Due	Date	Compliance	Status/Date Remarks
Section B.6 Section 7.02	The project shall open 4 designated accounts in Euros in banks acceptable to the Fund			Complied with	
Section B.6 Section 7.02	The project shall open and maintain 4 project accounts in local currency in Banks acceptable to the Fund.			Complied with (only PCU).	The APCU is operating using only the DA in Euros.
Schedule II. 2	The project steering committee shall approve a draft PIM and submit it to IFAD for NO			Complied with	
Schedule II. 3	A Midterm Review (MTR) to be carried out jointly by the Borrower and IFAD.	No later than the end of the third Project Year		Not yet due	
Section B.7	FBiH and RS to make available counterpart funds needed for their own resources			In line with AWPB Complied with (Only PCU).	Counterpart funds are not available for Part B of the project.
Section 7.01 (b)	AWPB to be submitted to the Fund, for its review, comments and approval.	60 days before the beginning of the relevant year.		Complied with	The PCU and APCU submitted the 2016 AWPB on December 2015 and it was approved by IFAD before 31 December 2015.
Section 7.05	Procurement financed by the proceeds of the loan to be carried out in accordance with the provisions of the borrower procurement regulations.			Complied with.	
Section 7.11	The borrower shall appoint all key project personnel			Complied with	

Schedule 9.02	Financial statements to be submitted to IFAD on annual basis.	No later than 4 months after the end of each year.	First project report for FY 2016 not yet due
Section 9.03(b)	Audit Report submitted to IFAD within six month of the end of each Financial Year.		First project report for FY 2016 not yet due

Appendix 7: Knowledge management: Learning and Innovation

Learning

The introduction of an inclusive value chain approach including effective targeting strategies has been appreciated by the beneficiaries and project partners and encouraged also the A/PCU teams to focus their interventions. Intensive exchange of knowledge between service providers (AESD, SERDA) and the A/PCU team is required to facilitate this process.

Innovation: Describe any interesting innovation noted during supervision

Project implementation is still at an early stage.

Annex: RBDP – Rural Finance Working Paper

1. The responsibility of mobilising potential individual loan clients at the municipality level is currently delegated by the PCU to SERDA. SERDA has developed collaborations with the municipalities, potential buyers, producers associations and cooperatives operating in the municipality. Once the Subsidiary Loan Agreements (SLA) are signed and the PFIs are formally contracted, SERDAs will also involve the PFIs. Although this system can assist to identify immediately the clients required for disbursing the IFAD refinancing funds its main drawback is the dependence of the PFIs on SERDA and the PCU for targeting and selecting the target group clients.
2. At the end of the project SERDA will no longer be present in the municipalities to ensure that the target group farmers are targeted and included. Although the PFIs will continue working in the municipalities, in the absence of an established internal methodology to directly and independently identify and lend to the poor farmers according the project value chain approach, they can lose the motivation to continue lending to this market segment. This can seriously affect project sustainability. To overcome this challenge it is recommended that the PCU should deepen its partnership with the PFIs to ensure that they can continue expanding their business with the target group clients even after the end of the project. The following steps are suggested to develop stronger and wider partnerships with the PFIs.
3. **Separate the PFIs into two separate partnership categories:** LoK and BBI already has prior experience of partnering with the previous IFAD supported RLDP implemented by the PCU. They are more familiar with the IFAD targeting approach and disbursement methodology. LoK has participated closely in the targeting pilot anchored by Oxfam towards the end of RLDP. On the other hand Eki is a first time partner and the performance of Vakufska Banka, which was also a RLDP PFI, was not very promising. Given the differences in the experience and performance of the PFIs in past IFAD project the PCU should separate its partnership approach into two categories namely Stage 1 and stage 2 partnerships.
 - **Stage 1 partners:** Financial institutions which are first time PFIs such as Eki and those whose performance as PFI of past IFAD projects was not very promising, e.g. Vakufska Banka. The engagement between the PCU and these stage 1 partners should primarily address the timely delivery of credit by the PFIs to the target group individuals and enterprises. The PCU, through its service provider SERDA, has to play a bigger role in targeting and client identification for these partners.
 - **Stage 2 partners:** Financial institutions which have substantial experience as PFIs of previous IFAD projects and have demonstrated good to moderate performance in such roles. LoK and BBI would fit in this category. The engagement between the PCU and the stage 2 partners should additionally focus on developing permanent internal mechanisms within the PFIs to continue their outreach to the project target group farmers after RBDP closure. The PCU should create an enabling environment for the PFI to lead the targeting and client identification process. Where relevant, the PCU should support these PFIs to develop special products, methodologies and delivery structures to reach the project target group farmers effectively and efficiently. Such products should be financed by the IFAD credit line as well as other sources of PFI finance. The success stories of the PFI in this market segment should attract other financial institutions to operate in this space. It is recommended that LoK should be identified as the first stage 2 partner and a special partnership package should be implemented with it as described below.
4. **Objectives of Special partnership with LoK:** The main objective of this partnership will be to
 - Capacitate LoK to independently generate clients from the RBDP target group in the project areas following the RBDP approach of consultation and coordination between municipalities, buyers, suppliers, PAs and other financial institutions
 - Support LoK to adopt the inclusive value chain financing approach across its wider agricultural portfolio. Thereby identify and finance other farmers, input suppliers buyers and financial institutions who are not identified through the RBDP. This is in addition to clients identified through project activities and project service providers. Finance such clients through IFAD supported credit or credit from other sources of finance.

- Develop the LoK success story to inspire other financial institutions to start activities in the same business segment.

5. Partnership details: As the first step towards achieving the above mentioned objectives the PCU should sponsor 1-2 business development officers employed by LoK to lead the coordination between municipalities, buyers and clients in 5-7 municipalities for 2-3 seasons. The long term objective of these officers will be to widen the LoK client base from the IFAD target group by promoting

- producer financing for linkage to the project promoted value chains
- replacing supplier financing to small holder clients to enable the suppliers to expand their business to target group farmers and
- service potential linkages between LoK and commercial banks like BBI for value chain financing.

Based on satisfactory performance LoK will absorb these officers at the end of project support. The mid-term review will evaluate the progress achieved and the replication of this mechanism by other PFIs. The implementation guidelines for this activity is presented below

6. Step 1: Identification of a cluster of municipalities: In coordination with LoK the PCU should identify a set of 5-6 municipalities where LoK already has a strong presence and business network. These municipalities should have a sizeable population of the poor target group farmers. The municipalities and the communities should in general be supportive of financial institutions. The PCU should have a strong relationship with the municipality and other stakeholder in this cluster and must be able to generate a strong enabling environment for LoK to lead the implementation process. In consultation with LoK the PCU should also identify the roles of SERDA in these municipalities and also define the coordination mechanisms between Lok and SERDA.

7. Step 2: Identification and supporting 1-2 rural agricultural business development officer: Based on prior agreement with the PCU LoK should recruit 1-2 business development officers. These persons will report to a LoK regional office for all administrative purposes. However, their technical reporting will be directly to the LoK Head Office for strong monitoring of this initiative. The PCU will finance 100% and 50% of the total remuneration of these officers in year 1 and 2 respectively. LoK will be expected to fully absorb these officers from the third year based on business growth performance generated by this initiative. The business development activities of the officer will not be confined to the IFAD refinancing package alone. However, first priority will be to the disbursement of the IFAD supported credit.

8. Step 3: Target setting: The business development officers will be expected to achieve specific predefined outreach goals encompassing the disbursement of loans both from IFAD refinancing as well as from other financing sources. Thus prior to the deployment of the business development officers Lok in consultation with the PCU should develop broad outreach targets for three years covering the following areas

- No of poor and very poor farmers to be reached over the next three of which
 - No of clients to be reached through the RBDP integrated value chain financing approach and
 - No of clients to be reached through individual financing approach that disburses cash directly to each farmer client separately
 - No of clients financed for non-farm loans
 - No of clients connect directly to RBDP supported buyers or suppliers
 - Numbers of clients reached by connecting to other buyers and suppliers
 - Amount of IFAD credit funds and credit funds from other sources to be disbursed to finance each of the client categories above.

9. Step 4: Key responsibilities of the rural agricultural business development officer: The main responsibilities of the officers will be as follows

- Implement awareness and sensitisation campaigns at all levels in the selected municipalities to market the agricultural portfolio of LoK primarily based on the value chain approach.

- Engage with the relevant municipality officials, PAs, buyers, input supplier other financial institutions and PCU service provider to identify the poor farmers in the municipalities and integrate them in with the project supported value chains.
- Assist the farmers to secure financing contributions from different stakeholders such as the municipalities, PAs, other donors as well as secure the financing contracts between LoK and the farmers.
- Coordinate with the credit officers to ensure timely appraisal and loan disbursement
- Aim to achieve the outreach rural poverty outreach targets set for the municipalities at the beginning of the implementation process
- Engage with other commercial banks and microcredit companies where relevant to explore collaborative financing of the value chains. Interested commercial banks and MCOs may agree to finance SMEs that enable them to link to target group farmers financed by LoK.
- Coordinate with agro input and equipment suppliers and their delivery networks across the municipalities to identify opportunities to finance their smallholder clients both through short term credit as well as through relatively long term credit for activities such as machinery and equipment financing.
- Maintain and submit relevant reports related to target achievement and growth of business resulting from the specific marketing efforts

10. Reporting against target: LoK should be responsible for recording progress against the targets set and sharing periodic reports with the PCU. The PCU should report not only on the direct outreach achieved by LoK by disbursing the IFAD refinancing funds but also on the indirect outreach achieved by adoption of the methodology across the rest of the agricultural financing portfolio within LoK.

11. Incentives: Based on the performance achieved against the targets the PCU will consider providing additional incentives to LoK. These can in the form of technical support and exposure trips to witness value chain financing success stories in other countries.

12. Publication of the results: Based on the progress reports and the success stories from the field the PCU in coordination with LoK should organise periodic knowledge sharing and technology dissemination forums. The PCU should also coordinate with other donors such as USAID for such events. The objective of these events should be to showcase the viability and growth opportunities in the rural poor market segment for agricultural financing following the value chain approach.