

**Report on the Consolidated Project Financial Statements of the**  
**RURAL BUSINESS DEVELOPMENT PROJECT**  
**of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

- Financed by:**
- IFAD Loan Agreement No. I-859-BA
  - IFAD Grant No. I-C-1337-BA
  - OFID Loan No. 4930

**For the year ended 31 December 2017**

**RURAL BUSINESS DEVELOPMENT PROJECT**  
**of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

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# **RURAL BUSINESS DEVELOPMENT PROJECT**

## **of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

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### **1. Introduction**

#### **1.1 Objectives of the Project**

The State of Bosnia and Herzegovina (the "State"), through its Ministry of Finance and Treasury, obtained Loan No. I-859-BA and Grant No. I-C-1337-BA from the International Fund for Agricultural Development (IFAD).

The Federation of Bosnia and Herzegovina ("FB&H") and Republika Srpska ("RS") have agreed to carry out the Rural Business Development Project (the "Project") and agreed subsidiary agreements with the State.

As of 27 April 2016, the State signed Loan Agreement No. 4930 with The OPEC Fund for International Development (OFID) for part financing of the Project, in accordance to which OFID approved loan in the amount of USD 5,350,000.

The Project Goal is defined as: rural poverty reduction by raising the target groups incomes and strengthening their resilience by building profitable farm and non-farm enterprises in Bosnia and Herzegovina.

The purpose of the Project shall be to help subsistence farmers transform to commercial farming and help in developing the non-farm enterprise sector for rural employment generation.

The expected outcomes of the project include: (i) increased productivity and enterprise through strengthened business and advisory services; (ii) increased access to sustainable financial services and (iii) improved access to markets and business opportunities. At least 75% of the targeted households are expected to report 30% increase in average household agricultural income and 50% increase in non-farm incomes. The share of women and unemployed youth in wage employment is expected to increase by 5%.

#### **1.2 Components and activities of the Project**

The project consists of the following components:

1. Rural Business Support
2. Rural Business Investments
3. Rural Market Infrastructure
4. Project Management

#### Project Activities

##### **Component 1: Rural Business Support**

The Rural Business Support Component shall consist of three sub-components: (i) Farm Enterprise Development, (ii) Business Development Services and (iii) Non-Farm Enterprise Development.

- (i) *Farm Enterprise Development* - The Project shall provide training to 6000 smallholder farmers for enhancing agriculture productivity. The aim will be to increase yields, product quality and value of existing farm enterprises through provision of advice and training; promotion of high value crops, demonstration of improved and appropriate technologies and practices for the horticulture and livestock sectors; improved agriculture inputs, improvement in herds and livestock production and management practices, enhancing food safety standards, strengthening of Good Agriculture and environmentally sound practices. All activities will be market-driven and designed to assist beneficiary farmers to improve the productivity, marketability and profitability of their produce.

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**1. Introduction (continued)**

**1.2. Components and activities of the Project (continued)**

***Component 1: Rural Business Support (continued)***

*(ii) Business Development Services* – In order to link small farmers to the market, the Project shall strengthen around 60 Producer Associations and Agriculture Cooperatives with a membership of approximately 4,200. It shall provide training, on-the-job mentoring and facilitate expansion of market linkages. The Project shall assist Agriculture Cooperatives, Producer Association and other market intermediaries providing small farmers with opportunities to participate more actively in value chains and adoption of standards such as Hazard Analysis and Critical Control Points (HACCP), European Good Agriculture Practices (EuroGAP) and ISO 22,000 standard developed by the International Organization for Standardization dealing with food safety standards. Through training, technical assistance, marketing and assistance to obtain certification, rural entrepreneurs, both farm and non-farm, shall be assisted to develop and expand their enterprises which create opportunities to enhance incomes and rural employment and add value to the rural economy.

*(iii) Non-Farm Enterprise Development* – The Project shall focus on creating jobs for women and unemployed youth given the lack of opportunities in rural areas and the high unemployment rate for these two groups. The project will provide support which will include identification of business and employment opportunities, preparation of technical and business feasibilities, access to financing through its rural finance component. For a few selected enterprises with the potential for employment generation, a small one-time initial capital assistance with some contribution from the Project will also be considered.

**Component 2: Rural Business Investment Component**

The Rural Business Investment shall provide access to financial services and operate with two main client groups, (i) smallholder producers and rural entrepreneurs, who shall be provided loans for up to five years and (ii) rural enterprises connected to one of the main project supported value chains who shall be provided loans. Innovative arrangements for financing private sector firms with contractual arrangements with Producer Associations and Agriculture Cooperatives shall be encouraged as these have proved to be very effective in providing timely finance to small farmers, address the working capital requirements of processors and wholesalers, ensure timely payments to farmers for their produce and provide a secure source of repayment through deduction of instalments at source thereby reducing the transaction cost of financial institutions.

**Component 3: Rural Market Infrastructure**

The Rural Infrastructure component shall enhance access to markets through a broad range of schemes which shall be undertaken in close partnership with municipal governments. All selected schemes will have to demonstrate the potential of the scheme to enhance economic opportunities and improved livelihoods. The main types of infrastructure that shall be eligible under the Rural Market Infrastructure component shall include infrastructure such as village and feeder roads including bridges, pasture livestock water points, small-scale irrigation systems, domestic water supply and sewerage systems.

**Component 4: Project Management**

The Project Management Component shall finance all the incremental costs of project management and coordination by the Agricultural Project Coordination Unit (APCU) in RS and Project Coordination Unit (PCU) in FB&H.

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**1. Introduction (continued)**

**1.3. Financing of the Project**

The Project is financed by:

- a) IFAD Loan No. I-859-BA,
- b) IFAD Grant No. I-C-1337-BA,
- c) OFID Grant No. 4930,
- d) Government contribution IFAD 562,
- e) Government,
- f) Beneficiaries

**1.3.1. IFAD Loan Agreement No. I-859-BA**

The State is the borrower of the International Fund for Agricultural Development (IFAD) Loan No. I-859-BA, amounting to XDR 8,050,000.

In accordance to terms of subsidiary finance agreement between the State and FB&H, funds of the equivalent of XDR 4,805,000 have been lent to FB&H.

In accordance to terms of subsidiary finance agreement between the State and RS, funds of the equivalent of XDR 3,245,000 have been lent to RS.

**1.3.2. IFAD Grant Agreement No. I-C-1337-BA**

IFAD Grant No. I-C-1337-BA allocations for B&H are XDR 500,000.

In accordance to terms of subsidiary finance agreement between the State and FB&H, funds of the equivalent of XDR 301,000 have been granted to FB&H.

In accordance to terms of subsidiary finance agreement between the State and RS, funds of the equivalent of XDR 199,000 have been granted to RS.

**1.3.3. IFAD Loan and Grant amounts allocation**

Categories of cost items to be financed out of the proceeds of the Loan and Grant, the allocation of the amounts of the Loan and Grant to each category and the percentage of expenditure for cost items so to be financed in each category are as follows:

**Part A of the Project – FB&H**

Item	Amount of the Loan allocated (in XDR)	Amount of the Grant allocated (in XDR)	% of expenditure to be financed
I Enterprise Support Fund	31,000	32,000	100% net of taxes and beneficiary contribution
II Revolving Investment Fund	2,810,000	-	100% net of PFI contributions
III Civil Works	275,000	-	100% net of taxes
IV National Technical Assistance, Training, Workshops and Studies	585,000	255,000	100% net of co-financing and Municipalities/beneficiaries contributions
V Equipment	91,000	14,000	100% net of co-financing
VI Incremental operating costs	775,000	-	100% net of taxes
Unallocated	238,000	-	
<b>Subtotal (FB&amp;H)</b>	<b>4,805,000</b>	<b>301,000</b>	

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**1.3. Financing of the Project (continued)**

**1.3.3. IFAD Loan and Grant amounts allocation (continued)**

**Part B of the Project – RS**

Item		Amount of the Loan allocated (in XDR)	Amount of the Grant allocated (in XDR)	% of expenditure to be financed
I	Enterprise Support Fund	50,000	13,000	100% net of taxes and beneficiary contribution
II	Revolving Investment Fund	1,626,000		100% net of PFI contributions
III	Civil Works	190,000		100% net of taxes
IV	National Technical Assistance, Training, Workshops and Studies	560,000	160,000	100% net of co-financing and Municipalities/beneficiaries contributions
V	Vehicle and Equipment	50,000	26,000	100% net of co-financing
VI	Incremental operating costs	615,000		100% net of taxes
	Unallocated	154,000		
<i>Subtotal (RS)</i>		<i>3,245,000</i>	<i>199,000</i>	
<b>TOTAL IFAD</b>		<b>8,050,000</b>	<b>500,000</b>	

**1.3.4. OFID Loan Agreement No. 4930**

OFID Loan proceeds of USD 5,350,000 shall be utilized towards financing 37.08% of the total cost of the Rural Market Infrastructure component of the Project.

## **Independent Auditor's Report**

To the State of Bosnia and Herzegovina,  
Ministry of Finance and Treasury  
Attn. of Minister of Finance and Treasury H.E. Mr. Vjekoslav Bevanda

### **Report on the consolidated Project Financial Statements**

#### **Opinion**

We have audited the accompanying consolidated project financial statements of the Rural Business Development Project (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated accounts, local bank accounts and petty cash statements, Statements of loan and grant withdrawals as of and for the year ended 31 December 2017, and a summary of significant accounting policies and other explanatory notes for the year then ended, financed under IFAD Loan Agreement No. I-859-BA, IFAD Grant Agreement No. I-C-1337-BA and OFID Loan Agreement No. 4930.

In our opinion, the accompanying consolidated project financial statements present fairly, in all material aspects, the financial position of the Project as of 31 December 2017, and of the funds received and disbursed during the year then ended, in accordance with the cash basis of accounting based on International Public Sector Accounting Standard ("IPSAS"), as described in Note 4.1.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the International Fund for Agricultural Development Guidelines for Project Audits ("IFAD Guidelines"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated Financial Statements* section of our report. We are independent of the Ministry of Finance and Treasury in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Responsibilities of Management and Those Charged with Governance for the consolidated Project Financial Statements**

The management of agricultural project coordination unit in Republika Srpska and project coordination unit in Federation of Bosnia and Herzegovina is responsible for the preparation of these consolidated project financial statements in accordance with the cash basis of accounting based on IPSAS, as described in Note 4.1., the International Fund for Agricultural Development Guidelines for Project Audits, and for such internal control as management determines is necessary to enable the preparation of consolidated project financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the financial reporting process.

### **Responsibilities for the Audit of consolidated Project Financial Statements**

Our objectives are to obtain reasonable assurance about whether the project consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated project financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### **Report on other requirements**

In addition, with respect to the SoE withdrawal schedule, adequate supporting documentation has been maintained to support claims for reimbursements of expenditures occurred and such expenditure were eligible under IFAD Loan Agreement No. I-859-BA, IFAD Grant Agreement No. I-C-1337-BA and OFID Loan Agreement No. 4930.

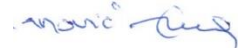


In addition, in our opinion, the accompanying designated account statements present fairly, in all material aspects, the funds received and disbursements made from the designated accounts of the Project for the year ended 31 December 2017, in accordance with the basis of accounting described in Note 4.1.

Signed on behalf of Baker Tilly Re Opinion d.o.o. Sarajevo



Nihad Fejzić, Director and Certified Auditor



Ema Sinanović, Certified Auditor

Sarajevo, 25 June 2018

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Consolidated project financial statements for the year ended 31 December 2017

*(all amounts in EUR, unless otherwise stated)*

**3. Consolidated Project financial statements for the year 2017**

**3.1 Summary of Sources and Uses of Funds under the IFAD Loan No. I-859-BA, IFAD Grant No. I-C-1337-BA, OFID Loan No. 4930, Government contribution, beneficiary's contribution and Government contribution IFAD 562**

	Ref.	Actual 2017	Cumulative 2017	Cumulative budget	Cumulative variance
<b>FINANCING</b>					
IFAD Loan No. I-859-BA	3.1.1	2,364,879	3,864,879	9,663,883	5,799,004
IFAD Grant No. I-C-1337-BA	3.1.2	51,156	351,156	587,730	236,574
OFID Loan No. 4930	3.1.3	1,000,000	1,000,000	3,920,075	2,920,075
Government contribution	3.1.4	100,500	400,117	5,810,576	5,410,459
Beneficiaries contribution	3.1.5	283,466	283,466	1,067,885	784,419
Government contribution IFAD 562	3.1.6	1,008,667	1,008,667	3,465,959	2,457,292
<b>TOTAL FINANCING</b>	<b>3.2</b>	<b>4,808,668</b>	<b>6,908,285</b>	<b>24,516,108</b>	<b>17,607,823</b>

**PROJECT EXPENDITURE**

***By Category***

Enterprise Support Fund		23,142	99,652	166,694	67,042
Revolving Investment Fund		1,717,485	1,717,485	5,309,912	3,592,427
Civil Works		1,574,190	1,574,190	13,756,877	12,182,687
National Technical Assistance, Training, Workshops and Studies		276,401	353,836	2,079,899	1,726,062
Vehicle and Equipment		58,547	67,861	406,132	338,271
Incremental operating costs		491,980	819,621	2,602,577	1,782,956
Unallocated		-	-	194,018	194,018
<b>TOTAL EXPENDITURE</b>	<b>3.2</b>	<b>4,141,744</b>	<b>4,632,645</b>	<b>24,516,108</b>	<b>19,883,463</b>

**PROJECT EXPENDITURE**

***By Component***

Rural Business Support		349,108	476,878	2,615,427	2,138,549
Rural Business Investment		1,717,485	1,717,485	5,350,080	3,632,595
Rural Market Infrastructure		1,574,126	1,574,126	13,832,024	12,257,898
Project management and coordination unit		501,025	864,156	2,718,576	1,854,420
<b>TOTAL EXPENDITURE</b>	<b>3.2</b>	<b>4,141,744</b>	<b>4,632,645</b>	<b>24,516,108</b>	<b>19,883,463</b>

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(all amounts in EUR, unless otherwise stated)

**3. Consolidated Project financial statements for the year 2017 (continued)**

**3.1.1 Summary of Sources and Uses of Funds under the IFAD Loan agreement No. I-859-BA**

	Ref.	Actual 2017	Cumulative 2017	Cumulative budget	Cumulative variance
<b>FINANCING</b>					
<i>IFAD Loan No. I-859-BA</i>					
Initial deposit		-	1,500,000	-	(1,500,000)
Direct payments		-	-	-	-
SoE replenishments		2,364,879	2,364,879	9,663,883	7,299,004
<b>TOTAL FINANCING</b>	3.2	<b>2,364,879</b>	<b>3,864,879</b>	<b>9,663,883</b>	<b>5,799,004</b>
<b>PROJECT EXPENDITURE</b>					
<i>By Category</i>					
Enterprise Support Fund		5,504	51,300	170,307	119,007
Revolving Investment Fund		1,717,485	1,717,485	5,641,326	3,923,841
Civil Works		106,065	106,065	461,249	355,184
National Technical Assistance, Training, Workshops and Studies		212,172	281,892	1,143,239	861,347
Equipment		40,250	48,210	163,844	115,634
Incremental operating costs		471,872	788,286	1,889,900	1,101,614
Unallocated		-	-	194,018	194,018
<b>TOTAL EXPENDITURE</b>	3.2	<b>2,553,347</b>	<b>2,993,239</b>	<b>9,663,883</b>	<b>6,670,644</b>

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**3. Consolidated Project financial statements for the year 2017 (continued)**

**3.1.2 Summary of sources and uses of fund under IFAD Grant agreement No. I-C-1337-BA**

	Ref.	Actual 2017	Cumulative 2017	Cumulative budget	Cumulative variance
<b>FINANCING</b>					
<i>IFAD Grant No. I-C-1337-BA</i>					
Initial deposit		-	300,000	-	(300,000)
Direct payment		-	-	-	-
SoE replenishments		51,156	51,156	587,730	536,574
<b>TOTAL FINANCING</b>	3.2	<b>51,156</b>	<b>351,156</b>	<b>587,730</b>	<b>236,574</b>
<b>PROJECT EXPENDITURE</b>					
<i>By Category</i>					
Enterprise support fund		14,277	35,678	158,688	123,010
National Technical assistance, Training, Workshops and Studies		37,160	37,360	350,597	313,237
Equipment and Vehicle		11,454	11,454	78,445	66,990
<b>TOTAL EXPENDITURE</b>	3.2	<b>62,891</b>	<b>84,493</b>	<b>587,730</b>	<b>503,237</b>

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Consolidated project financial statements for the year ended 31 December 2017

*(all amounts in EUR, unless otherwise stated)*

**3. Consolidated Project financial statements for the year 2017 (continued)**

**3.1.3 Summary of sources and uses of fund under OFID Loan No. 4930 (FB&H only)**

	Ref.	Actual 2017	Cumulative 2017	Cumulative budget	Cumulative variance
<b>FINANCING</b>					
<i>OFID Loan No. 4930</i>					
Initial deposit		1,000,000	1,000,000	-	(1,000,000)
Direct Payments		-	-	-	-
SoE replenishments		-	-	3,920,075	3,920,075
<b>TOTAL FINANCING</b>	<b>3.2</b>	<b>1,000,000</b>	<b>1,000,000</b>	<b>3,920,075</b>	<b>2,920,075</b>
<b>PROJECT EXPENDITURE</b>					
<i>By Category</i>					
Civil works		909,430	909,430	3,920,075	3,010,645
<b>TOTAL EXPENDITURE</b>	<b>3.2</b>	<b>909,430</b>	<b>909,430</b>	<b>3,920,075</b>	<b>3,010,645</b>

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*(all amounts in EUR, unless otherwise stated)*

**3. Consolidated Project financial statements for the year 2017 (continued)**

**3.1.4 Summary of sources and uses of fund under Government contribution**

	Ref.	Actual 2017	Cumulative 2017	Cumulative budget	Cumulative variance
<b>FINANCING</b>					
<i>Government contribution</i>					
Government contribution FB&H		-	284,278	1,421,391	1,137,113
Government contribution RS		100,500	115,839	4,389,185	4,273,346
<b>TOTAL FINANCING</b>	3.2	<b>100,500</b>	<b>400,117</b>	<b>5,810,576</b>	<b>5,410,459</b>
<b>PROJECT EXPENDITURE</b>					
<i>By Category</i>					
Enterprise support fund		3,362	12,674	74,997	62,324
Civil works		172,531	172,531	5,011,962	4,839,431
National Technical assistance, Training, Workshops and Studies		27,069	34,584	204,654	170,070
Equipment and Vehicles		6,843	8,196	48,499	40,304
Incremental operating costs		20,108	31,335	470,465	439,130
<b>TOTAL EXPENDITURE</b>	3.2	<b>229,912</b>	<b>259,319</b>	<b>5,810,576</b>	<b>5,551,258</b>

**RURAL BUSINESS DEVELOPMENT PROJECT**  
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Consolidated project financial statements for the year ended 31 December 2017

*(all amounts in EUR, unless otherwise stated)*

**3. Consolidated Project financial statements for the year 2017 (continued)**

**3.1.5 Summary of sources and uses of fund under Beneficiaries contribution (RS only)**

	Ref.	Actual 2017	Actual 2017	Cumulative budget	Cumulative variance
<b>FINANCING</b>					
<i>Beneficiaries contribution</i>					
Beneficiaries contribution		283,466	283,466	1,067,885	784,419
<b>TOTAL FINANCING</b>	3.2	<b>283,466</b>	<b>283,466</b>	<b>1,067,885</b>	<b>784,419</b>
<b>PROJECT EXPENDITURE</b>					
<i>By Category</i>					
Civil works		166,581	166,581	904,987	738,406
Equipment and vehicles		-	-	162,898	162,898
<b>TOTAL EXPENDITURE</b>	3.2	<b>166,581</b>	<b>166,581</b>	<b>1,067,885</b>	<b>901,304</b>

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Consolidated project financial statements for the year ended 31 December 2017

*(all amounts in EUR, unless otherwise stated)*

**3. Consolidated Project financial statements for the year 2017 (continued)**

**3.1.6 Summary of sources and uses of fund under Government contribution IFAD 562 (RS only)**

	Ref.	Actual 2017	Cumulative 2017	Cumulative budget	Cumulative variance
<b>FINANCING</b>					
Government contribution		1,008,667	1,008,667	3,465,959	2,457,292
<b>TOTAL FINANCING</b>	<b>3.2</b>	<b>1,008,667</b>	<b>1,008,667</b>	<b>3,465,959</b>	<b>2,457,292</b>
<b>PROJECT EXPENDITURE</b>					
<b><i>By Category</i></b>					
Civil Works		219,583	219,583	3,465,959	3,246,376
<b>TOTAL EXPENDITURE</b>	<b>3.2</b>	<b>219,583</b>	<b>219,583</b>	<b>3,465,959</b>	<b>3,246,376</b>



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**3. Consolidated Project financial statements for the year 2017 (continued)**

**3.2 Balance sheet as of 31 December 2017 showing accumulated funds of the Project and bank balances concerning IFAD and OFID Funding**

	Ref.	31 December 2017	31 December 2016
<b>ASSETS</b>			
Project expenditure IFAD Loan No. I-859-BA	3.1.1	2,993,239	439,891
Project expenditure IFAD Grant No. I-C-1337-BA	3.1.2	84,493	21,602
Project expenditure OFID Loan No. 4930	3.1.3	909,430	-
Project expenditure under Government contribution	3.1.4	259,319	29,407
Project expenditure under Beneficiary contribution	3.1.5	166,581	-
Project expenditure under Government contribution IFAD 562	3.1.6	219,583	-
		<b>4,632,645</b>	<b>490,900</b>
Designated account - IFAD Loan No. I-859-BA (FB&H)	A.1	546,494	712,356
Designated sub-account - IFAD Loan No. I-859-BA (FB&H)	A.2	-	-
Petty Cash under IFAD Loan No. I-859-BA (FB&H)	A.3	14	768
Designated account - IFAD Loan No. I-859-BA (RS)	A.4	325,132	346,985
Designated account - IFAD Grant No. I-C-1337-BA (FB&H)	A.5	116,663	128,398
Designated sub-account - IFAD Grant No. I-C-1337-BA (FB&H)	A.6	-	-
Designated account - OFID Loan No. 4930 (FB&H)	A.7	90,570	-
Designated sub-account - OFID Loan No. 4930 (FB&H)	A.8	-	-
Local bank account - IFAD Grant No. I-C-1337-BA (RS)	A.9	150,000	150,000
Local bank account - Government contribution (FB&H)	A.10	44,081	263,012
Local bank account - Government contribution (RS)	A.11	22,935	3,055
Local bank account - Beneficiary contribution (RS)	A.12	116,885	-
Local bank account - Government contribution IFAD 562 (RS)	A.13	789,084	-
		<b>2,201,858</b>	<b>1,604,574</b>
VAT receivables (RS)		73,782	4,143
<b>Total assets</b>		<b>6,908,285</b>	<b>2,099,617</b>
<b>LIABILITIES</b>			
IFAD Loan No. 859-BA	3.1.1	3,864,879	1,500,000
IFAD Grant No. I-C-1337-BA	3.1.2	351,156	300,000
OFID Loan No. 4930	3.1.3	1,000,000	-
Government contribution	3.1.4	400,117	299,617
Beneficiary contribution	3.1.5	283,466	-
Government contribution IFAD 562	3.1.6	1,088,667	-
<b>Total liabilities</b>		<b>6,908,285</b>	<b>2,099,617</b>

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**4. Notes to the consolidated project financial statements**

**4.1 Basis of preparation and accounting records**

These consolidated project financial statements have been prepared on the cash basis of accounting based on International Public-Sector Accounting Standards issued by the Public-Sector Committee of the International Federation of Accountants, and incorporate the accounting policies below, which have been consistently followed in all material respects.

**4.2 Accounting policies**

The Project's fiscal year is 1 January to 31 December for the recording of all transactions.

***Cash basis of accounting***

All receipts and expenses under IFAD Loan, IFAD Grant and OFID Loan are recorded on actual receipt and payment basis of accounting as per approved categories.

Project expenditure is stated at original cost on the Balance sheet.

***Direct payments***

Direct payments concern the amounts paid directly from the IFAD Loan, IFAD Grant and OFID Loan account.

***Statement of Expenditure (SoE)***

Statements of Expenditure are used to state the expenditure under IFAD Loan, IFAD Grant and OFID Loan during a certain period. These statements are sent to the IFAD and OFID disbursement specialist who authorizes the payment of the expenditure through the Designated account.

***Currency conversions***

The reporting currency is Euro (EUR). Sources and use of funds (payments to suppliers and contractors) in currencies other than EUR have been converted to EUR using the currency rate at the moment of the transaction.

Bank balances, recorded on the Balance sheet at year-end, have been converted at year-end rate.

***Designated account***

This is the total amount of the withdrawals from the IFAD Loan account, IFAD Grant account and OFID Loan account for the Project. IFAD Loan account is in XDR.

***Local bank accounts***

This concerns bank accounts at local banks (other than Designated account) in EUR and BAM translated at the exchange rate at the date of the balance sheet.

***Other income***

Other income includes interest earned on cash funds at the bank accounts, income from tender documentation sold and received bidding fees.

***Interest on Designated accounts***

Interest earned on the Designated accounts belongs to the Borrower.

**RURAL BUSINESS DEVELOPMENT PROJECT**  
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Consolidated project financial statements for the year ended 31 December 2017

*(all amounts in EUR, unless otherwise stated)*

**4. Notes to the consolidated project financial statements (continued)**

***Interest on local bank accounts***

Interest earned on the local bank account used for the payments from IFAD Loan funds, IFAD Grant funds and OFID Loan funds belongs to the Borrower; interest earned on the local bank accounts used for the payments from Government and Beneficiaries contribution is treated as additional source of financing of the Project.

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**APPENDIX A.1**

**DESIGNATED ACCOUNT STATEMENT**

**Account owned by:** Ministry of Finance and Treasury of Bosnia and Herzegovina

**Account No.:** 1994990034004142

**Depository Bank:** Sparkasse Bank dd

**Address:** Zmaja od Bosne 7, Sarajevo

**Related Credit:** IFAD Loan No. 859-BA

**Currency:** EUR

	Ref.	EUR
<b>Opening balance 1 January 2017</b>	3.2	712,356
Add:		
IFAD replenishments	B.1	2,211,864
		<u>2,211,864</u>
Deduct:		
Transfer to designated sub-account	A.2	2,377,726
		<u>2,377,726</u>
<b>Ending balance 31 December 2017</b>	3.2	<b>546,494</b>

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**APPENDIX A.2**

**DESIGNATED SUB-ACCOUNT STATEMENT**

**Account owned by:** Ministry of Finance and Treasury of Bosnia and Herzegovina

**Account No.:** 1994990034004142

**Depository Bank:** Sparkasse Bank dd

**Address:** Zmaja od Bosne 7, Sarajevo

**Related Credit:** IFAD Loan No. 859-BA

**Currency:** BAM

	Ref.	BAM	EUR
<b>Opening balance 1 January 2017</b>	3.2	-	-
Add:			
Transfer from Designated account	A.1	4,650,427	2,377,726
		<u>4,650,427</u>	<u>2,377,726</u>
Deduct:			
Payments to suppliers		4,642,987	2,373,922
Transfer to petty cash	A.3	7,440	3,804
		<u>4,650,427</u>	<u>2,377,726</u>
<b>Ending balance 31 December 2017</b>	3.2	-	-

**RURAL BUSINESS DEVELOPMENT PROJECT**  
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**APPENDIX A.3**

**PETTY CASH**

**Account owned by:** Ministry of Finance and Treasury of Bosnia and Herzegovina

**Related Credit:** IFAD Loan No. 859-BA

**Currency:** BAM

	Ref.	BAM	EUR
<b>Opening balance 1 January 2017</b>	3.2	1,501	768
Add:			
Transfer from Designated sub-account	A.2	7,440	3,804
		<u>7,440</u>	<u>3,804</u>
Deduct:			
Payments to suppliers - Expenditure paid during the period		8,913	4,557
		<u>8,913</u>	<u>4,557</u>
<b>Ending balance 31 December 2017</b>	3.2	<b>28</b>	<b>14</b>

**RURAL BUSINESS DEVELOPMENT PROJECT**  
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Consolidated project financial statements for the year ended 31 December 2017

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**APPENDIX A.4**

**DESIGNATED ACCOUNT STATEMENT**

**Account owned by:** Ministry of Finance and Treasury of Bosnia and Herzegovina

**Account No.:** 5672410000627938

**Depository Bank:** Sberbank a.d. Banja Luka

**Address:** Jevrejska 71, Banja Luka

**Related Credit:** IFAD Loan No. 859-BA

**Currency:** EUR

	Ref.	EUR
<b>Opening balance 1 January 2017</b>	3.2	346,985
Add:		
IFAD replenishments	B.1	153,015
		<u>153,015</u>
Deduct:		
Payments to suppliers – Expenditure under IFAD Loan		174,868
		<u>174,868</u>
<b>Ending balance 31 December 2017</b>	3.2	<b>325,132</b>

**RURAL BUSINESS DEVELOPMENT PROJECT**  
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**APPENDIX A.5**

**DESIGNATED ACCOUNT STATEMENT**

**Account owned by:** Ministry of Finance and Treasury of Bosnia and Herzegovina

**Account No.:** 1994990034004336

**Depository Bank:** Sparkasse Bank d.d.

**Address:** Zmaja od Bosne 7, Sarajevo

**Related Credit:** IFAD Grant No. I-C-1337-BA

**Currency:** EUR

	Ref.	EUR
<b>Opening balance 1 January 2017</b>	3.2	128,398
Add:		
IFAD Grant replenished	B.2	51,156
		<u>51,156</u>
Deduct:		
Transfer to Designated sub-account	A.6	62,891
		<u>62,891</u>
<b>Ending balance 31 December 2017</b>	3.2	<b>116,663</b>



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**APPENDIX A.6**

**DESIGNATED SUB-ACCOUNT STATEMENT**

**Account owned by:** Ministry of Finance and Treasury of Bosnia and Herzegovina

**Account No.:** 1994990034004336 (#113212)

**Depository Bank:** Sparkasse Bank d.d.

**Address:** Zmaja od Bosne 7, Sarajevo

**Related Credit:** IFAD Grant No. I-C-1337-BA

**Currency:** BAM

	<b>Ref.</b>	<b>BAM</b>	<b>EUR</b>
<b>Opening balance 1 January 2017</b>	3.2	-	-
Add:			
Transfers from Designated account	A.5	123,004	62,891
		<u>123,004</u>	<u>62,891</u>
Deduct:			
Expenditures paid during the period		123,004	62,891
		<u>123,004</u>	<u>62,891</u>
<b>Ending balance 31 December 2017</b>	3.2	-	-

**RURAL BUSINESS DEVELOPMENT PROJECT**  
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**APPENDIX A.7**

**DESIGNATED ACCOUNT STATEMENT**

**Account owned by:** Ministry of Finance and Treasury of Bosnia and Herzegovina

**Account No.:** 1994990034240628

**Depository Bank:** Sparkasse Bank d.d.

**Address:** Zmaja od Bosne 7, Sarajevo

**Related Credit:** OFID Loan No. 4930

**Currency:** EUR

	Ref.	EUR
<b>Opening balance 1 January 2017</b>	3.2	-
Add:		
OFID Loan replenishments	B.3	1,000,000
		<u>1,000,000</u>
Deduct:		
Expenditures paid during the period		153
Transfer to Designated Sub-account	A.8	909,277
		<u>909,430</u>
<b>Ending balance 31 December 2017</b>	3.2	<b>90,570</b>

**RURAL BUSINESS DEVELOPMENT PROJECT**  
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**APPENDIX A.8**

**DESIGNATED SUB-ACCOUNT STATEMENT**

**Account owned by:** Ministry of Finance and Treasury of Bosnia and Herzegovina

**Account No.:** 1994990034240628

**Depository Bank:** Sparkasse Bank d.d.

**Address:** Zmaja od Bosne 7, Sarajevo

**Related Credit:** OFID Loan No. 4930

**Currency:** BAM

	Ref.	BAM	EUR
<b>Opening balance 1 January 2017</b>	3.2	-	-
Add:			
Transfer from Designated Account	A.7	1,778,391	909,277
		<u>1,773,391</u>	<u>909,277</u>
Deduct:			
Expenditures paid during the period		1,778,391	909,277
		<u>1,778,391</u>	<u>909,277</u>
<b>Ending balance 31 December 2017</b>	3.2	-	-

**RURAL BUSINESS DEVELOPMENT PROJECT**  
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**APPENDIX A.9**

**LOCAL BANK ACCOUNT STATEMENT**

**Account owned by:** Ministry of Finance and Treasury of Bosnia and Herzegovina

**Account No.:** 5672410000628132

**Depository Bank:** Sberbank a.d. Banja Luka

**Address:** Jevrejska 71, Banja Luka

**Related Credit:** IFAD Grant No. I-C-1337-BA

**Currency:** EUR

	Ref.	EUR
<b>Opening balance 1 January 2017</b>	3.2	150,000
Add:		
IFAD Grant replenished		-
		-
Deduct:		
Payments to suppliers – Expenditure under IFAD Grant		-
		-
<b>Ending balance 31 December 2017</b>	3.2	<b>150,000</b>

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**APPENDIX A.10**

**LOCAL BANK ACCOUNT STATEMENT**

**Account owned by:** Ministry of Agriculture, Forestry and Water Management of FB&H

**Account No.:** 1994990020558875

**Depository Bank:** Sparkasse Bank d.d.

**Address:** Zmaja od Bosne 7, Sarajevo

**Related Credit:** Government FB&H

**Currency:** BAM

	Ref.	BAM	EUR
<b>Opening balance 1 January 2017</b>	3.2	514,407	263,012
Add:			
Government replenishments		-	-
		-	-
Deduct:			
Expenditures paid during the period		428,191	218,931
		428,191	218,931
<b>Ending balance 31 December 2017</b>	3.2	<b>86,216</b>	<b>44,081</b>

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**APPENDIX A.11**

**LOCAL BANK ACCOUNT STATEMENT**

**Account owned by:** Ministry of Agriculture, Forestry and Water Management of RS

**Account No.:** 5672418200001854

**Depository Bank:** Sberbank a.d. Banja Luka

**Address:** Jevrejska 71, Banja Luka

**Related Credit:** Government contribution

**Currency:** BAM

	<b>Ref.</b>	<b>BAM</b>	<b>EUR</b>
<b>Opening balance 1 January 2017</b>	3.2	5,973	3,055
Add:			
Government contribution		196,561	100,500
		<u>196,561</u>	<u>100,500</u>
Deduct:			
Payments to suppliers – Expenditure under Government		21,477	10,981
Vat payments		136,202	69,639
		<u>157,679</u>	<u>80,620</u>
<b>Ending balance 31 December 2017</b>	3.2	<b>44,855</b>	<b>22,935</b>

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**APPENDIX A.12**

**LOCAL BANK ACCOUNT STATEMENT**

**Account owned by:** Ministry of Agriculture, Forestry and Water Management of RS

**Account No.:** 56724182000022-42

**Depository Bank:** Sberbank a.d. Banja Luka

**Address:** Jevrejska 71, Banja Luka

**Related Credit:** Beneficiary contribution

**Currency:** BAM

	<b>Ref.</b>	<b>BAM</b>	<b>EUR</b>
<b>Opening balance 1 January 2017</b>	3.2	-	-
Add:			
Municipality contribution		554,410	283,466
		<u>554,410</u>	<u>283,466</u>
Deduct:			
Payments to suppliers – Expenditure under Beneficiaries		325,805	166,581
		<u>325,805</u>	<u>166,581</u>
<b>Ending balance 31 December 2017</b>	3.2	<b>228,605</b>	<b>116,885</b>

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**APPENDIX A.13**

**LOCAL BANK ACCOUNT STATEMENT**

**Account owned by:** Ministry of Agriculture, Forestry and Water Management of RS

**Account No.:** 56724182000023-39

**Depository Bank:** Sberbank a.d. Banja Luka

**Address:** Jevrejska 71, Banja Luka

**Related Credit:** Government contribution (IFAD 562)

**Currency:** BAM

	<b>Ref.</b>	<b>BAM</b>	<b>EUR</b>
<b>Opening balance 1 January 2017</b>	3.2		
Add:			
Contribution		1,972,781	1,008,667
		<u>1,972,781</u>	<u>1,008,667</u>
Deduct:			
Payments to suppliers – Expenditure under Government		429,467	219,583
		<u>429,467</u>	<u>219,583</u>
<b>Ending balance 31 December 2017</b>	3.2	<b>1,543,314</b>	<b>789,084</b>



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**APPENDIX B.1      SoE Withdrawal Schedule of IFAD Loan No. I-859 BA for the year ended 31 December 2017**

	Initial deposit	Enterprise Support Fund	Revolving Investment Fund	Civil works	National Technical assistance, training, workshops and studies	Vehicle and Equipment	Incremental operating costs	Total application	Total disbursed
<b>Previous years</b>									
FB&H	1,000,000	45,796	-	-	49,126	7,960	183,994	286,876	1,000,000
RS	500,000	-	-	-	20,595	-	132,420	153,015	500,000
<b>Total</b>	<b>1,500,000</b>	<b>45,796</b>	<b>-</b>	<b>-</b>	<b>69,721</b>	<b>7,960</b>	<b>316,414</b>	<b>439,891</b>	<b>1,500,000</b>
<b>Total direct payments</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Application 2* (FB&H)	-	5,504	368,130	-	4,079	-	51,933	429,646	716,522
Application 2* (RS)	-	-	-	-	-	-	-	-	153,015
Application 3 (FB&H)	-	-	508,077	-	95,166	4,125	114,553	721,921	721,921
Application 3* (RS)	-	-	-	-	52,053	-	122,815	174,868	-
Application 4 (FB&H)	-	-	543,632	35,338	55,310	36,126	103,015	773,421	773,421
Application 5 (FB&H)	875,000	-	-	-	-	-	-	-	-
Application 6* (FB&H)	-	-	297,646	70,727	5,563	-	79,556	453,492	-
<b>Total SoE</b>									
<b>application 2017</b>	<b>875,000</b>	<b>5,504</b>	<b>1,717,485</b>	<b>106,065</b>	<b>212,171</b>	<b>40,251</b>	<b>471,872</b>	<b>2,553,348</b>	<b>2,364,879</b>
<b>Cumulative 2017</b>	<b>2,375,000</b>	<b>51,300</b>	<b>1,717,485</b>	<b>106,065</b>	<b>281,892</b>	<b>48,211</b>	<b>788,286</b>	<b>2,993,239</b>	<b>3,864,879</b>

\* Applications No.2 FB&H and RS – expenses made in 2016 but replenished in 2017 where presented within Previous years. Amount presented within Total SoE applications 2017 for Application 2 refers to remaining amount as of this application, for costs incurred during 2017.

\* Application No. 3 RS and No.6 FB&H – expenses made in 2017, but submitted for replenishment in 2018

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**APPENDIX B.2      SoE Withdrawal Schedule of IFAD Grant No. I-C-1337-BA for the year ended 31 December 2017**

	Initial deposit	Enterprise Support Fund	National Technical assistance, training, workshops and studies	Vehicle and Equipment	Total application	Total disbursed
<b>Previous years</b>						
FB&H	150,000	21,402	200	-	21,602	150,000
RS	150,000	-	-	-	-	150,000
<b>Total</b>	<b>300,000</b>	<b>21,402</b>	<b>200</b>	<b>-</b>	<b>21,602</b>	<b>300,000</b>
<b>Total direct payments</b>	-	-	-	-	-	-
Application 2* (FB&H)		14,277	10,981	4,296	29,554	51,156
Application 3* (FB&H)	-	-	26,179	7,158	33,337	-
<b>Total SoE application 2017</b>	-	14,277	37,160	11,454	62,891	51,156
<b>Cumulative 2017</b>	<b>300,000</b>	<b>35,679</b>	<b>37,360</b>	<b>11,454</b>	<b>84,493</b>	<b>351,156</b>

\* Application No.2 – expenses made in 2016 but replenished in 2017 where presented within Previous years. Amount presented within Total SoE applications 2017 for Application 2 refers to remaining amount as of this application, for costs incurred during 2017.

\* Application No.3 – expenses made in 2017, but submitted for replenishment in 2018

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**APPENDIX B.3      SoE Withdrawal Schedule of OFID No. 4930 for the year ended 31 December 2017**

	Initial deposit	Enterprise Support Fund	Civil works	National Technical assistance, training, workshops and studies	Vehicle and Equipment	Total application	Total disbursed
<b>Previous years</b>	-	-	-	-	-	-	-
FB&H	-	-	-	-	-	-	-
RS	-	-	-	-	-	-	-
<i>Total</i>	-	-	-	-	-	-	-
<b>Total direct payments</b>	-	-	-	-	-	-	-
Application 1 (FB&H)	1,000,000	-	-	-	-	-	1,000,000
Application 2* (FB&H)	-	-	909,430	-	-	-	-
<b>Total SoE application 2017</b>	1,000,000	-	909,430	-	-	909,430	1,000,000
<b>Cumulative 2017</b>	<b>1,000,000</b>	-	<b>909,430</b>	-	-	<b>909,430</b>	<b>1,000,000</b>

\* Application No.2 – expenses made in 2017, but submitted for replenishment in 2018

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**APPENDIX C.1      Reconciliation between IFAD's Historic Transaction Report in XDR and IFAD Loan account in EUR according to the to the balance sheet as of 31 December 2017; SoE Withdrawal Schedule of IFAD Loan No. I-859-BA**

	<b>Changes in IFAD Loan (in XDR)</b>	<b>Exchange rate used</b>	<b>Changes in IFAD Loan (in EUR)</b>
<b>Original amount</b>	<b>8,050,000</b>		<b>9,663,813</b>
Withdrawal 1 (FB&H)	793,739	1.25986	1,000,000
Withdrawal 1 (RS)	396,869	1.25986	500,000
<b>Total disbursed in 2016</b>	<b>1,190,608</b>		<b>1,500,000</b>
Withdrawal 2 (FB&H)	560,396	1.27860	716,522
Withdrawal 2 (RS)	119,672	1.27860	153,015
Withdrawal 3 (FB&H)	606,193	1.19091	721,921
Withdrawal 4 (FB&H)	646,008	1.19723	773,421
<b>Total disbursed in 2017</b>	<b>1,932,269</b>		<b>2,364,879</b>
<b>Cumulative disbursements</b>	<b>3,122,877</b>		<b>3,864,879</b>
<b>Calculated undisbursed balance as of 31 December 2017</b>	<b>4,927,123</b>		<b>5,798,934</b>
<b>Undisbursed balance as per IFAD's Historic Transaction Report</b>	<b>4,927,123</b>	1.19046	<b>5,865,542</b>
<b>Potential exchange rate gain</b>			<b>66,608</b>

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**APPENDIX C.2      Reconciliation between IFAD's Historic Transaction Report in XDR and IFAD Grant account in EUR according to the to the balance sheet as of 31 December 2017; SoE Withdrawal Schedule of IFAD Grant No. I-C-1337-BA**

	<b>Changes in IFAD Grant (in XDR)</b>	<b>Exchange rate used</b>	<b>Changes in IFAD Grant (in EUR)</b>
<b>Original amount</b>	<b>500,000</b>		<b>587,730</b>
Withdrawal 1 (FB&H)	118,898	1.26159	150,000
Withdrawal 1 (RS)	118,898	1.26159	150,000
<b>Total disbursed in 2016</b>	<b>237,796</b>		<b>300,000</b>
Withdrawal 2 (FB&H)	42,838	1.19417	51,156
<b>Total disbursed in 2017</b>	<b>42,838</b>		<b>51,156</b>
<b>Cumulative disbursements</b>	<b>280,634</b>		<b>351,156</b>
<b>Calculated undisbursed balance as of 31 December 2017</b>	<b>219,366</b>		<b>236,574</b>
<b>Undisbursed balance as per IFAD's Historic Transaction Report</b>	<b>219,366</b>	1.19046	<b>261,146</b>
<b>Potential exchange rate gain</b>			<b>24,572</b>

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**APPENDIX C.3      Reconciliation between OFID's Historic Transaction Report in USD and OFID Loan account in EUR according to the balance sheet as of 31 December 2017; SoE Withdrawal Schedule of OFID Loan No. 4930**

	<b>Changes in OFID Loan (in USD)</b>	<b>Exchange rate used</b>	<b>Changes in OFID Loan (in EUR)</b>
<b>Original amount</b>	5,350,000	0,73272	3,920,075
Withdrawal 1 (FB&H)	<u>1,178,000</u>	0,84890	<u>1,000,000</u>
<b>Total disbursed in 2017</b>	<u>1,178,000</u>		<u>1,000,000</u>
<b>Cumulative disbursements</b>	<u>1,178,000</u>		<u>1,000,000</u>
<b>Calculated undisbursed balance as of 31 December 2017</b>	<b>4,172,000</b>		<b>2,920,075</b>
<b>Undisbursed balance as per IFAD's Historic Transaction Report</b>	<u><b>4,172,000</b></u>	0,83382	<u><b>3,478,697</b></u>
<b>Potential exchange rate gain</b>			<b>558,622</b>