



The World Bank

Agriculture Resilience and Competitiveness Project (P171266)

Project Information Document (PID)

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**BASIC INFORMATION****A. Basic Project Data**

Country Bosnia and Herzegovina	Project ID P171266	Project Name Agriculture Resilience and Competitiveness Project	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 19-Jul-2021	Estimated Board Date 24-Nov-2021	Practice Area (Lead) Agriculture and Food
Financing Instrument Investment Project Financing	Borrower(s) Bosnia and Herzegovina	Implementing Agency Ministry of Agriculture, Water Management and Forestry of FBiH, Ministry of Foreign Trade and Economic Relations of BiH, Ministry of Agriculture, Forestry and Water Management of RS	

Proposed Development Objective(s)

The Project Development Objective is to increase agriculture sector climate resilience and competitiveness.

Components

Enhancing public support resilience and traceability

Improving agriculture productivity, adaptation to climate change, and enhancing linkages with markets

Food Quality and Safety Enhancement

Project Management

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	81.40
Total Financing	81.40
of which IBRD/IDA	73.00
Financing Gap	0.00

**DETAILS****World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	73.00
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Non-World Bank Group Financing

Counterpart Funding	8.40
Borrower/Recipient	5.00
Local Beneficiaries	3.40

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Bosnia and Herzegovina (BiH) is a country of about 3.5 million people in the Western Balkans.** The Dayton Peace Agreement of 1995 established BiH as a state, ending the 3.5 year long Bosnian War. BiH is organized as a federal state that comprises two entities: the Federation of Bosnia and Herzegovina (FBiH) and the Republika Srpska (RS). The District of Brčko was added as self-governing administrative unit in 2000. The FBiH is subdivided into 10 cantons, each with its own executive, legislative, and judicial branches of government. The cantons are further subdivided into municipalities. The RS is subdivided into 63 municipalities. Each entity has a high degree of autonomy. The authorities in BiH are, however, pursuing a joint development strategy that centers on macroeconomic stability and export-led growth, employment and social cohesion, and sustainable development. The strategy's overarching goal is the accession to the European Union (EU) with BiH already being a potential candidate for European Union (EU) membership.

2. **Despite a complex political system, which poses challenges to the coherent implementation of economic policy, BiH has made remarkable progress and has achieved upper middle-income country status.** After the global financial crisis of 2008, BiH pursued a new growth model focused on increasing competitiveness and exports. The GDP per capita increased from USD 4,715 in 2009 to USD 6,072 in 2018, and the value of exports increased from 25 percent (USD 4.5 billion) of GDP in 2009 to 42 percent (USD 8.6 billion) of GDP in 2018. Despite this commitment to export-led growth, domestic demand remains the dominant driver of growth, with consumption adding 2.6 percent and investment 0.4 percent and net exports subtracting 0.2 percent (2019). GDP growth slowed from 3.6 percent in 2018 to 2.8 percent in 2019, and in 2020, growth is estimated at -3.2 percent due to COVID-19. Slower growth in the EU, the largest BiH export market, and regional trade disputes have also contributed to the decline in exports. However, the country's reform agenda is advancing towards improved competitiveness of the economy.



3. **The overall unemployment rate showed a declining trend since 2015 but remains a major concern.** Unemployment decreased from 27.7 percent in 2015 to 15.7 percent in 2019 because of an increase in employment from 31.9 to 35.5 percent¹ but also because of an aging population gradually exiting the shrinking workforce. However, unemployment among youth is very high at 39 percent, one of the highest rates in the Western Balkans. Youth unemployment is associated with limited of economic opportunities and skill mismatches in the labor market. Youth unemployment may further accelerate emigration. Female participation in BiH's labor market is one of the lowest in the region. The labor market is further characterized by a large share of informal employment to which agriculture is a large contributor.

4. **As a potential candidate for EU membership, BiH is working towards an EU future.** BiH has taken important steps towards this aspiration, but progress is required in several areas to reach compliance with EU standards. Agriculture is one of the most important economic activities in BiH, and also one of the most complex, sensitive, and critical sector in the EU accession context. BiH and the EU gradually liberalized their mutual trade in agricultural products following the entry into force of the Interim Agreement in 2008, and of the Stabilization and Association Agreement (SAA) in 2015, including its adaptation in 2017 to take into account the accession of Croatia to the EU. In its opinion issued in May 2019, the European Commission (EC) argued that BiH is at an early stage of preparation in the area of agriculture and rural development, and requires some further level of preparation in the area of food safety, veterinary and phytosanitary policy. Thus substantial work remains to be done to significantly improve the country's administrative capacity and establish the fundamental instruments and institutions for participating in the Common Agricultural Policy (CAP), and further harmonizing its official veterinary and phytosanitary control systems with EU rules.

5. **The COVID-19 pandemic has dramatically changed the outlook for BiH which is facing a deep and protracted economic recession with major ramifications for social development, trade, and employment.** The current account deficit is expected to widen as trade conditions worsen and receipts from remittances and other trade services slow. Unemployment is expected to increase, especially in the service industry where most of the job losses are expected. It was estimated that between March and September 2020, the FBiH has lost just under 16,000 jobs and the RS about 24,000.² The disruption in supply chains, affected by the measures imposed to contain the spread of the pandemic, and lower demand from the EU and Western Balkan countries is resulting in declining manufacturing and exports of goods and services. Compared to 2018, exports have declined by 8.5 percent and imports by 13.4 percent in 2020.³ Some export-oriented manufacturing, such as food processing, beverages, hygienic products, and sectors oriented to domestic markets, including agriculture, information and communication technologies, and health and social services may be impacted less. The economic recession is expected to lead to short- to medium term increases in BiH's poverty rate.⁴

6. **With regard to medium to long-term recovery, BiH is probably best served by keeping to its reform path of addressing structural challenges.** Reforms are necessary to address long-standing structural and institutional weakness and enhance competitiveness. BiH needs to promote the potential of the private sector as it reduces the footprint of the very large public sector simultaneously. It also needs to shift its economy from a focus on local consumption and imports to one that recognizes the potential of international integration through investments and exports. To achieve this, the country needs a business environment that allows companies to grow and expand output, employment, and exports.

Sectoral and Institutional Context

7. **Agriculture is important to the BiH economy through its contributions to employment, food production and**

¹ 2017, 2019 Labor Force Survey

² Western Balkans Regular Economic Report, No. 18, Fall 2020, An Uncertain Recovery; and calculations based on data from RS PES web site.

³ BiH Agency for Statistics: http://www.bhas.gov.ba/data/Publikacije/Saopstenja/2021/ETR_01_2020_12_0_HR.pdf

⁴ World Bank. 2020: Fighting COVID-19 Europe and Central Asia Economic Update (Spring), Washington, DC: World Bank.



GDP. More than half of the total population of BiH lives in rural areas (2018) and employment in the primary agricultural sector accounts for nearly 20 percent of total employment. Part-time employment in the agricultural sector stands at around 20 percent of all agricultural employment. In both entities, the largest share of people working in the agricultural sector is people aged between 45 and 54 years, indicating an aging labor force in the sector. The contribution of primary agriculture to GDP is around 6 percent (2017) and has been declining over time in line with BiH's gradual structural transformation. The sector's contribution to GDP and employment are larger when looking at the entire agri-food system, including processing and services. The agri-food sector is the most important manufacturing industry in BiH, leading in terms of turnover (23 percent of total manufacturing turnover) and employment, as well as in its geographic footprint in rural areas. In the context of the COVID-19 pandemic, agriculture's importance as provider of livelihood support and social safety nets has proven to be critical.

8. The comparative advantages of BiH's agriculture sector lie in its closeness to the EU common market. Agricultural products represent approximately nine percent of total exports. In 2018, agri-food imports totaled USD 1.89 billion and exports were valued at USD 533 million. Fruit and vegetables, some cereals and some industrial crops, and beverages account for the majority of BiH's agricultural exports. In particular, BiH is a competitive producer of ware potato, pepper, cucumber and cabbage. It is also among the most competitive producers of raspberries, plums, and competitive for apples, cherries, peaches, and strawberries among the EU, the Commonwealth of Independent States (CIS), and the Central European Free Trade Agreement (CEFTA) countries. BiH has made good progress in meeting EU requirements to access the EU common market and can export potatoes to the EU since 2014 and poultry meat since 2019. The CEFTA agreement, which was signed on December 2006, includes Albania, BiH, Kosovo, Moldova, Montenegro, North Macedonia, and Serbia. BiH is well positioned in terms of market openness, access to inputs, and overall market potential.

9. Despite its importance and comparative advantages, the agriculture sector is operating below potential. BiH's agriculture sector is characterized by land fragmentation, low productivity, and low competitiveness for other than the products highlighted above. The sector development is impeded by the large number of agricultural holdings and highly fragmented small farming plots. Over 50 percent of all farms are estimated to operate on less than 2 hectares. Land consolidation to create larger, more productive farm units is limited. On the productivity side, the value of agricultural output per hectare is the lowest of the Western Balkan countries. The value added per agricultural workers is the second lowest in the Western Balkan region despite some modest improvements in labor and land productivity. Furthermore, weak compliance and underdeveloped mechanisms and services related to ensuring food safety and adhering to sanitary and phytosanitary standards also limit the competitiveness of BiH's range of agri-food products.

10. The development of agriculture is increasingly being affected by the consequences of climate change and will require a green transition to be more resilient. The sector needs to be better prepared – in terms of policy, institutions, and infrastructure – to deal with multiple production and market risks. Climate change effects, especially higher average temperatures, are expected to impact BiH agriculture significantly.⁵ Monthly maximum temperatures are expected to increase and exceed the historical mean by 2.4°C, the number of hot days will increase by 6.3 days, and the annual precipitation will be 4.2 mm less by 2050 under a RCP8.5 scenario. Predicted rises in temperature coupled with changes in rainfall and evaporation, are likely to negatively impact the country's farming zones in Mediterranean areas and in the Northern regions by increasing the duration of dry periods, the frequency of floods, and soil erosion. Frequent hail and extreme weather events are expected to pose increased threats. Crop cultivation and livestock production also present important opportunities to lower greenhouse gas emissions. Thus, an integrated climate-smart agriculture approach will be adopted in the project to address the interlinked challenges of climate change adaptation and

⁵ <https://www.climatelinks.org/sites/default/files/asset/document/2016%20CRM%20Fact%20Sheet%20-%20Bosnia%20%28003%29.pdf>;
<https://thinkhazard.org/en/report/34-bosnia-and-herzegovina>



mitigation and support BiH on its path for a green transition.

11. **BiH agriculture and rural development need to be aligned with EU best practices.** As an EU potential candidate country, BiH has developed a framework for alignment of agriculture and rural development with EU best practices. One of the requirements for the implementation of the EU pre-accession funds and of the EU CAP is the establishment of a system serving as the basis for programming and monitoring of the agricultural and rural policies. This includes organizational structures and an information system, the latter comprised of agricultural holdings register, animals register, farm accountancy data network (FADN), payment systems and land parcel information system (LPIS) etc. While BiH has made some progress in this regard, the project will provide additional support to further enhance the capacity of the institutions to ensure transparency and traceability of agricultural payments, and more efficient use of public funds.

12. **BiH has also endorsed the Green Agenda for the Western Balkans which acknowledges the EU Green Deal as the new growth strategy towards a modern, climate neutral, resource-efficient, and competitive economy.** This requires, among others, the commitment towards (a) align the agri-food and primary production sector with EU standards on food safety, plant and animal health and welfare and environment, and address effluent, manure and waste management; (b) strengthen the official sanitary controls along the entire food chain and improve the traceability and labelling of food products to ensure food safety, improve consumer information and promote sustainable food; (c) promote environmentally friendly and organic farming and reduction of synthetic chemical products used in food production: pesticides, veterinary medicines and fertilizers; (d) cooperate with scientific, education, business and agricultural holdings to facilitate transfer to innovative and environmentally friendly technologies and farming methods; and (e) support investments in renewable energy production and technologies as well as emissions reductions and adaptation to climate change measures in agriculture. In this regard, the project will support the application of official risk-based control activities (e.g. inspections, checks, reporting, testing, registrations, certifications) and provision of the required production and processing inputs (e.g. new varieties, certified seed, fertilizers, advice on agronomic practices and water use, etc.) which will facilitate access to markets while mitigating potential negative environmental impact, ensuring sustainability of BiH's rural economy and improved land conservation.

13. **Irrigation is one essential element of the agenda to securing crop production and improving productivity in the face of climate vulnerability.** Although BiH is a water rich country, the seasonality of water flows and limited irrigation penetration constrain agricultural production. Only 2.8 percent of total abstracted water is used for agriculture. Higher crop yields, high-value production, and the potential for double-cropping remain elusive without supplemental irrigation, primarily due to the prolonged dry spells during the summer season. Typical yield losses due to water shortages are estimated to be in the range of 30 to 40 percent in the southwestern and 20 to 30 percent in the northern areas in the Sava river plain. Excess water also poses problems through water logging and inundation of plains and valleys, requiring more investment in adequate drainage systems. The recently completed Bank financed Irrigation Development Project (IDP) demonstrated the transformative impacts of delivering reliable irrigation services in BiH. The systems built through the project were designed to provide irrigation services on-demand, which is suited to the farming systems of BiH characterized by a large number of privately owned very small plots. The provision of irrigation services "on-demand" enabled the real-time supply of sufficient water quantities to the beneficiaries, providing flexibility to the farmer to decide what and when to produce, minimizing the collective action problems inherent to most public irrigation systems, and avoiding the usual head-tail inequity in irrigation water distribution. The impact has been remarkable including increased yield and quality of agricultural products (i.e. larger and more compact fruits when sorting in cold storage facilities), and contributed to the expansion/creation of rural businesses and employment generation.⁶ Building on the IDP's approach and experiences, the proposed project will scale-up the irrigation and drainage systems in BiH.

⁶ See for instance, the case of Bratunac irrigation system developed as part of IDP.



14. Further production aggregation and strengthening of targeted value chain integration and linkages are necessary for improving the competitiveness of BiH's agri-food products. Fruits, vegetables, milk and meat products are among the most competitive agri-food sub-sectors of BiH. Foreign trade deficit of agricultural and food products is a consequence of a lack of competitiveness of local agricultural production. However, land fragmentation undermines the competitiveness of the agricultural sector, which decreases the potential for investment and introduction of modern farming techniques. The agricultural holdings generally have main facilities equipped with basic agricultural machinery that tends to be mostly old and often outdated. Due to seasonality and lack of storing capacities for their products, fruit and vegetable producers are not able to generate greater income. Local production of seed is insufficient and large quantities of seeds are imported. Small producers are poorly organized and production for a prominent buyer is almost non-existent. These weaknesses call for better integrated agri-food value chains. Institutionally, producer organizations and farmer cooperation could assume the role to promote better technologies and more rapid technology adoption, a more efficient aggregation of production, better market access, including country-wide markets to expand the import substitution and to export markets, and achieving higher productivity and economies of scale; however, they remain largely underdeveloped in BiH. Thus, the project will provide matching grants to promote efficient aggregation of production and development of the agri-food value chain. The aggregation of production will help address the land fragmentation shortcomings and realize some economies of scale within smallholder-based production systems, and the development of the agri-food value chain will contribute to ease the market-matching problems to a greater extent.

15. Improving resilience and competitiveness also requires better compliance to ensuring food safety and adhering to sanitary and phytosanitary standards. Compliance with export product quality requirements is often achieved by larger producers only. Raising compliance calls for modernizing compliance inspection systems and for strengthening surveillance and control programs applying a 'One Health' approach, as promoted by the World Bank and relevant sectoral international organizations, , that protects animal health, food safety, and public health from diseases and zoonoses and related issues (i.e. antimicrobial resistance). The past such events (e.g. bovine spongiform encephalopathy, 'Bird fly' - H5N1, 'Pig flu' - H1N1, Severe Acute Respiratory Syndrome –SARS, Ebola) have demonstrated potential for causing considerable losses to human and economic losses (both direct and indirect) amounting to several hundreds of billions. Related to 'One Health', one of the key lessons learned from the current COVID-19 pandemic highlighted the importance of ensuring that national sectoral and associated multi-disciplinary (e.g. laboratory, data gathering and exchange) networks are working together through functional synergies, practical exchanges, and efficient and effective utilization of available capability and capacity to support national policy and decision making, and implementation. Interoperability requires synchronization, rather than merging, of the existing systems and networks. This also calls for application of modern technology innovations to strengthen data management systems through linkages and management of large amounts of heterogenous data to ensure relevance, efficiency, effectiveness, and sustainability. Further, as agri-food exports currently largely consist of low-value-added products, there is need to promote the introduction and adoption of improved production technologies and management processes, to facilitate increased value-addition and value chain linkages, developing the enabling infrastructure and the access to markets.

16. The sector can serve as driver for the medium-term post-COVID-19 economic recovery for employment and job creation and for structural sector reform. Short-term impacts of the crisis included temporary higher food price volatility, including higher prices for fruits and vegetables, and for wheat because of disturbances in international markets; disruptions in domestic value chains and decreased demand for food products from hotels, restaurants, and catering services; market access restrictions due to border closings; and short-term disruptions in local labor markets due to restrictions of movement. However, the agriculture labor market has been largely exempted from these restrictions. BiH also supported small farmers through loans to stimulate investments, input support packages (seeds, fertilizer), and guarantee schemes to protect and ensure the continuation of agriculture production. In addition, some price controls were instated to regulate margin limits for essential groceries. Some support schemes for small and medium enterprises were also set up. In view of agriculture's potential, the crisis also offers opportunities to address



long-standing structural sector issues to help the entities to leverage the sector's potential contribution to economic recovery and improved resilience. The project support to increase the productivity of small farmers, the development of the value chain and its integration to the markets will foster the creation of both on-farm and off-farm jobs, with the latter requiring more skilled labor which could potentially attract youth and women.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective is to increase agriculture sector climate resilience and competitiveness.

Key Results

17. The PDO will be measured by the following indicators:

- (i) Farmers adopting improved agricultural technology; Corporate Results Indicator (Definition: This is a corporate results indicator. In the context of the project it will measure adopting climate smart technology. The information will be disaggregated by gender.)
- (ii) Farmers with access to irrigation/drainage services supported by the project.
- (iii) Percentage of aggregators supported by the project reporting increases in sales.
- (iv) Percentage of risk-based official controls improved and implemented by the veterinary, food safety and plant health sectors.

D. Project Description

18. **Component 1: Enhancing public support resilience and traceability (EUR 8.4 million).** This component aims at improving efficiency, resilience and traceability of the national budgetary resources, providing access to key information and data for policy programming, enhancing the capacity of the agriculture ministries to adjust their support to the sector in response to shocks, while aligning with EU requirements, and strengthening the extension services in agriculture to improve dissemination of knowledge including on use of new technologies and adapting to climate change. It includes the following two sub-components:

19. **Sub-Component 1.1 – Enhancing Agriculture Information Systems (EUR 5.4 million).** This sub-component will support (a) enhancing the farm and client register (FCR), including the establishment of new registers for priority value chains and other registers, information systems and web portals; (b) developing a payment system with online application functionality (as shown to be highly relevant to ensure implementation of agriculture support during the pandemic given that currently paper application are in use); (c) strengthening the existing agricultural information system and related GIS components; and (d) establishing the Farm Accountancy Data Network to improve information collection and data use for policy analysis. Improvement of the agriculture information systems would contribute to increasing both the resilience and traceability of the support provided to the agriculture sector at entities' level.

20. **Sub-Component 1.2 – Supporting Climate-resilient agriculture (EUR 3 million).** This sub-component will support (a) improving seed quality and production, including improvement of local varieties to be better adapted to climate change (e.g. drought-resistant, heat tolerant and flood tolerant); (b) increasing farmers' awareness of possible climate change impacts to different geographical areas and sub-sectors of agriculture; and (c) improving extension service delivery including providing support to producers to comply with Good Agricultural Practices and Integrated Pest Management and climate risk assessment and interventions in value chains. Further they will support the introduction



of measures for climate adaptation and mitigation including utilization of improved seed varieties that are adapted to climate change, combined with diversification through agroforestry, intercropping or other diversification strategies, appear to be most obvious.

21. Component 2: Improving agriculture productivity, adaptation to climate change, and enhancing linkages with markets (EUR 39.4 million). This component aims at supporting private sector driven value chain development, productivity improvements and agricultural technology transfer, improving agricultural water management, including adoption of pressurized irrigation systems, and improving market access. It will include the following two sub-components which are expected to reinforce each other for greater and more sustainable impact:

22. Sub-component 2.1 – Strengthening Value Chains and Developing Productive Partnerships (EUR 6.7 million). This sub-component will provide matching grants to leverage private sector investments into green and effective value chain development and productive partnerships between producers and agri-businesses (processors and aggregators) in various agriculture sub-sectors with good economic and resilience/adaptation potential, e.g. fruits and vegetables, dairy, livestock and others. Matching grants will be provided to the aggregators, which are represented by any business entity handling and/or procuring agriculture produce, (i.e. private collection centers, agro-processors, cooperatives, cluster of association of producers), who will directly cooperate and link with producers by supporting input supply, marketing horticulture and livestock products in the internal and external markets, and increasing knowledge and capacity of the farmers to comply with market requirements. These arrangements will help realize some economies of scale within smallholder-based production systems, and address land fragmentation and market-matching problems to a greater extent. The objective of the sub-component is to increase the farm productivity and incomes and foster greater and better rural jobs through: (a) improving access to and adoption of climate-smart technologies, knowledge and markets; and (b) strengthening technical and managerial capacity of smallholder farmers in the farming and agri-business sectors. It is expected that the matching grants will bring sustained benefits to the project beneficiaries over the long-term. The subcomponent will address a number of market failures, namely: (a) the difficulties of small scale producers to access markets, notably EU export markets, and the deficient links between them and formal agribusinesses/ traders/ exporters/ input suppliers; (b) the difficulties of smallholders and of value chain actors to access investment financing and the inability of existing national finance institutions to provide adapted short to medium term value chain finance products; (c) deficiencies of smallholders access to improved technologies, information, knowledge, and agricultural inputs, etc. The sub-component will contribute to guide widespread adoption of best manufacturing and hygiene practices to mitigate significant quantitative and qualitative losses along the selected value chains. Matching grants are one of the main mechanisms to support food business operators to implement measures at reducing such losses by improved storage conditions.

23. This sub-component will support: (a) the provision of matching grant to aggregators; (b) tailor made technical assistance to the beneficiaries of the grants to comply with market requirements, including improving livestock and horticultural production and productivity; lifting the quality of livestock, fruit and vegetable products, and building capacity to reach international standards for certification (GLOBALGAP); and (c) awareness activities to promote the matching grant program (e.g. workshop and printing promotional material).

24. Sub-component 2.2 – Improving irrigation and drainage systems for climate change adaptation (EUR 32.7 million). This sub-component aims to improve the country's irrigation and drainage systems development and management and strengthen climate-smart agricultural practices as two core elements of the resilience and adaptation agenda in agriculture. Experiences of the recently completed Bank financed IDP showed it contributed to improving agricultural production and productivity thereby enhancing farmers income, specifically when the irrigation water is utilized for the production of high value agriculture products. In BiH, access to irrigation allows earlier planting and creates possibilities for double cropping, crop diversification, and use of more efficient and water saving irrigation technologies – aspects that are critical for obtaining higher prices due to being able to provide markets earlier, increasing



productivity per hectare due to more intense use of the available land area, and controlling water use of the sector. Early fruit and vegetable production made possible in the irrigated areas allowed for earlier market access and demonstrated international comparative advantage. Access to irrigation also allowed to produce fodder maize that has helped to increase productivity of dairy.^{7,8} The sub-component will be implemented in coordination with the commercial value-chain investments under sub-component 2.1.

25. The sub-component will support: (a) selectively developing new and rehabilitating existing irrigation and drainage systems where they prove to economically and sustainably boost agricultural productivity, support diversification towards higher value crops, improve agricultural export competitiveness, revitalize the rural economy, and increase resilience of production to climate change impacts; and (b) strengthening the institutional and financial arrangements for sustainable operation and maintenance of the irrigation and drainage systems and improved water resources management planning.

26. **Component 3: Food Quality and Safety Enhancement (EUR 9.7 million).** This component will support the upgrading and modernization of public food quality and safety institutions and systems with the aim to: (a) protect local consumers from unsafe and contaminated produce; (b) improve access to higher quality products; (c) support farmers, processors and traders in meeting food safety and quality compliance standards domestically and internationally; and (d) monitor and manage food borne diseases risks to human and animal health. The component will also contribute to the upgrading and harmonization of current BiH standards with relevant EU legislation related to animal health, food safety, and plant health. It comprises of the following two sub-components:

27. **Sub-component 3.1 – Food Quality and Safety Standards (EUR 5.8 million).** This sub-component will provide investment and technical assistance support to the relevant food quality and safety institutions in BiH (i.e. competent authority, entity ministries, entity inspectorates, entity research institutes and facilities, analytical laboratories, and joint management and active collaboration between the parties in the system) to strengthen official disease and pests controls, traceability, inspections, and laboratory capacity and testing in food safety, veterinary and phytosanitary areas. It will also support review the existing IT systems in veterinary areas and propose further upgrades to ensure compliance with relevant EU legislation. This is primarily related to a competent authority roles and responsibilities for border controls, surveillance and disease prevention and control, laboratory testing, official inspections, and export certifications to protect animal health and welfare and public health (i.e. zoonoses) while facilitating trade in live animals and their products. It will support one of the key components of BiH's Strategic Plan for Rural Development (2018-2021) aimed at promoting the investments in gradual alignment with the relevant EU legislation and international standards and requirements (i.e. WTO/SPS, *Codex Alimentarius*, OIE, IPPC). It will build on BiH's previous successes and achievements in protecting domestic and international consumers' health while facilitating trade (i.e. EU approved exports of honey, fish, poultry, dairy, ware potatoes), rural development and creating employment. It will ensure synergy with the other relevant initiatives (i.e. EU Twinning projects, other donors funded projects) to avoid potential for duplication and provide adequate and targeted investments in sanitary and phytosanitary areas not covered by the other initiatives. The investments in food quality and safety infrastructure (i.e. laboratory building, improvement of existing facilities at scientific units) and capacity (i.e. laboratory equipment and equipment for inspectors and risk-based inspections) will help to ensure that agricultural products are safe for human consumption, traceable, and with minimized risks related to animal diseases that can be transmitted to humans (i.e. zoonotic diseases); production and/or processing related pathogen contamination of food products; and hazardous substances, such as unacceptable contents of residues of plant protection products, heavy metals, toxins, biological contaminants and nitrates. These activities are also expected to boost production (and potential export) of high value products such as fruit and vegetables and

⁷ FBlH Development Strategy 2021 to 2027

⁸ IDP RS Completion Report



potentially red meat.

28. Sub-component 3.2 – Information Technology (IT) Systems for Food Safety Enhancement (EUR 3.9 million).

This sub-component will finance the development and upgrading of IT software and hardware systems in veterinary, food safety and plant health areas that are critical for real-time documentation of control activities and therefore are extremely supportive in the entire process of improving compliance with national and international food safety standards. Overall, the investment will facilitate the establishment, horizontal connectivity, and implementation of reliable and credible IT systems at the State (Veterinary Office, Food Safety Authority, Plant Health Authority), Entities (FBIH, RS) and District Brčko level in compliance with BiH and EU requirements in animal health, food safety and plant health. Furthermore, this will ensure compatibility and inter-operability of the IT systems with EU Animal Disease Notification System (ADNS), EU Trade Control and Expert System (TRACES), EU Rapid Alert System for Food and Feed (RASFF), and EUROPHYT (now all being integrated into EU IMSOC), FAO INFOSAN and e-Phyto, to provide for more efficient data management, and information and documentation exchange on official agri-food chain controls and inspections in relation to risks and hazards to animal health and welfare, public health and plant health. It will support implementation of sector specific policies and official controls supported by risk assessment, risk management and risk communication in compliance with the BiH legislation, EU and international organizations requirements and standards. It will further support the country's readiness to access markets that require increased food safety management measures that are digitally accessible. This can also support more direct producer and consumer marketing linkages as digital agriculture marketing platforms are further elaborated and shorter value chain linkages may become increasingly in demand. It will enable food business operators to assume primary responsibility for food safety by adopting and implementing EU food safety legislation and standards at all stages of production, processing, storing and distribution, transport and placing of food on markets (i.e. from farm to fork). This will also enable food safety specialized companies to offer their services to food business operators to meet standards and requirements in certain aspects. These would be in line with the EU Food Safety law which also clearly specifies the roles of official authorities in food safety (i.e. legal and policy requirements and standards, registration of food businesses, official controls and compliance, enforcement, traceability and incident management of food safety events).

29. Component 4: Project Management (tentative amount EUR 3.4 million). This component will support a Project Implementation Unit (PIU) in both entities. The PIUs will provide overall project coordination and implementation support, including implementation planning, technical supervision, fiduciary management (financial management, procurement), environmental and social safeguards implementation and monitoring and evaluation (M&E). The PIUs will also manage the project's grievance redress mechanism (GRM) and citizen engagement activities. The PIUs will build on the implementation arrangements of the previous Bank-funded Agriculture and Rural Development Project (ARDP) and IDP. These PIUs have proven experience in day-to-day project management, administration and coordination, including for procurement, financial management, safeguards, and monitoring and reporting to the Bank. Additional technical capacity as required for the implementation of the project will also be supported.

Legal Operational Policies

Triggered?

Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No



Summary of Assessment of Environmental and Social Risks and Impacts

The Project will have impacts generally anticipated to be positive on the targeted beneficiaries in terms on increased sales, enhanced competitiveness, income, employment and market linkages overall but also leveraging the private sector investments into value chain development and productive partnerships fostering on-farm productivity, greater and better rural jobs through provision of matching grants.

The Project's anticipated environmental impacts will be largely mitigated and managed through adequate due diligence to be prepared based on the initial screening and in line with the project's Environmental and Social Management Framework (ESMF) developed in line with ESS1, ESS2, ESS3, ESS4 and ESS10. There will be no impacts on protected areas and habitats (to be further confirmed by Appraisal), and cultural heritage and high risk activities will be screened out from being financed. The issue of water quality and use will be addressed through the preparatory documents and in meeting OP 7.50 on International Waterways, where needed. The other associated impacts deal with small scale construction and include dust and noise, OHS, site access control, traffic management, waste management that can be readily mitigated and monitored. The project activities will be subject to a screening out high risk activities and assigning adequate due diligence based on the assigned risk category for the grants, and also for the proposed irrigation activities under Component 2.

Component 2 is the main source of social risks of the Project. The stakeholder analysis identified probable targeted beneficiaries might be at substantial risk of unmet expectations due to high competition for matching grants in the COVID-19 era which affected their revenues. Vulnerable groups in the context of the project such as women-owned SMEs, young farmers, small land holders are likely to have inequitable access to project supported products and services because of the drivers of their vulnerability (i.e. landless, limited economic potential, low financial resilience etc). The activities pose also risk to labor issues in potential breaches to labor rights and inadequate OHS for workers of matching -grant recipients. The risk is medium to substantial compared to the informal labor country trends in the agriculture sector. These workers are not project workers as defined by ESS2 and shall be protected through mitigation measures under ESS1 through screening and monitoring mechanism embedded in the E&S management mechanism. Activities related to component 2.2 will lead to involuntary land acquisitions and resettlement whereas the scale and details of impacts including the need for physical displacement are not known at this stage since the physical footprint of sub-projects have not been set.

The GBV risks associated with the Project and in BIH are low, yet the grievance redress mechanism (GRM) shall be strengthened with procedures to Handel allegations of GVD/Sexual Exploitation and Abuse and Sexual Harassment violation risks.

Environmental and social risks associated with the Project will be addressed through the Projects Environmental and Social Management Framework (ESMF) integrating provisions of Integrated Pest Management , the Labor Management Procedures (LMP), (the decision whether to incorporate these into the ESMF or prepare as a separate document has not been taken yet), Resettlement Policy Framework (RPF), SEP (including GRM) in line with applicable Environmental and Social Standards (ESS) of the WB's ESF and the WHO COVID -19 guidance tools to appropriately manage pandemic risks associated with stakeholder engagement activities and labor and workforce. The Borrower will commit to this though the Environmental and Social Commitment Plan (ESCP).

The project will incorporate budget for outreach activities and community engagement strategies related to all components but prevalent to component 2, guided by the SEP, to minimize the risk of exclusion of vulnerable individuals and groups, both with regards to accessing project benefits but also to be included in the Project M&E.



E. Implementation

Institutional and Implementation Arrangements

30. Day-to-day responsibility for project coordination and administration will rest with the Ministry Foreign Trade and Economic Relations (MoFTER), the FBiH Ministry of Agriculture, Water Management and Forestry (FBiH MoAWMF) and the RS Ministry of Agriculture, Forestry and Water Management (RS MoAFWM). The MOFTER will be responsible for overall project coordination within participating ministries/agencies and monitoring and reporting. It will compile semi-annual progress reports (based on entities' reports), including the monitoring framework, and submit them to the Bank.

31. The main responsibility for implementation will be with the FBiH MoAWMF and the RS MoAFWM and their respective implementation units, the FBiH Project Implementation Unit (PIU) and the RS Agriculture Project Coordination Unit (APCU). Staff of the Ministries, namely Assistant Minister in FBiH and Adviser to the Minister in RS, have been appointed as the respective Project Coordinator. These Ministries have a good record of implementing projects financed by the Bank, such as ARDP, IDP, and other externally financed agriculture sector projects. The Ministries have both well-functioning and experienced project implementation units – the APCU in RS, and the PIU in FBiH. Both have served as the focal units for the preparation and implementation of agriculture and irrigation projects. The APCU and PIU have professional staff for agriculture and water management, and for procurement, financial management and general project management and oversight. Due to the requirement of application of the ESF, the units will benefit from additional capacity building and external support of qualified and experienced environmental and social development consultants to support project implementation and compliance with the ESF requirements throughout the life of the Project. Furthermore, the project may support additional technical capacity required for the implementation of the proposed project.

32. A joint Technical Working Group (TWG), will be established to prepare the project and to provide technical guidance and coordination of the various project activities during the project implementation. It will comprise of the following existing counterpart institutions/agencies which will be responsible for implementation of project activities: MoFTER with the Veterinary Office of Bosnia and Herzegovina (VOBiH) and the Administration for Plant Health Protection (APHP), the Food Safety Agency (FSA), FBiH MoAWMF, FBiH Inspectorate, RS MoAFWM and RS Inspectorate. These counterpart agencies or institutions will be responsible for preparation of terms of reference and technical specifications, preparation of training programs, supervision of consultants and advisors, among other. The TWG will be led by MoFTER and it is planned that it will meet every quarter and on an as needed basis during the first two years of project implementation and less frequent thereafter. Participation to the TWG may be extended to project stakeholders and beneficiaries including representatives of cantons and municipalities, WUAs, farmers organization, processors, research institutions, etc. according to the topics to be addressed in the meetings.

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