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Project Information Document (PID)

Concept Stage | Date Prepared/Updated: 24-Jul-2020 | Report No: PIDC28732



BASIC INFORMATION

A. Basic Project Data

Country Bosnia and Herzegovina	Project ID P171266	Parent Project ID (if any)	Project Name Agriculture Resilience and Competitiveness Project (P171266)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date Dec 07, 2020	Estimated Board Date Mar 30, 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 enhance the agriculture sector resilience through productivity growth, better market linkages, and strengthened food quality and safety.

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	80.00
Total Financing	80.00
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	7.00
Borrower/Recipient	5.00
Local Beneficiaries	2.00

Environmental and Social Risk Classification
Substantial

Concept Review Decision
Track II-The review did authorize the preparation to continue

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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 FBiH is subdivided into 10 cantons, each with its own executive, legislative, and judicial branches of government. In FBiH, cantons are further subdivided into municipalities. The RS is subdivided into 63 municipalities. The District of Brčko was added as self-governing administrative unit in 2000. 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). BiH is already a potential candidate for EU membership.

2. Despite a complex political system, which poses challenges to the coherent implementation of economic policy, BiH has made remarkable progress since the end of the war 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 growth slowed from 3.6 percent in 2018 to 2.8 percent in 2019. Despite a 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). Slower growth in the EU, the largest BiH export market, and regional trade disputes contributed to the decline in exports. In addition, the delays in forming a new government after the general elections in October 2018 weakened confidence in the economy. Until very recently, however, the country’s reform agenda was advancing towards improving competitiveness of the economy.

3. Unemployment decreased from 18.4 percent in 2018 to 15.7 percent in 2019 because of an increase in



employment from 34.3 to 35.5 percent¹ but also because of an aging population gradually exiting the shrinking workforce. However, unemployment among youth is very high with 39%, one of the highest rates in the Western Balkans. Youth unemployment is associated with limited economic opportunities and skill mismatches in the labor market. Youth unemployment may further accelerate emigration. BiH's labor market has also one of the lowest rates of female participation in the region. It is also characterized by a large share of informal employment to which agriculture is a large contributor.

4. **BiH has a very large public sector relative to the size of its economy - a result of the post-war governance structures and a legacy of the former Federal Republic of Yugoslavia.** BiH monetary policy is anchored in the Euro, which supports local currency stability. Monetary policy is managed through a currency board. BiH financial sector resilience has increased a result of the high levels of foreign ownership, improving asset quality, and recent improvements to the regulatory framework. The non-bank financial institution segment remains underdeveloped and has potential to expand and diversify sources of finance in BiH. Credit growth has been positive and accelerating in 2019 but with lending to households growing faster than lending to businesses.

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. Since April 2020, the FBiH has lost over 20,960 jobs and the RS over 800. 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 are projected to decline by 8.8 percent and imports by 6.5 percent in 2020. 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.²

6. **Authorities in BiH have taken a series of fiscal and social measures to mitigate the immediate impact of the crisis.** The entities allocated about KM 100 million (0.28 percent of GDP) for pandemic-related health spending. RS postponed the deadline for payments of business tax by three months and has sped-up tax and social security contribution refunds. It also plans to introduce one-off support of KM 1,000 per health worker. In rebalancing its budget, the FBiH government announced that a total of about KM 1 billion (3 percent of GDP) will be secured to support the economy, through setting up special funds: to (a) stabilize the economy, mainly by supporting exporting companies; and (b) maintain and improve the liquidity of companies and prevent loss of jobs. The banking agencies have announced a six-month moratorium on loan repayments for businesses and individuals with repayment difficulties.³

7. **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.

¹ 2019 Labor Force Survey

² World Bank. 2020: Fighting COVID-19 Europe and Central Asia Economic Update (Spring), Washington, DC: World Bank.

³ Western Balkans Regular Economic Report, No. 17, Spring 2020, The Economic and Social Impact of COVID-19.



Sectoral and Institutional Context

8. **Agriculture is important to the BiH economy through its contributions to employment, food production and exports, and GDP.** More than half of the total population of BiH lives in rural areas (2018). Full-time employment in the primary agricultural sector accounts for nearly 20 percent of total employment. About 20 percent of all agricultural employment is part-time. In both entities, the largest share of people working in the agricultural sector is 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 considering the entire agri-food system, including processing and services. Agri-food is the most important manufacturing industry in BiH. It leads in terms of turnover (23 percent of total manufacturing turnover) and employment, as well as in 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 can be expected to increase.

9. **Taking a forward-looking perspective, the sector can be actively harnessed as driver in the medium-term post-COVID-19 economic recovery for employment and job creation and for structural sector reform.** 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.

10. **BiH implemented short-term measures to limit the spread of COVID-19 and maintain agricultural production.** 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.

11. **Realizing the sector's potential and ensuring future food security requires improving the resilience in agriculture through a multi-dimensional approach. Adaptation to climate change is probably the most critical aspect of the resilience agenda but the sector needs to be better prepared – institutionally and policy-wise – to deal with multiple production and market risks as well.** Climate change, especially higher average temperatures, are expected to impact BiH agriculture significantly. Temperature increase is expected to accelerate and with it the duration of dry periods, the frequency of floods, and soil erosion. Frequent hail and extreme weather events are expected to pose increased threats to agriculture sector.

12. **Aligning BiH agriculture and rural development 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 alignment with the EU Common Agricultural Policies is the establishment of a system serving as the basis for programming and monitoring of the agricultural and rural policies. This includes both organizational structures and information system, the latter comprised of agricultural holdings register, animals register, farm accountancy data network (FADN), agricultural market information system, payment systems and land parcel information system (LPIS) etc., in accordance with constitutional competencies. While BiH has made some progress in this regard, additional support is required to further enhance the capacity of the institutions to ensure transparency and traceability of agricultural payments, and more efficient use of public funds.



13. **Irrigation is one essential element of the agenda to securing crop production and improving productivity. The importance of irrigation will become even greater with a changing climate.** Seasonality of water flows and limited irrigation penetration constrain agricultural production and impede agriculture's adaptation to climate change. Most of BiH's rivers and streams have high water flows after snow melting and water deficits during the dry summer periods. Currently, less than 1 percent of the area suitable for agriculture is irrigated. 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 Southwest 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.

14. **Land fragmentation, low productivity, and weak competitiveness characterize BiH's agriculture sector.** 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, value added per agricultural workers is the second lowest in the Western Balkan region despite some modest improvements in labor and land productivity. Institutionally, producer organizations and farmer cooperation that could promote better technologies and more rapid technology adoption, a more efficient aggregation of production, better market access, including to export markets, and achieving higher productivity and economies of scale, remain largely underdeveloped.

15. **Limited competitiveness is reflected in weak compliance and underdeveloped mechanisms and services related to ensuring food safety and adhering to sanitary and phytosanitary standards.** Compliance with export product quality requirements is often achieved by larger producers only. These issues call for modernizing compliance inspection systems and for strengthening surveillance and control programs applying a 'One Health' approach that protects animal health, food safety, and public health from diseases and zoonoses. Further, as agri-food exports are currently represented mainly by low-value-added products there is need to promote the introduction and adoption of new technologies in production and management processes, moving up value chains, developing the enabling infrastructure and the access to markets.

16. **Trade integration offers opportunities to expand BiH agricultural exports.** Agricultural products represent approximately 9 percent of total exports. In 2018, agri-food imports totaled US\$1.89 billion and exports were valued at US\$533 million. Fruit and vegetables, cereals and industrial crops, and beverages account for the majority of BiH's agricultural exports. BiH is a competitive producer of 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, CIS and 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. Notwithstanding current COVID-19 impacts, further market integration will allow BiH access to the Common Market for agricultural products.

Relationship to CPF

17. **The project is aligned with the World Bank Group's "Saving Lives, Scaling-up Impact and Getting Back on Track" approach paper of June 2020 in response to the COVID-19 crisis.** Specifically, the project would support two out of four



focal areas of the WBG crisis response support, including: (a) *economic response for saving livelihoods, preserving jobs, and ensuring more sustainable business growth and job creation by helping firms and financial institutions survive the initial crisis shock, restructure and recapitalize to build resilience in recovery*; and (b) *focused support for strengthening policies, institutions and investments for resilient and sustainable recovery*. In particular, the project will support the development of sustainable agriculture value chain and enhancement of an effective one-health and food safety system.

18. **The proposed project is aligned with the World Bank – BiH Country Partnership Framework (CPF) 2016-2020 for BiH⁴ and the 2020 Systematic Country Diagnostic Update.** The project responds to the CPF objective to *Improve public services efficiency; private sector growth and preventing degradation of natural resources and building resilience to natural shocks*. The preparation of the forthcoming CPF 2021-2025 has been temporarily suspended due to the COVID-19 pandemic. The 2020 Systematic Country Diagnostic Update identified as one of the country priorities “*better leveraging of natural resources for growth*” given the significant contribution to growth and jobs in the agriculture and forestry sectors. Unlocking the potential of these sectors will require fostering adoption of new technologies in production and management processes, and improving access to markets, among others.

19. **The project would contribute to BiH’s Strategic Plan for Rural Development (SPRD) for 2018-2021.** The project would directly contribute to four of the six main SPRD strategic goals for development of agriculture and rural areas, namely: (a) *strengthening competitiveness of agriculture, forestry and rural areas through increasing the level of investments and improving the transfer of knowledge and promotion of innovation*; (b) *improving marketability of agri-food products by increasing value-added activities, improving quality and safety standards and strengthening linkages within the value chains*; (c) *sustainable management of natural resources and climate change adaptation*; and (d) *improving institutional systems and capacities and harmonization of the legal framework in agriculture and rural development with the aim of gradual approximation to the EU Common Agriculture Policy (CAP)*. The alignment with EU requirements also requires improving the efficiency of the national budgetary resources for agriculture and providing access to key information and the data for evidence-based policy programming, which would be supported by the project.

C. Proposed Development Objective(s)

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The Project Development Objective is to enhance the agriculture sector resilience through productivity growth, better market linkages, and strengthened food quality and safety.

Key Results (From PCN)

- (i) **Number of project beneficiaries who have adopted an improved agriculture technology promoted by the project.**
- (ii) **Area provided with new or improved irrigation and drainage services.**

⁴ Report No. 130043-BA dated December 28, 2018



- (iii) **Area increased using climate smart practices and technologies.**
- (iv) **Sales of horticulture and livestock products from farmers supported by the aggregators.**
- (v) **Food safety and quality standards introduced and adopted by the project beneficiaries and public institutions.**

D. Concept Description

20. The proposed project would include the following four components:

Component 1: Enhancing public support resilience and traceability

21. This component aims at improving efficiency of the national budgetary resources, providing access to key information and data for policy programming 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:

22. **Sub-Component 1.1 – Enhancing Agriculture Information Systems.** This sub-component will support (a) completing the Farm Accountancy Data Network to improve information collection and data use for policy analysis; (b) completing the farm registry, creation of new registers for priority value chains; improved system functionality of different registries, including animal identification and registration; (c) strengthening agriculture information system and GIS capacity; (d) developing a Land Parcel Identification System, which is a key EU accession requirement to benefit from the Common Agricultural Policies support; and (e) establishing a transparent market information system.

23. **Sub-Component 1.2 – Supporting Climate-resilient agriculture.** This sub-component will support (a) improving seed quality and production, including improvement of local varieties to be better adapted to climate change; (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.

Component 2: Improving agriculture productivity, adaptation to climate change, and enhancing linkages with markets

24. 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:

25. **Sub-component 2.1 – Strengthening Value Chain and Developing Productive Partnerships.** This sub-component will provide matching grants to leverage private sector investments into 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. horticulture, livestock, vegetables, and others. Matching grants would be provided to the aggregators, agro-processors and collection centers who will directly cooperate and link with producers by supporting input supplies, marketing of the horticulture and livestock products in the internal and external



markets, and increasing knowledge and capacity of the farmers to comply with market requirements. 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 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.

26. **Sub-component 2.2 – Improving irrigation and drainage systems for climate change adaptation.** This sub-component will help 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. The sub-component will complement investments under sub-component 2.1 and be implemented in coordination with the commercial value-chain investments.

27. 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 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. The specific activities under this subcomponent would include:

Component 3: Food Quality and Safety Enhancement

28. 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:

29. **Sub-component 3.1 – Food Quality and Safety Standards.** This sub-component will provide investment and technical assistance support to the relevant public institutions in BiH to strengthen their inspection and laboratory capacities in the areas of food safety, veterinary and phytosanitary, in line with international and standards as articulated in the WTO Sanitary and Phytosanitary (SPS) Agreement, the World Health Organization (WHO) and Food and Agriculture Organization (FAO) *Codex Alimentarius*, the World Organization for Animal Health (OIE) Terrestrial Animals and Aquatic Codes, and International Plant Protection Convention (IPPC).

30. The sub-component would also provide support to enable these institutions to meet internationally recognized food certification requirements, such as GlobalGAP, EurepGAP, HACCP, etc. In addition, training programs will be developed in cooperation with the relevant food safety institutions, extension service providers and farmer representatives to increase the awareness, knowledge and capacities to adapt to heightened food safety requirements.

31. **Sub-component 3.2 – Information Technology (IT) Systems for Food Safety Enhancement.** This sub-component will finance the development and upgrading of IT software and hardware systems that are critical for improving compliance with food safety standards in the country. The BiH and Entity level relevant institutions mentioned above will be supported through the establishment of reliable IT systems which will be used in developing and implementing food safety standards. Furthermore, developed IT systems will be used to monitor food safety standards application in practice



by the designated institutions of BiH and to report on non-compliances, to be compatible with EU Animal Disease Notification System (ADNS), EU Trade Control and Expert System (TRACES) and EU Rapid Alert System for Food and Feed (RASFF).

Component 4: Project Management

32. 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).

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Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No
Summary of Screening of Environmental and Social Risks and Impacts	

Note to Task Teams: This summary section is downloaded from the PCN data sheet and is editable. It should match the text provided by E&S specialist. If it is revised after the initial download the task team must manually update the summary in this section. *Please delete this note when finalizing the document.*

Note: To view the Environmental and Social Risks and Impacts, please refer to the Concept Stage ESRS Document. *Please delete this note when finalizing the document.*

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