

Report on the Republika Srpska part of the Project
Financial Statements of the

**RURAL COMPETITIVENESS
DEVELOPMENT PROGRAMME**
of the Ministry of Finance and Treasury

Financed by:

- IFAD Loan Agreement No. 2000001440
- IFAD Grant Agreement No. 2000001441

For the year ended 31 December 2019

RURAL COMPETITIVENESS DEVELOPMENT PROGRAMME
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

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RURAL COMPETITIVENESS DEVELOPMENT PROGRAMME of the Ministry of Finance and Treasury of Bosnia and Herzegovina

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. 2000001440 from the International Fund for Agriculture 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.

The goal of the Programme will be to contribute to sustainable rural poverty reduction in BiH. The Programme development objective is to enable smallholders to take advantage of fruits, vegetable, non-timber forest products and other potential subsector development for the sustainable improvement of their social and economic conditions and those of other poor rural groups.

Programme area: The Programme will be implemented at national level through value chain clusters. Initially, twelve clusters have been pre-identified thus constituting the project area for its first cycle. Given the focus on supporting the most vulnerable groups (poor farmers, women and youth) the project will foster the inclusion of poor municipalities in the context of larger municipal clusters. Typically, these municipalities will either be close to the areas currently active in the selected value chains or municipalities where important 'poverty pockets' still subsist. Clusters will be identified on the basis of common characteristics in terms of socio-economic and institutional potential.

Target group: The programme will reach out to three target groups: the **very poor, poor and borderline poor**, by analysing their specific constraints and challenges to access selected sub-sectors and in particular the constraints faced by **women** and **youth**. The targeting strategy and efforts will respond to these challenges with specific enabling measures. The programme will target poor, non-commercial farmers that are not yet (or insufficiently) linked to market while support their insertion in rewarding supply chains in order to become competitive commercial farmers. Direct beneficiaries will be rural poor, both women and men, young and adults, organized in Producers' Associations (PAs) and cooperatives active in selected value chains (VCs).

1.2 Components and activities of the Project

The project consists of the following components:

1. Enabling Environment for Inclusive Subsector Development
2. Sustainable inclusion of smallholders in the thriving/successful value chains
3. Project Management

Component 1: Enabling Environment for Inclusive Subsector Development

The **Outcome** of Component 1 will be: "The improved policy and institutional environment attracts smallholders and investors to the selected subsectors." Five elements of the subsector development approach of the Programme will be implemented through the component: (i) subsector governance by all concerned private and public stakeholders through consultations and joint strategic planning of interventions; (ii) developing relevant institutions' capacities in the subsectors to ensure adequate supply of specialized services; and (iii) an enabling policy framework in order to tackle the related trade, policy and institutional issues and promote local economic development, (iv) subsector performance monitoring and accountability, and (v) strengthening relevant institutions' capacities.

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The expected results are the following: (i) stakeholder's platforms at cluster level and subsector level improve value chain coordination and subsector governance, orient public policies and investments in order to warrant long term subsector competitiveness; and (ii) appropriate technical and business development services are made available at local and entity level.

Public funds will be used to leverage investments from the private sector in a win-win partnership allowing agribusinesses to expand their activities and a higher number of small-scale producers to expand their production while improving its profitability. As part of the efforts to create an enabling environment for inclusive and sustainable subsector development, the Programme will help to ensure adequate supply of specialized support services, public and private.

Component 2: Sustainable inclusion of smallholders in the thriving/successful value chains

The Outcome of Component 2 will be the "Sustainable inclusion of poor smallholders and vulnerable groups in selected subsectors" The expected results are the following: (i) inclusive business proposals developed and implemented; and (ii) very poor and poor farmers, women and youth have successfully integrated into competitive and rewarding value chains.

This Component is intended to: (i) help improve the livelihood of small scale producers and poor collectors through sustainable and profitable farming; (ii) consolidate their organisations and their capabilities to identify forthcoming business opportunities (in terms of markets, marketing channels, new products etc.) to expand their business; and (iii) have a voice and play an active role in the multi-stakeholders coordination platforms, both at cluster level and at subsector level. The Programme will take advantage of existing value chain dynamics in selected value chains in which the private sector (i.e. agro input dealers, collectors, processors, traders, wholesalers, retailers) is actively engaging with smallholders, either organised or individually.

Business Proposals (BPs), allowing business partners (producers and agribusiness) to plan, coordinate and carry out mutually benefiting investments, will be one of the main Programme instruments under Component 2. The BP will be the main instrument of the business partners (small-scale producers and collectors and their organisations, agribusiness companies) to foster the sustainable development of their joint businesses in the selected sub-sectors and value chains. BPs will also frame partners' needs in terms of capacity development and the part of the investments to be addressed by public (project) funds.

Component 3: The Project Management, Monitoring and Evaluation Component would finance all the incremental costs of project management, coordination, monitoring and evaluation by the existing Agriculture Project Coordination Unit.

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1. Introduction (continued)

1.3. Financing of the Project

The Project is financed by:

- a) IFAD Loan No. 2000001440
- b) IFAD Grant No. 2000001441
- c) Government, and
- d) Beneficiaries.

1.3.1. IFAD Loan Agreement 2000001440

The State is the borrower of the International Fund for Agricultural Development (IFAD) Loan No. 2000001440 amounting to EUR 11,120,000.

In accordance to terms of subsidiary finance agreement between the State and RS, funds of the equivalent of EUR 4,680,000 have been lent to RS.

1.3.2. IFAD Grant Agreement No. 2000001441

IFAD Grant No 2000001441 allocations for B&H are EUR 470,000

In accordance to terms of subsidiary finance agreement between the State and RS, funds of the equivalent of EUR 200,000 have been granted to RS.

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1. Introduction (continued)

1.3 Financing of the Project (continued)

1.3.3 IFAD Loan Agreement No. 2000001440 and IFAD Grant Agreement No. 2000001441

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

Item	Amount of the Loan allocated (in EUR)	Amount of the Grant allocated (in EUR)	% of expenditure to be financed
1. Goods, services and inputs	3,620,000	-	100% net of tax and Government and beneficiaries contribution
2. Consultancies	345,000	200,000	100% net of tax and Government and beneficiaries contribution
3. Operating costs	480,000	-	100% net of taxes
Unallocated	235,000	-	
Total	4,680,000	200,000	

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2. 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 Project Financial Statements

Opinion

We have audited the accompanying project financial statements of the Republika Srpska part of the Rural Competitiveness Development Programme (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated account, Local bank account, Statement of loan and grant withdrawals as of and for the year ended 31 December 2019, and a summary of significant accounting policies and other explanatory notes for the year then ended, financed under IFAD Loan Agreement No. 2000001440 and IFAD Grant Agreement No. 2000001441.

In our opinion, the accompanying project financial statements present fairly, in all material aspects, the financial position of the Project as of 31 December 2019, 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 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 Project Financial Statements

The management of project coordination unit is responsible for the preparation of these project financial statements in accordance with the cash basis of accounting based on IPSAS, as described in Note 4.1., and for such internal control as management determines is necessary to enable the preparation of project financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the project 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 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 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 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 project financial statements, including the disclosures, and whether the 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. 2000001440, IFAD Grant Agreement No. 2000001441.

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 2019, 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 licensed auditor
Sarajevo, Bosnia and Herzegovina



Ezita Imamović, licensed auditor

4 May 2020

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Project financial statements for the year ended 31 December 2019

(all amounts in EUR, unless otherwise stated)

3. Project financial statements for the year 2019

3.1 Summary of Sources and Uses of Funds under the IFAD Loan No. 2000001440, IFAD Grant No. 2000001441, Government contribution, Beneficiaries contribution

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
IFAD Loan No.						
2000001440	3.1.1	500,000	830,000	330,000	4,680,000	3,850,000
Government contribution	3.1.2	51,129	102,258	51,129	937,609	835,351
IFAD Grant No.						
2000001441	3.1.3	-	150,000	150,000	200,000	50,000
Beneficiaries contribution	3.1.4	106,255	119,682	13,427	6,452,778	6,333,096
TOTAL FINANCING	3.2	657,384	1,201,940	544,556	12,270,387	11,068,447
PROJECT EXPENDITURE						
<i>By Category</i>						
Goods, services and inputs		283,503	305,881	22,378	10,807,009	10,501,128
Consultancies		110,418	127,195	16,777	599,197	472,002
Operating costs		134,381	167,704	33,323	629,181	461,477
Unallocated		-	-	235,000	235,000	
TOTAL EXPENDITURE	3.2	528,302	600,780	72,478	12,270,387	11,669,607
PROJECT EXPENDITURE						
<i>By Component</i>						
Enabling Environment for Inclusive Sub-sector Development		65,218	71,910	6,692	510,423	438,513
Sustainable Inclusion of Smallholders in the Thriving/Successful Value Chains		325,351	357,814	32,463	10,801,675	10,443,861
Project Management, Monitoring and Evaluation		137,733	171,056	33,323	723,289	552,233
Unallocated				-	235,000	235,000
TOTAL EXPENDITURE	3.2	528,302	600,780	72,478	12,270,387	11,669,607

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3. Project financial statements for the year 2019 (continued)

3.1.1 Summary of Sources and Uses of Funds under the IFAD Loan agreement No. 2000001440

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
<i>IFAD Loan No.</i>						
2000001440						4,680,000
Initial deposit		500,000	830,000	330,000		
TOTAL FINANCING	3.2	500,000	830,000	330,000	4,680,000	3,850,000
PROJECT EXPENDITURE						
<i>By Category</i>						
Goods, services and inputs		184,494	193,445	8,951	3,620,000	3,426,555
Consultancies		64,486	80,809	16,323	345,000	264,191
Operating costs		128,668	160,578	31,910	480,000	319,422
Unallocated		-	-	-	235,000	235,000
TOTAL EXPENDITURE	3.2	377,648	434,832	57,184	4,680,000	4,245,168

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3. Project financial statements for the year 2019 (continued)

3.1.2 Summary of sources and uses of fund under Government contribution

	Ref.	Actual 2019	Cumulative 2019	Cumulative e 2018	Cumulative budget	Cumulativ e variance
FINANCING						
Government contribution		51,129	102,258	51,129	937,609	835,351
TOTAL FINANCING	3.2	51,129	102,258	51,129	937,609	835,351
PROJECT EXPENDITURE						
<i>By Category</i>						
Goods, services and inputs		-	-	-	734,231	734,231
Consultancies		3,790	3,790	-	54,197	50,407
Operating costs		5,713	7,122	1,409	149,181	142,059
TOTAL EXPENDITURE	3.2	9,503	10,912	1,409	937,609	926,697

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3. Project financial statements for the year 2019 (continued)

3.1.3 Summary of sources and uses of fund under IFAD Grant agreement No. 2000001441

	Ref.	Actual 2019	Cumulative 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
IFAD Grant No.					200,000	
2000001441						
Initial deposit		-	150,000	150,000	-	
TOTAL FINANCING	3.2	-	150,000	150,000	200,000	50,000
PROJECT EXPENDITURE						
<i>By Category</i>						
Goods, services and inputs		-	-	-	-	-
Consultancies		42,142	42,596	454	200,000	157,404
Operating costs		-	4	4	-	(4)
TOTAL EXPENDITURE	3.2	42,142	42,600	458	200,000	157,400

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3. Project financial statements for the year 2019 (continued)

3.1.4 Summary of sources and uses of fund under Beneficiaries contribution

	Ref.	Actual 2019	Actual 2019	Cumulative 2018	Cumulative budget	Cumulative variance
FINANCING						
Beneficiaries contribution		106,255	119,682	13,427	6,452,778	6,333,096
TOTAL FINANCING	3.2	106,255	119,682	13,427	6,452,778	6,333,096
PROJECT EXPENDITURE						
<i>By Category</i>						
Goods, services and inputs		99,009	112,436	13,427	6,452,778	6,340,342
TOTAL EXPENDITURE	3.2	99,009	112,436	13,427	6,452,778	6,340,342

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3. Project financial statements for the year 2019 (continued)

3.2 Balance sheet as of 31 December 2019 showing accumulated funds of the Project and bank balances concerning IFAD Funding

	Ref.	31 December 2019	31 December 2018
ASSETS			
Project expenditure IFAD Loan No. 2000001440	3.1.1	434,832	57,184
Project expenditure under Government contribution	3.1.2	10,912	1,409
Project expenditure IFAD Grant No. 2000001441	3.1.3	42,600	458
Project expenditure under Beneficiary contribution	3.1.4	112,436	13,427
		600,780	72,478
Designated account - IFAD Loan No. 2000001440	A.1	395,162	272,822
Local bank account - Government contribution	A.2	18,455	42,614
Local bank account – IFAD Grant No 2000001441	A.3	107,400	149,542
Local bank account – Beneficiary contribution	A.5	7,173	-
		528,190	464,978
VAT receivables		72,970	7,100
Total assets		1,201,940	544,556
LIABILITIES			
IFAD Loan No. 2000001440	C	830,000	330,000
Government contribution	3.1.2	102,258	51,129
IFAD Grant No. 2000001441	3.1.3	150,000	150,000
Beneficiary contribution	3.1.4	119,682	13,427
Total liabilities		1,201,940	544,556

Signed and authorised by:


 Mr Stefan Mitrović
 APCU Director


 Dragana Stojčić
 Financial Manager

Banja Luka, 4 May 2020

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4. Notes to the project financial statements

4.1 Basis of preparation and accounting records

These 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 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 account.

Statement of Expenditure (SoE)

Statements of Expenditure are used to state the expenditure under IFAD Loan during a certain period. These statements are sent to the IFAD disbursement specialist who authorises 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 for the Project. IFAD Loan account is in EUR.

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.

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4. Notes to the project financial statements (continued)

4.2 Accounting policies (continued)

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.

Interest on local bank accounts

Interest earned on the local bank account used for the payments from IFAD 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.: 5672410000732213

Depository Bank: Sberbank a.d. Banjaluka

Address: Jevrejska 71, Banjaluka

Related Credit: IFAD Loan No. 2000001440

Currency: EUR

	Ref.	EUR
Opening balance 1 January 2019	3.2	272,822
Add:		
IFAD replenishments	B	500,000
		500,000
Deduct:		
Payments to suppliers - Expenditure under IFAD Loan		377,660
		377,660
Ending balance 31 December 2019	3.2	395,162

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APPENDIX A.2

LOCAL BANK ACCOUNT STATEMENT

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

Account No.: 5672418200003406

Depository Bank: Sberbank a.d. Banjaluka

Address: Jevrejska 71, Banjaluka

Related Credit: Government contribution

Currency: BAM

	Ref.	BAM	EUR
Opening balance 1 January 2019	3.2	83,345	42,614
Add:			
Government Contribution		100,000	51,129
		100,000	51,129
Deduct:			
Payments to suppliers - Expenditure under Government		147,251	75,288
		147,251	75,288
Ending balance 31 December 2019	3.2	36,094	18,455

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APPENDIX A.3

DESIGNATED ACCOUNT STATEMENT

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

Account No.: 5672410000732407

Depository Bank: Sberbank a.d. Banjaluka

Address: Jevrejska 71, Banjaluka

Related Credit: IFAD Grant No. 2000001441

Currency: EUR

	Ref.	EUR
Opening balance 1 January 2019	3.2	149,542
Add:		
IFAD Grant replenishments		-
		-
Deduct:		
Payments to suppliers - Expenditure under IFAD Grant		42,142
		42,142
Ending balance 31 December 2019	3.2	107,400

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APPENDIX A.5

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. Banjaluka

Address: Jevrejska 71, Banjaluka

Related Credit: Beneficiary contribution

Currency: BAM

	Ref.	EUR	BAM
Opening balance 1 January 2019	3.2	-	-
Add:			
Municipality Contribution	106,255	207,818	
	106,255	207,818	
Deduct:			
Payments to suppliers - Expenditure under Beneficiaries	99,082	193,789	
	99,082	193,789	
Ending balance 31 December 2019	3.2	7,173	14,029

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APPENDIX B.1 SoE Withdrawal Schedule of IFAD Loan No. 2000001440 for the year ended 31 December 2019

	Goods, services and inputs				Total application	Total disbursed
	Initial deposit	Consultancies	Operating costs			
Previous years	330,000	8,951	16,323	31,910	57,184	330,000
Total direct payments	-	-	-	-	-	-
Application 2	500,000	-	64,486	-	-	500,000
Application 3	-	184,494	-	128,668	377,648	-
Total SOE application 2019	-	184,494	64,486	128,668	377,648	-
Cumulative 2019	830,000	193,445	80,809	160,578	434,832	830,000

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APPENDIX B.2 SoE Withdrawal Schedule of IFAD Grant No. 2000001441 for the year ended 31 December 2019

	Initial deposit	Goods, services and inputs	Consultancies	Operating costs	Total application	Total disbursed
	150,000	-	454	4	458	150,000
Previous years						
Total direct payments	150,000	-	454	4	458	150,000
Application 1	-	-	-	-	-	-
Application 2	-	-	42,142	-	42,142	-
Total SOE application 2019	-	-	42,142	-	42,142	-
Cumulative 2019	150,000	-	42,596	4	42,600	150,000