

The background of the slide features a close-up, grayscale image of several coins, likely Euro coins, scattered across the surface. The coins are slightly out of focus, creating a textured, metallic appearance. A dark green horizontal band is positioned across the middle of the slide, containing the main title in white, bold, sans-serif capital letters.

CURRENT SITUATION OF RURAL FINANCE IN BOSNIA AND HERZEGOVINA

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Economic and political stages over last few decades

1. Period of socialistic, planned economy (prior to 1990s)
2. War (1992 - 1995)
3. Post-war reconstruction (1996-2004)
4. Economy in transition (after 2004).

Period of planned economy

- Fund for development of undeveloped republics of SFRJ;
- Fund for development of undeveloped municipalities within Bosnia and Herzegovina;
- Investments in undeveloped regions (mainly rural ones) were financed through these funds in the form of either grants or soft loans.
- Funds were dominantly used by state-owned subjects, so rural population, particularly the poorest category was left without possibility to apply for and get financed from these funds.

War period (1992 - 1995)

- Enormous war damages :
 - Agricultural production was reduced to one third of the pre-war production;
 - Losses in livestock fund and agricultural machinery estimated on as much as 80%;
 - Capacities in food industry destroyed or significantly damaged;
 - Irrigation systems, barns, storage and other farm' facilities damaged;
 - Distribution and market channels broken.

Period of post-war reconstruction (1996-2004)

- Priority was to reconstruct basic conditions for survival of rural population rather than to develop rural regions.
- Complete dependence on international funds (WB, EU, IFAD, FAO, USAID, GTZ, SIDA).
- Implemented project and programmes had rather social and humanitarian than development character.
- Bosnia and Herzegovina was beneficiary of significant funds in the forms of donations or soft loans.

Period of post-war reconstruction (1996-2004)

- **Project “Emergent Farm Reconstruction” - (1996-1998);**
- **Total Project budget 42.4 mill USD**
 - 6.9 mill USD EU Commission’ grant
 - The rest IFAD (7.3 mill USD) and WB’ soft loans (20 mill. USD)
- **Project components:**
 - Reconstruction of agricultural machinery (32.3 million USD);
 - Reconstruction of the livestock fund (14.4 million USD);
- **Credit conditions:**
 - Payment period: 5 years for livestock, 10 years for machinery;
 - Annual interest rate 2%;
 - 2 years grace period for agricultural machinery

Period of post-war reconstruction (1996-2004)

- **Project “Seed Capital and Credit Facilities” (2002)**
 - EC initiated rural credit line with the grant estimated at 5 million €
 - The aim of the project was establishment of rural finance in Bosnia and Herzegovina
 - Beneficiaries were refugees, internally displaced persons, farmers’ associations and cooperatives
- **IFAD Project “Livestock and rural finance development” (2002-2008)**
 - Total Project’ budget - 25.5 million USD
 - Project components: development of livestock production, reconstruction of rural infrastructure and rural microfinance development
 - The Project failed to place 3.5 million USD planned for rural finance due to the lack of related legislation
 - Number of beneficiaries is 95.000 rural inhabitants

Period after 2004

- The official change of BH status in WB in July 2004 from post-conflict to economy in transition
- No privilege in WB and IMF loans since 2004. The whole economy and, particularly agriculture, as the dominant activity in rural areas has to cope with existing sources and conditions for investment' and development' financing
- The sources of rural financing are own credit lines of commercial banks, credit lines of MFI and credit lines of implemented project placed through commercial banks.

Rural finance in Bosnia and Herzegovina

- Bosnia and Herzegovina still does not have clear selective development strategy for rural areas, neither it has selective credit policy that would follow such strategy.
- There are no selective policy measures regarding rural areas and rural finance in Bosnia and Herzegovina.
- Small and medium enterprises in rural areas get loans under the same conditions as the ones in urban regions.
- Rural population, as individuals have the same sources and conditions for credit as urban population.

Short-term credits of commercial banks

- Most of commercial banks offer short-term credit lines for working capital financing, but only one of them has short-term credit for agricultural producers.
- **Credits for agriculture:**
 - Amount - up to 10,000 €
 - Payment period - 18-24 months
 - Interest rate - 0,9% monthly
 - One co-signer
 - Simple and quick application procedure
- **Credits for small and medium enterprises:**
 - Credit amount - up to 50 000 € ;
 - Payment period up to 2 years;
 - Annual interest rate - 6.5% to 13%;
 - In most of the cases no grace period.

Short-term credits of Micro-finance Institutions

- Credits - 250 to 15.000 € ,
- Payment period - from 12 to 36 months;
- Grace period - from 6 to 9 months;
- Interest rate from 0.7% to 3% monthly;
- No business plan or collateral required
- Currently MFI in Bosnia and Herzegovina serve 130.000 active clients and manage 150 million € of credit potential
- Application procedure is simple, quick and adjusted to agricultural producers, but the interest rate is far higher than agriculture can stand.

Mid and long-term credits

For agriculture:

- 10.000-250.000 €
- Payment period up to 8 years;
- Annual interest rate 6-11.5%;
- Grace period up to 2 years.
- Sound business plan and collateral requested
- Procedure too complicated for agricultural producers and rural population

For SMEs:

- 5.000-380.000 €
- Payment period 3 to 10 years;
- Annual interest rate 7.5 - 8%;
- Grace period 6-12 months
- Sound business plan and collateral requested.

Investment bank of FB&H

- Revolving credit line for agricultural sector development'
- Beneficiaries: farmers, cooperatives and agricultural enterprises from FB&H;
- Credit amount depends on purpose;
- Annual interest rate 8-10%;
- Payment period 0.5-7 years;
- The only credit line in BH that is sensitive to biological characteristic of agricultural (plant) production;
- The only credit line with long enough grace period.

Investment bank of Federation of Bosnia and Herzegovina

Activity	Payment period (years)	Grace period (months)
Plant production	1,5	6
Frit growing - development	7	36
Winegrowing - development	7	36
Seedlings' production	3	12
Livestock production	2	6
Dairy farming	3	12
Bee farming	3	12
Breeding stocks' raising	3	12
Aquaculture	3	12
Establishment of veterinary stations	4	12

KfW- small-scale loan project

- The only credit line explicitly intended for rural finance;
- Intended for financing SMEs with less than 50 employees in rural areas;
- Credit - 2250 to 45,000 €
- Payment period - 2 to 5 years;
- Grace period 6-9 months;
- Interest rate 9.5%.

Recent development in rural financing in B&H

- Banking sector has been privatized successfully and very well evaluated by foreign experts (investigation of the World Bank Group, 2005).
- Most of commercial banks in whole Bosnia and Herzegovina have developed special credit lines for agricultural producers and/or small and medium enterprises.
- Government of Federation of Bosnia and Herzegovina have founded Federal Investment Bank that offers special credit line tailored for agricultural production through the net of commercial banks.
- Republika Srpska has introduced the Law on Saving-loan associations.

Recent development in rural finance in B&H

- During the last round of negotiations political consensus on Common Ministry of Agriculture and Rural Development on state level has been achieved.
- Both entities (FB&H and RS) in 2005 started to reimburse interest paid on agricultural credits (above 4%).
- Departments of rural development have been established in both entities.
- Drafts of the Mid-term strategy of agricultural sector development has been done, and it includes issues of importance for rural finance.

Assesment of the adequacy of credit sources

- Credits for rural population are, generally speaking, inadequate and costly.
- Procedures for applications for credits are often too long and too complicated for rural population.
- Government interventions to alleviate inadequacy (reimbursement of interest paid on agricultural credits) are not sufficient.
- Overall conditions of rural financing are unfavourable and inadequate.
- The lack of favourable credit lines is the most commonly mentioned obstacle for agricultural sector' development, by both domestic and foreign experts.

Perspectives of rural finance in Bosnia and Herzegovina

Problems to be solved in the future:

2. To delimitate rural areas
3. To create studies and strategies of rural development
4. To create selective policy measures for rural development as well as for rural crediting and financing.