

FINAL REPORT

VOLUME I

EVALUATION OF THE USAID/KOSOVO SME AND AGRICULTURE/AGRIBUSINESS PROGRAMS

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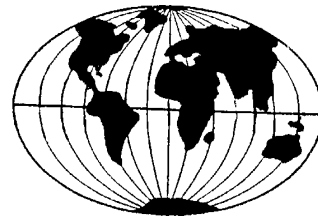
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FOREWORD

This report requires some introductory explanation. In February 2004 Development Associates Inc. under its Evaluation Services IQC with USAID competed for and won two evaluation task orders from USAID/Kosovo. One was for the evaluation of the USAID's program of assistance to small and medium enterprises (SMEs); the second was to evaluate the Mission's program for agriculture and agribusiness.

In our efforts Development Associates was assisted by our subcontractors on the Evaluation IQC, IPC which placed a specialist on the SME team and Nathan Associates, Inc., who contributed a specialist to the Agriculture/Agribusiness Team. The two teams, each of them with three persons, deployed to Kosovo at virtually the same time. By coincidence, the two team leaders were long time associates who had worked together frequently. They rapidly came to the conclusion that there was considerable overlap between their two assignments and that it would be both efficient and more meaningful to merge their two evaluation reports into one document. USAID/Kosovo agreed and the present volume is the result.

LIST OF ACRONYMS

ABU	Agricultural Banking Unit
ABK	American Bank of Kosovo
ADB	Asian Development Bank
AKA	Alliance of Kosovar Businesses
AMIK	Association of Microfinance Institutions of Kosovo
BDS	Business Development Services
BPK	Banking and Payments Authority of Kosovo
CARE	CARE International
CBD	Center for Business Development
CBO	Community-based Organization
CD	Country Director
CDO	Cluster Development Officer
CECI	Canadian Centre for International Studies and Co-operation
CIDA	Canadian International Development Agency
COMMP	Competitive Marketing of Milk Production
CPP	Crop Protection Product
CRM	Cluster Relationship Manager
CTO	Cognizant Technical Officer
DFID	Department for International Development (UK)
DPs	Demonstration Plots
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EOP	End of Project
EU	European Union
FAO	Food and Agriculture Organization
FA	Farmer Associations
FC	Farmers Clubs
FYR	Federal Yugoslav Republic
GDP	Gross Domestic Product
Ha	hectare
IMF	International Monetary Fund

IPM	Integrated Pest Management
IR	Intermediate Results
IRC	International Rescue Committee
IVP	Improving Vegetable Production Project
IVP	International Volunteer Professional
KADP	Kosovo Agribusiness Development Program
KAP	Kosovo Assistance Program
KASS	Kosovo Agricultural Sector Support Program
KBS	Kosovo Business Support Project
KBF	Kosovo Business Finance Project
KBFF	Kosovo Business Finance Fund
KCIS	Kosovo Credit Information Service
KDC	Kosovo Development Centre
KEAP	Kosovo Emergency Agri-Input Program
KFPP	Kosovo Feed for Poultry Project
KFW	German Development Bank
KODAA	Kosovo Dealers of Agri-Inputs Association
LINK	Livestock Improvement in Kamenica and Novo Brdo
LOL	Land O'Lakes
LOP	Life of Project
m	million
MAFRD	Ministry of Agriculture, Forestry and Rural Development
MCC	Milk Collection Center
MEB	Micro Enterprise Bank (Pro-Credit)
M&E	Monitoring and Evaluation
MFI	Micro Finance Institution
MOF	Ministry of Finance
MTI	Ministry of Trade and Industry
Mt	metric ton
NGO	Non-governmental Organization
PISG	Provisional Institutions of Self-Government in Kosovo
POE	Public Owned Enterprise
RBKO	Raiffeinsen Bank Kosovo

REA	Regional Enterprise Agency (EU)
RFA	Request for Applications
RFP	Request for Proposals
RM	Relationship Manager
SC	Save the Children
SCAAK	Society for Certified Accountants and Auditors of Kosovo
SEEDS	Support for the Economic Expansion and Development of Small Farms
SEL	Small Enterprise Loan
SFS	Small Farm Support Initiative
SI	Swiss Inter-cooperation
SMC	Senior Management Consultant
SME	Small and Medium Scale Enterprise
SO	Strategic Objective
SOE	Socially Owned Enterprise
SS&TA	Sheep Sector and Technical Assistance Project
TA	Technical Assistance
T&I	Trade and Investment
UNDP	United Nations Development Program
UNMIK	United Nations Mission in Kosovo
USAID	United States Agency for International Development
VAT	Value Added Tax
VB	Village Banking
WB	World Bank
WBS	Work Breakdown Structure

EXECUTIVE SUMMARY

I. FINDINGS

1. USAID-supported projects reviewed—10 in all—have had positive impact on economic growth, capacity development and job creation in Kosovo. They started early—IFDC in 1999, FINCA in January 2000, KBS in October 2000, and provided the broadly targeted assistance needed in the emergency reconstruction period. USAID provided across-the-sectors support to SME and agribusiness development to provide early positive benefits, and to show other donors what could be accomplished by direct assistance to the private sector.
2. During the last four years, the economic circumstances have changed, there are increasingly competitive markets occasioned by a downturn in donor funding and remittances. In 2002, all KBS sectors were positive, with average sales for 177 clients increasing 39% and profit up 67% from the previous year. In 2003, the business environment became much more competitive. Of 8 sectors served by KBS, four had decreased sales for the year, three negative profit. Overall, the 57 clients tracked from the prior year had sales increases of 13% and 28% increases in profits over 2002. The situation has changed from the early days of easy money, fueled by heavy foreign assistance spending and the release of pent-up consumer demand, when nearly all businesses were buoyed by a rising economic tide, to a market in which businesses can lose money if they are not agile and adroit.
3. The next generation of projects/programs must respond to this new competitive environment, one in which imports will not be able to continue to be 75% higher than GDP. The program must provide more intensive, directed and specific assistance to allow enterprise groups (we will argue later for the cluster concept) to achieve market penetration, serious import substitution and, in some selected products, export growth. The new projects/programs will be made better by the start that has been given from the past and ongoing projects in USAID's portfolio. Much of the ground has been plowed and past efforts to build capacity and development SMEs and local institutions will pay off in the near future.
4. Here are summary judgments on the reviewed projects past performance and contributions that this project has made to future programs:
 - **Kosovo Business Support (KBS)**, October 2000 to September 30, 2004. \$15 million. Excellent broad-based business development services early in the reconstruction. Provided skills and training local staff in enterprise accounting, strategic plans, marketing, access to financing, trade and investment linkages certified accounting training, all performing well. Good results with less than optimal targeting in competitiveness areas, including agribusiness and non-agricultural sectors beginning in late 2002. There were too many areas selected, too little time, and too few resources for them all. Nevertheless, KBS has established a

solid foundation for the next generation of business development services, providing personnel, systems, approaches and technologies that have been proven to work.

- **Kosovo Business Finance (KBS)**, May 2001 to July 2003. \$10.5 million. A high-wire act to lend to SMEs on one hand and create a commercial bank on the other, with precipitous tight-rope walking, but no falls. It created the American Bank of Kosovo (the first to start after the war), it lead the way for other banks start banks in Kososvo. It made a noble effort to establish a SME lending window in a commercial bank that in the end did not succeed at the level intended. This project was successfully concluded for USAID with respect to its commercial bank objectives by the sale of the USAID portfolio to a qualified foreign bank. Raiffeisen Bank Kosovo, the second international bank, is, as of April 2004, increasing its capital base and plans to stay in Kosovo for the long term. This project was a feat of daring and risk taking that had a happy ending. It is not the type of project that should be repeated elsewhere without very careful study, as the potential for financial loss is extremely high. Raiffeisen Bank lends commercially, meaning that if the enterprises in a newly formed USAID program are creditable (and have sufficient collateral and regular payback capacity), with lending requirements greater than 10,000 Euro, they will be welcome customers at the bank. Most SME loan candidates in USAID supported projects do not qualify for loans at Raiffeisen Bank.
- **FINCA**, January 2000 to September 2002. \$4,042,381. Another approach to SME lending that has created a formidable microfinance lending institution with 2,138 customers, 60 staff, lending in 20 municipalities, with products in village banking (personal collateral) and small enterprise loans, consumer loans, housing, cars, etc. FINCA lends over 90% of its collateral. FINCA/K is financially self-sufficient but is \$1.6 million short of the equity base needed to be able to accept rural savings. FINCA is an excellent foundation if future USAID programs wish to incorporate directed lending with development initiatives such as agricultural technology transfer, as FINCA could be supported to attract rural savings and generate significant deposits to increase their lending portfolio.
- **Kosovo Emergency Agri-Input Program (KEAP)** October 1999 to June 2000. (\$750,000). This was an emergency supply project immediately after the war to organize and mobilize the private sector supply networks for agricultural inputs. Implemented by the International Center for Soil Fertility and Agricultural Development, it succeeded in delivering \$40 million in seed, fertilizer, pest control chemicals for the Spring planting season. About \$10 million was imported and distributed by various international NGOs and \$30-million in input supplies were imported by private dealers. They operated primarily with their own financing arrangements but with help from a USAID-sponsored \$10 million revolving fund. The project was considered a major contributor to getting agriculture started again in 2000 and laid the groundwork for future work with the associations and the private input suppliers.

- **Kosovo Agribusiness Development Program (KADP)** July 2000 to February 2003, (\$4,192,580). This was the first project that tackled the constraints to agriculture development: technology, input supply, markets, credit, processing, policies, and regulatory support systems. The project helped organize and worked with farmer and agribusiness associations in all sub-sectors. It provided extensive technical assistance to processors to get them started again and to farmers whose resources were devastated in the war. New varieties, improved fertilizers and pesticides were introduced and crop yields increased over the 32-month project life span. Dairy, poultry and feedmill companies were rejuvenated by KADP assistance. This project provided the foundation for Small Farmer Support (SFS) program implemented by an “umbrella grant” with Save the Children Foundation, and the KBS Agribusiness component.
- **Kosovo Feed for Poultry Project (KFPP)** February 2003 to September 2004. (\$858 thousand) This is one of the sub-grants of the Save the Children umbrella grant for Small Farmer Support (SFS). IFDC is the implementer. The project focused on the egg production part of the poultry sub-sector and is promoting better overall management, health and nutrition of layers and domestic production of the major feed grains that are the primary ingredients of poultry feed: maize, sunflower, and soybeans. It promotes high-producing chicken breeds and improved technologies in feed mills and laying houses. It collaborates with KBS Agribusiness, the other project that provides business and technical services to agribusinesses in the sub-sector. It is good example of a cluster-based development approach. This is a very aggressive project that is providing strong support in egg production that is increasing rapidly and replacing imports from neighboring countries. It has also introduced assistance to broiler producers. It has laid the foundation for a major agribusiness cluster in poultry products.
- **Competitive Marketing of Milk Production Project (CARE)**, January 2003 to September 2004. (\$1.2 million) This is another Save the Children sub-grant to CARE under the SFS grant. The project works on a long list of activities in direct support to 425 medium-size milk producers: training and advisory services in hygiene, nutrition, herd management; silage production; milk collection centers, farmer and processor associations; demo plots for livestock feed crops; record keeping; loan applications; and supply contracts. According to CARE, milk of USDA Grade A quality is now in the market and production volume and quality are increasing monthly. This project collaborates closely with KBS Agribusiness components that are focused on yogurt and processed milk production. Although on too short a time frame to install all the systems required, the project has made an excellent start and has created an important foundation for an agribusiness cluster development project in dairy products if USAID decides to do that.
- **The Improved Vegetable Production (IVP) project.** January 2003-September 2004. (\$557,516). This project is also a sub-grant of the Save the Children umbrella grant for Small Farmer Support (SFS). CECI is the implementer. The project has proven that new technologies for vegetable and potato production can achieve significant yield results and profits for farmers. Their work with Farmer

Associations (3) and Farmer Clubs (18) has begun the process of sustainable technology transfer. The weakness of the local vegetable processing company, Progress, is cause for concern in future production decisions. Without it there is only the fresh market. Progress operates at about 20% of capacity and has an overdue loan. The project has over 600 farmer beneficiaries of training and almost 300 participating farmers for the early season crops. Greenhouse production is becoming increasingly popular by producing profitable crops at times when seasonally produced crops are not in the market. These farmers have not had access to production credit or investment financing for expansion. Without a source of financing, future growth will be impeded. The border taxes on inputs and the relatively free access for imported produce gives Macedonian farmers an unfair competitive advantage in the Kosovo market. This problem is important but of less concern than the absence of financing. Farmers are interested in expanding their enterprises. This project has provided some clear insights in how to provide assistance to vegetable growers.

- **The Support for Economic Expansion and Development of Small Farms (SEEDS)** January 2003-September 2004 (\$617,587). This project is a sub-grant of the Save the Children umbrella grant for Small Farmer Support (SFS). IRC is the implementing sub-grantee. The project has been working with 81 fruit tree producing families, of which 58 are currently active. The technologies have a high acceptance rate among the participating farmers, averaging in the 60-70% acceptance range. They are working with 6 local Farmer Associations to begin the process of sustaining the technology transfer activities of the project. Participating farmers have been introduced to marketing techniques and have made several promising contacts in Pristina. Credit is an issue for expansion and new orchard start-up. This requires capital over a long period and is almost impossible to obtain. Farmers are interested in growing their enterprises. This project has provided an opening for this growth.
- **The Sheep Sector and Technical Assistance Project**, March 2003-July 2004 (\$500,000). This project was a sub-grant of the Save the Children umbrella grant for Small Farmer Support (SFS). Land of Lakes (LOL) was the implementer. The project did not succeed for several reasons, primarily inadequate contract management and major delays in fulfilling the work plan. The project was terminated in December 2003.

II. RESPONSES TO THE EVALUATION QUESTIONS

IMPLEMENTATION

1. Were activities properly targeted to achieve objectives?

Early projects—2000-2002—were well targeted and provided much needed response to the devastation of the economy. The projects provided the full set of SME requirements: business development services, credit at several levels, support to basic producers to enable inputs to later-stage agribusinesses. With the recognition that the local environment changed, USAID

made adjustments in late 2002 in ongoing and newly-generated projects. As the old programming cycle was ending—the new Strategic Objectives were due for 2004—many of the projects did not have the time remaining in contracts, nor the resources, to bring new targets to fruition. But they did provide the groundwork necessary to save years of organizational effort in the establishment of cooperative working groups and associations dedicated to improving standards, creating certification programs and changing the economic dynamics of their producers.

2. *What are the main strengths and weaknesses of the program?*

The Strengths

USAID combined three elements necessary for success: a) business development services to SMEs; b) credit for both larger SMEs (American Bank of Kosovo/Raiffeisen) and smaller (FINCA); and c) agricultural production to supply the SMEs that were receiving business development services and credit. Immediately after the crisis ended, USAID began mobilizing resources which were quickly on the ground. USAID's comparative advantage is working in private sector development, and this specialty was on display in Kosovo. There were few if any similar projects that began and continued throughout the period, or had the impact of the programs funded by USAID.

The Weaknesses

The model was more integrated in concept than in implementation. Ten projects, although not all were operating at the same time, are a very large coordination challenge. While there was active cooperation among particular projects, the effort was not a program, but a collection of projects working in related and complementary fields. They were not an integrated set of activities working for a common goal. USAID often tasked the projects to coordinate with other ongoing activities, but the accomplishment of each project's objectives dominated their decision process. There was greater resource impact to be gained from putting together the approach within a cluster of enterprises, producers and suppliers, as is being considered for the future program.

3. *Major Constraints and Amelioration?*

Constraints

Easy money reduced urban enterprise interest in improving their operations, marketing, and product early in the period while a lack of opportunity in rural areas constrained new investment, except in housing. Surveys showed that for every 1000 inhabitants in two rural municipalities, only 10% were working in the private sector, SOEs and the public sector, 50% were either unemployed, or working on subsistence farms. This low economic base is further hindered by land fragmentation and a subsistence mentality. The inability to make agricultural use of land held under SOEs contributes to the lack of productivity increase even as urban enterprise has prospered. Interestingly, the researchers from Lessons Learned found that a previous World Bank project has consolidated fragmented land holdings and that where this happened, farmers commercialized their production even though their plots were not any larger in toto than their

land-scattered neighbors. Agricultural producers universally protest the lack of formal credit for working capital or expansion.

The inability to privatize the SOEs or to put into production the larger SOEs even under government management greatly decreases the economic opportunities for Kosovo's growth in the agricultural sector. Decisions by the World Bank on a single customs regime—10% across the board for imports of raw material and farm inputs (except fertilizer), machinery and intermediate goods—with mainly finished goods and commodities coming essentially custom's free from Macedonia, Serbia and Montenegro, compounded by a 15% VAT that is rarely drawn back (customs and VAT are seen as border taxes and are responsible for the surplus in the treasury) have raised the costs of domestic production. Frequent electricity outages make production irregular, with added costs of an excise tax for diesel used in generators. Credit is not available, particularly longer-term credit, on conditions that are appropriate for the production and sales capacities of most enterprises and producers.

Amelioration

The new economic conditions are changing the perspective of enterprise owners as competition and a drop in donor funding and remittances reduced demand. Marketing training and services once offered in 2001 as a free good were lightly subscribed, but in mid-2003 were generating filled classes even though fees were attached. The good times are coming to a close and many enterprises see the need to improve performance. However, the other impediments (custom duties, application of VAT, credit availability, energy) are mostly beyond the ability of the private sector to resolve on their own—being in the purview of UNMIK, the EU, UN, and the IFIs.

4. *Were Activities Coordinated?*

There was often information sharing, but the close coordination required to obtain synergies was rarely seen. Each project had its own targets and responsibilities. USAID intended to encourage coordination via an umbrella mechanism with SC providing the coordination function for the SFS grants. SFS also worked with KBS in the producer-marketing chain to facilitate increased sales of output from the project. KBS and KBF had early close and mutually rewarding cooperation, and several of the agricultural projects work with KBS Agribusiness Specialists, sharing responsibility for the same sub-sectors. So far as we can tell, the Mission held no COP meetings with all of the contractors present. With so many different projects, all operating on different funding schedules, some contracts, some grants, with different CTOs and targets, it was/is not easy for USAID or Save the Children to coordinate the activities of all. A better solution might be a program with fewer contractors/grantees operating with broader scope.

IMPACT

1. *Assessing performance against targets*

Performance of the projects in the USAID portfolio was stronger than could be understood by measuring achievement against contract or task order targets. Many targets were arbitrary, often set impossibly high in modifications after the contractor had met earlier goals. There were too many targets, too small in scope, poorly designed, and sometimes un-measurable in meaningful

terms. As an example, KBF had a target of 167 Million Euros in deposits for ABK/Raiffeisen, set in a contract amendment after they exceed the first year's deposit target. Their ending achievement of 70 million in deposits is an excellent outcome given the circumstances of the banking sector in Kosovo, even if it did not achieve 50% of the target indicator. The problems are often the targets, not the impact generated by USAID project performance. When impact was measured against a larger framework of development indicators, the projects delivered the results.

2. *Greatest Accomplishments?*

In the confounding environment of Kosovo, USAID obtained measurable impact in the private business sector—SMEs, lending institutions, producer organizations and the building of local capacity. It is a worthy achievement with specifics documented in the following sections of the evaluation.

3. *Job Creation?*

It was far less than desired and far less than predicted. The cost of new jobs turns out to be higher in Kosovo than in many other developing economies, measured at more than 12,000 Euros per job created by Raiffeisen bank. FINCA's numbers are close to 6,000 Euros per job. For reasons that may include extended families and under-employment, new productive capacity and new financial input does not translate easily into new employees. Job creation, although difficult to measure, might have been actually higher in the agricultural programs that offered commercial opportunities to otherwise subsistence farmers.

SUSTAINABILITY

1. *Institutional and Legislative Reforms*

The projects in SME and Agriculture/Agribusiness development were not targeted at legal and regulatory reform. In listing the constraints to enterprise development, those resulting from decisions (or lack of decisions) from international bodies seem to hold first place. Agriculture is a major sector in the Kosovo economy. Over 60% of the population depends on agriculture in a major way for its livelihood. It is primarily a subsistence agricultural system but it has very strong potential to commercialize and increase employment and income. It is an astounding fact that five years after the end of the war, there is still no agricultural development strategy that drives the development efforts in Kosovo. Even USAID, which is supporting a major effort in agriculture with many projects, does not have a coherent agricultural strategy or program. The newly formed Ministry of Agriculture has a national agricultural development strategy. It is the product primarily of international consultants and in spite of being a comprehensive and rational plan, does not yet represent the views and aspirations of the agricultural sector. The UN and European Community, as well as other donors, are involved in agricultural development. There is no lack of interest or understanding of the problems, what is missing is the cohesiveness that is the product of a broad-based policy dialogue and the clarity of a national agricultural development strategy that is supported by the farmers, agribusinesses, the banking sector and government beyond the Ministry of Agriculture. Sustainability of growth in the agriculture sector is dependent on the creation of a policy framework and development implementation

strategy that has been generated by a broad-based participatory process that includes all the players (stakeholders if you wish) in agriculture sector.

2. *Are the projects sustainable?*

Some yes—the two credit programs have cash flow from lending that will continue, but the others are not sustainable in their USAID-supported form. Business development services can be woven into local organizations, such as SCAAK, or perhaps the Kosovo Export Association, the Agribusiness Association, Wood Processing Working Groups, etc. The requirement for fee charges for KBS services, while intended to promote sustainability, has likely had the opposite effect. We believe it is too early in Kosovo’s development to think that development projects can stand on their own—it will take the next cycle before sufficient income is generated to make the provided services fully sustainable.

III. LESSONS LEARNED AND RECOMMENDATIONS FOR FUTURE PROGRAMS

1. FOR THE ONGOING PROJECTS

- ▶ USAID should revisit the fee requirements that have been attached to KBS other than competitiveness services. The fees were apparently instituted for the purpose of ensuring sustainability of the services. The evidence suggests they may do just the opposite by taking money from SCAAK for certified accounting training, or extracting money for KBS from companies wishing to obtain trade and investment services, that could flow instead to local organizations such as the Kosovo Export Association. The sustainability of KBS services will depend upon supporting local institutions that have nascent capacity to furnish business support services. Given the Modification requirements for fee-extraction, past sustainability possibilities to create local institutional development have been missed.¹
- ▶ USAID should mobilize other project resources to prevent political decisions from being taken within the Ministry of Finance and Economics that would eliminate SCAAK’s certification license and ability to set standards for accountants and training for to-be-licensed auditors. The Society for Certified Accountants and Auditors of Kosovo is a \$1 million USAID investment to create and implement standards and certifications in accounting and auditing. There are USAID project financial advisors to the Ministry that could help counterbalance the maneuvering among those seeking to establish their own “certification for fee” rights.
- ▶ Recommend secondment of KBS Kosovar staff to work directly with local institutions that have capability and can provide basic services—accounting, market linkages are the most obvious candidates—to strengthen their capacity, upgrade their staff and perhaps provide a future home for ex-KBS professionals when the contract ends.

¹ See Appendix One to the KBS Chapter for an analysis of the damage fee-extraction has caused to the potential continuation of KBS-type business services.

- ▶ Should the Construction sub-sector be of interest to a future USAID program and should the narrow KBS focus on architectural and engineering services and construction contracting be reconsidered? A broader scope, including construction materials, and larger charter would establish the base that would help any new project achieve rapid progress.
- ▶ Re-examine the charter given to KBS agribusiness and consider a concentration on two major products from their eight-product portfolio. Working up and down the product chain from fluid milk and yogurt, and eggs, leads naturally into larger agribusiness clusters of dairy and poultry. By deepening the KBS involvement in these products, it would hasten the time when a cluster approach could be initiated that would have wide-reaching impact on agriculture/agribusiness and real on-the-ground results.

2. FOR CONSIDERATION OF NEW MISSION PROJECTS AND PROGRAMS

- ▶ The most productive services in Kosovo at this point in the development of their private sector are those that support one integrated network of related producers, from beginning to end with all their inter-activities—that is, the cluster concept. USAID has experimented with other units of concentration: one-off, broadly based enterprise assistance, truncated sub-sectors, product lines that do not have responsibility for the entire value chain. The results are less, inevitably, than could be established under a beginning to end, cluster approach. The lesson is that fewer targets, clusters, contractors, and projects are better than more. More focus, coordination and integration needed.
- ▶ Private sector development requires fully integrated actions from:
 - Business Development Service Providers;
 - Enterprise credit providers;
 - Agribusinesses; and
 - Producers organized into associations or as processor-suppliers to create inputs for the processing industries.
- ▶ The business development specialists can be separated from the industry or cluster technical specialists. If the business development specialists were organized into a center that supported all cluster business requirements by drawing first on local capacity (by tender), this would allow a system in which local consultants emerge and are strengthened to take many of the enterprise strategy, planning, trade linkages, marketing assignments. If USAID continues to provide all business development services under an umbrella contract, local capacity will not develop.
- ▶ Credit programs are needed for cluster development. The upper end of the enterprise chain will have access to the formal banking system. The lower end of the chain -the producers, assemblers, processors of feed, small dairy owners- are unlikely to meet the borrowing requirements of formal banking. In this instance, a directed credit program might be considered to support those activities not in the purview of commercial banks: longer term, rural, seasonal, working capital, imported inputs, agricultural production, etc. FINCA has the base and the lending practices to be able to provide this specialized program credit without subsidy. With a small equity grant, FINCA's capital base would

become sufficient for it accept deposits and thus mobilize rural savings to greatly increase its lending base.

- ▶ Agribusinesses and producers should be joined in a cluster and assisted to work together for their mutual benefit. One such cluster could be the dairy-beef-poultry-feed (DBPF) cluster, recommended as USAID's next generation agribusiness development project. There are several important reasons to select DBPF. It is a core mainstream component of the agricultural sector with strong backwards and forward linkages and wide geographic distribution. These are all products with high consumer demand for a steady supply of good quality consumables. These products all require technology, inputs and labor and there is economic activity generated all the way from the farm to the consumer making a retail purchase. Investments in this cluster arguably will have a stronger effect on economic growth in the agribusiness sector than other possible investments.

The development of feed grains –maize, sunflower, soybeans- and alternative forage and fodder crops expands potentially profitable farming opportunities well beyond milk and poultry producers. Small and medium feed grain producers supply feed mills that prepare the premixes for dairy and poultry producers. Dairies, of course, provide a wide variety of consumer products with high value-added processing. The bull calves and heifers not saved for milk cow replacements are grown out for beef and the cull milk cows and herd bulls are also utilized for beef. The hides are a byproduct with good value-added processing and manufacturing potential.

On the poultry side there are both eggs and broilers with both fresh and processed potential. Input suppliers, the feed producers and the feed millers will also benefit in this cluster as will the fuel suppliers and transporters of inputs and products. Currently, about 50% of the eggs, 90% of the broilers and 60% of the beef are imported. The import substitution potential is very high. Financial institutions that provide commercial and producer-type credit also would be participants in the DBPF cluster.

- ▶ USAID should ensure that project oversight of a new undertaking is based upon a collaborative, “partnership” model of interaction with the field-based contractor. The projects reviewed have had several different project oversight models, beginning with command and control, migrating in some instances to a “gatekeeper” mode, in which responsibility for changes to improve project performance are expected to emanate from the contractor. In KBS, this showed itself in continuing to accept Modification specifications for sustainability and fee-based services, potentially conflicting requirements. It was also apparent in the insistence by USAID Project Officers that the contractor was responsible for proposing changes to Modification targets that were either impossible to achieve, or consumptive of resources without redeeming merit.² Indeed, this is a contractor's responsibility. But in the absence of the contractor addressing this issue, the project would have been improved had USAID clearly signaled the need for new solutions, if necessary informally proposing changes that would more fully measure project impact. The collaborative partnership model of project implementation, in which USAID and the contractor cooperate to achieve better results, is on display in other projects within the same office and is well established within USAID/Kosovo's

² See Appendix 1 to the KBS Evaluation for an assessment of Task Order Targets for the project.

management arsenal. It should be made a major component of any new program that builds upon the thoughtfully-conceived foundation of the 10 projects reviewed.

EVALUATION OF THE USAID/KOSOVO SME AND AGRICULTURE/AGRIBUSINESS PROGRAMS

INTRODUCTION

The purpose of this evaluation is to assess selected activities performed under USAID Kosovo's Strategic Objective 1.3, Establishment of an Economic Policy and Institutional Framework that Facilitates the Recovery and Expansion of the Private Sector-Led Economy. Specifically this involves the ten projects working in the SME and agriculture sectors. The Intermediate Result 1.3.5 An Expanded Formal Small and Medium Sector targets overall growth of the private sector by job creation, access to credit, income generation, services, business skills, increasing tax revenues, and other benefits. These activities were created during the period immediately following the war in 1999 and some activities will continue through September 2004.

EVALUATION OBJECTIVES

1. To conduct an evaluation of USAID's agricultural/ agribusiness assistance.
2. to identify and recommend the most promising areas and activities that hold the most promise for stimulating agricultural production and agribusiness development with attendant increases in broad-based income generation and employment.
3. In addition the evaluation should look at strengths and weaknesses, coordination.
4. USAID prescribed that among other things, the following questions should be asked:
 - a. Were activities properly targeted?
 - b. What are main strengths and weaknesses?
 - c. What are the major constraints?
 - d. Is assistance achieving desired results?
 - e. What are the greatest accomplishments?
 - f. How have job creation and incomes been improved?
 - g. Are reforms being carried out?
 - h. Did projects build local capacity?

METHODOLOGY

There were two evaluation teams operating in tandem to examine the SME and Agriculture sectors. Each team had three international consultants and one domestic consultant. In this report all team references are in the singular as the work overlapped considerably

Limited by a three-week time frame, the Evaluation Team employed a very simple and straight-forward evaluation methodology. The team reviewed the primary documents available on each project, including scopes of work, contracts, grants, periodic progress reports and relevant studies.

The team interviewed a long list of individuals, identified in Volume Two. They included:

- ▶ USAID staff
- ▶ Consultants with implementers--contractors and NGOs.
- ▶ Government officials
- ▶ Farmers
- ▶ Small businessmen in various non-agricultural sectors, many in construction.
- ▶ Agribusinesses
- ▶ Representatives of other donors

With such a short time period the team decided to conduct some surveys in order to gather information from as many “clients” of the Kosovo Business Services Project and those clients of the Small Farm Support Project who coincided with KBS. The surveys enabled the team to obtain the views of a much larger group of participants than if they only utilized the direct interview technique.

The team conducted a round of interviews, traveled throughout the country to visit companies and farms and farmer associations. Following that, discussions were held with USAID to review the teams initial findings and to discuss the direction the team was going with recommendations for future planning. Then the team went back for a second round to complete the information gathering and to flesh out the concepts emerging for a new program design. The last five days were spent writing the report and reviewing it with contractors, government officials, other donors and USAID. A draft final report was submitted to USAID on departure. USAID made comments on the report and the team incorporated those comments into the final report.

KOSOVO BUSINESS SUPPORT PROJECT (KBS)

KBS TASK ORDER HISTORY

KBS Task Order # PCE-I-806-97-00015-00 was signed with Chemonics International, Inc. under a SEGIR umbrella contract with USAID in October 2000, to end on September 30, 2002. KBS was to be complementary to the Kosovo Business Finance Project, contracted to Deloitte-Touche-Tohatsu Emerging Markets, Ltd. and initiated in May 2001. The co-positioning of two projects, business development services and loan financing, was earlier used by USAID in Bosnia Herzegovina. The cooperation between the two projects was strong in the early months and years, particularly where co-located in a minority area. Collaboration between the two projects was mainly evidenced by KBS referring 20 enterprise clients each month to KBF for loan consideration.

The project was initiated under the then Mission (2001-2003) Strategic Objective 1.3 Establishment of an Economic Policy and Institutional Framework that Facilitates the Recovery and Expansion of the Private Sector-Led Economy, and Intermediate Results 1.3.5 An Expanded Formal Small and Medium Enterprise Sector. The original Task Order called for the delivery of general business services to Small and Medium-scale (SME) enterprise, excluding retail and start-ups. As begun, there were three types of professional teams, each headed by at least one expatriate:

- ▶ General business development team;
- ▶ Accounting and finance team; and
- ▶ Marketing team.

The project was headquartered in Pristina and offered two different types of business services: individual enterprise consulting and broadly-based business services training.

Beginning in July 2001 a short-term consultant, Debra Walhberg, conducted a study of Trade and Investment services (T&I). She became the project's third Chief of Party, in March 2002. By November 2001, the fourth KBS team, Trade and Investment, was operational. In February 2002, KBS, at the direction of USAID, opened an office in one of the Serb minority areas of Kosovo, located at Zvecan, which included representatives from the KBF project. This location has included, from its inception, an international expatriate as a Business Development Specialist. From Zvecan, KBS served minority businesses throughout Kosovo with a team of local Kosovar Serb relationship managers.

In July 2002, the Agribusiness Development and Competitiveness Modification #7 was signed, adding funds and specifying directed assistance to selected product lines within agriculture and agribusiness. It called for an assessment leading to a Work Plan to identify 3-5 product lines (also called sub-sectors) to be supported. This modification extended KBS through December 2002. A subsequent modification extended the Task Order through September 2003.

Also in August and September 2002, at the direction of USAID, KBS opened two satellite offices in minority areas, Strpce and Lapje Selo, where KBS had been working but did not have an on-the-ground presence.

In early 2002, with the formation of the Society of Certified Accountants and Auditors of Kosovo (SCAAK), KBS was directed to provide training to accountants and auditors leading to certification. This resulted in the generation of training materials and courses, and certification exams to support the legal and regulatory reforms (under the Economic Reconstruction Project) that called for certain enterprise documents to be certified, and established audit requirements to be carried out by certified auditors. This special activity is reviewed below.

On December 19, 2002, Modification #10 (Competitiveness) was signed superceding most past Task Order instructions. This Modification:

- ▶ Extended the project through September 30, 2004;
- ▶ Added explicit targets for certified training for accountants and auditors;
- ▶ Added 2 non-agribusiness product areas in contract year 3, and 2 non-agribusiness product areas in contract year 4;
- ▶ Added 2 additional agribusiness product areas beginning in contract year 4 (these in addition to the 6 product areas selected as a result of Modification #7), plus a timeframe for cluster review and action plans for the product areas; and
- ▶ Established fee-for-service requirements for General Business Services, including marketing, trade and investment, and certified accountant training, not including enterprises in the selected product lines.

KBS completed an Agribusiness Assessment and Work Plan that identified the product lines to be assisted. The Agribusiness components for the selected product areas began in October 2002. A non-agribusiness Cluster Review³ was completed in March 2003, a Wood Processing Action Plan completed in June 2003, a Construction Services Action Plan in July, both approved by USAID. With the parameters of the work to be completed under Modification #10 established, KBS completed an internal reorganization in July 2003. KBS initiated action on the selected non-agribusiness product areas in August 2003. The organization of KBS as of March 2004 is:

- ▶ Business Services Unit: business consulting, business accounting, marketing, (fee-seeking);
- ▶ Accounting and Finance Unit: general business accounting and certification accountant and auditor training (fee-seeking);
- ▶ Trade and Investment unit (fee-seeking);
- ▶ Non-Agribusiness Competitiveness
 - Wood Processing Team (wood doors and windows and wood furniture);
 - Construction Services Team (architect and engineering services and construction contracting);
- ▶ Agribusiness Competitiveness; and
- ▶ Zvecan minority business development office.

³ Peter Bearse/KBS, "Organizational Clusters to Foster Kosovo's Industrial Development", March 2004.

A. GENERAL BUSINESS DEVELOPMENT SERVICES AND TRAINING

Background for General Business Development Services: business and action plans, enterprise accounting and management support, marketing plans, trade and investment.

There is a great deal to be considered in assessing the activities of the general business development services of KBS. This set of activities was the original project charter and continues to be an important component of the project. The team set about to understand what has been accomplished, compared to the targets for the impact of assistance to enterprises in Kosovo. Interviews with KBS staff were supplemented by visits to over 15 KBS clients and a survey, conducted among 20 KBS core clients, assessing the impact of each specific service and providing formal customer feedback. KBS searched its extensive database for information that had not previously been extracted or reported in the way requested. Combining these data sets, the team was able to understand enough to make reasonable assessments of the project's contribution to the development of Kosovo. Our draft report was reviewed by USAID/Kosovo. Detailed responses to questions raised by Mission Review are inserted within the body of the text, while two overarching questions are answered in the final section of the report.

Implementation

1. General factors affecting economic development assistance

The circumstances of Kosovo in 2000 were, if not unique, then highly unusual in the field of development assistance. The activities of KBS must be considered in the context in which they were delivered. The surrounding environment, the socio-political situation and the economic policies and initial internal sophistication of the targeted sectors play a large part in determining the type of support needed and its impact on the targeted beneficiary.

In the case of the nascent private sector economy of Kosovo, the starting competitive position of the private companies, the institutional and business environment and the overall political situation played an important factor in the shaping of their future development.⁴ Shown below are the main factors, in addition to the general economic and institutional environment, that play an instrumental part in determining the type of private sector needed and the affect of such assistance on the ability of private enterprises to generate economic growth and create jobs.

2. Initial starting position of the private companies

Until the late 80s, most of the SOEs in Kosovo existed as independent entities and had a high degree of self-governance. This relative economic freedom was largely taken away during the early 90s, when most of them were absorbed into other enterprises from Serbia proper. The

⁴ The most influential determinant is the existing legal, financial and institutional environment:

- Economic situation and future outlook;
- Existence of well developed financial networks providing affordable access to different financing – short-term, trade, investment, leasing;
- Legal environment, rule of law, ownership rights protection, red tape; and
- Institutional framework, certification, testing, quality control, standards, fair practices, enforcement.

Those have been well addressed in recent evaluations and will not be covered here.

Kosovo based enterprises were mainly producing raw materials and components for other companies in Former Yugoslavia and most of their external relations were managed from Serbia.

2.1 Experience and tradition, technological skills and knowledge

The 1999 conflict interrupted the normal functioning of the existing SOEs. Most of them failed to restart operations afterwards or are operating at a minimum. Therefore the natural transfer of technological knowledge, managerial experience and production skills from the existing industrial enterprises to the newly emerging private sector, that was characteristic for other Balkan countries, could not happen on such a scale in Kosovo. Further to this the existing vertical and horizontal technological links and industrial cooperation were broken. During the turmoil many experienced professionals left Kosovo and technical documentation and specialized knowledge were therefore lost.

2.2 Level of in-house business skills

During the Forced Measures Government in the 90s, most Albanians were excluded from reaching managerial positions in the SMEs in Kosovo. The top management was predominantly Serbian. Most private companies in Kosovo during the 90s functioned as small, out-of-your-pocket traders, with no experience in managing a sizeable, industrial based business. This resulted in a severe gap between the existing skills and those needed to run a growing production enterprise, especially in a modern, open market, highly competitive environment. The existing educational and VET institutions were and are still not able to fill in that gap. In addition the huge influx of donor grant assistance brought in products for free and drove higher the cost of labor and the price of land and buildings. This put the local industry at a disadvantage to its more cost efficient neighbors.

2.3 Access to markets and information, professional services

When the reconstruction and recovery actions started in the second half of 1999 the local economy was cut off from its traditional markets. There was no reliable market information and businesses had to rely on word-of-mouth and personal contacts. Professional services were hard to obtain in order to augment the knowledge base of the private enterprises.

2.4 Customer perception

Kosovo's economy was traditionally oriented towards production of raw materials and manufacture of components and semi-finished products. Most of the consumer and end-user products to which local consumers were accustomed, were supplied by companies based in the rest of former Yugoslavia. The Slovenian made products were perceived as most desirable, followed by certain Croatian and Serbian, etc. Kosovo made end-user products were somewhere at the bottom of the list. After the conflict the market was quickly populated by well known and established imported brands. Currently the local private manufacturers have to compete on the domestic market against some of the best known brands from the territory of former Yugoslavia. This puts the emerging local manufacturer, even when its quality is comparable, in front of the unpleasant choice of losing sales or selling at a discount.

3. Perceptiveness of target beneficiaries of assistance

3.1 Understanding of how markets function, understanding of competitiveness

Prior to 2000 private businesspeople had little or no exposure to a functioning market economy. Therefore they had not had the chance to acquire a real understanding of how a modern economy functions, let alone sophisticated understanding of how to develop a competitive position. This is not an easy barrier to overcome on the road to achieving a prospering private sector. - Ford Motors also seems to be struggling with the notion of competitiveness too.

3.2 Dependence of company, sector income on competitive production, marketing and service

During the early days of the “Reconstruction economy”, building sophisticated competitive skills with the private manufacturing sector hardly seemed a priority. What mattered was getting an NGO contract and importing whatever was required. Speed was of the essence, not quality. Most companies made money from imports and reconstruction. The profits of the local entrepreneurs did not depend on their competitive position in the free market and as a result business planning, financial management, marketing skills and customer service were considered secondary.

3.3 Readiness to embrace change

The effectiveness of assistance depends also on the readiness of the target group to adapt to the new market realities, to embrace change, absorb outside technical and managerial knowledge and implement recommendations. Again the environment throughout most of the duration of this program has hardly been conducive to the spreading of new managerial approach and business practices. From a local cultural point of view, the acceptance and implementation of outside advice and recommendations has often been equaled to admitting incompetence. The owner was expected to know it all and know best. All these factors, coupled with the limited capacity of local companies to absorb outside knowledge and implement changes was a serious impediment to successful and widespread acceptance of new business models and management practices.

4. Are activities properly targeted to achieve objectives?

Accounting

One of the core, original activities of KBS has been the provision of access to new and better accounting practices, in line with the International Accounting Standards (IAS), accounting training, installation of accounting systems at client companies and professional advice. The objective was also to broaden the understanding of accounting, especially with regard to cost and managerial accounting and create a significant number of private companies with improved financial and managerial systems. To date 496 accounting systems, with training for their related client employees, were installed, out of 520 target indicator for the life of the project. This is good progress to date, and the original indicator figure is likely to be exceeded. Out of the 20 surveyed KBS clients 15 have used this service. Of this total 7 or approximately 46% judge it very useful. The other users reported the assistance to be partially useful or not useful for their

purposes. The survey did not obtain reasons for all of the responses.⁵ All in all this seems to have been a timely and much needed support and it also set higher standards for the emerging local professional service industry and provided the broad business community with a useful benchmark. In addition to the client employees trained, there are also a number of local KBS professionals who are now fully trained and qualified to continue to provide this service. From these findings, the conclusion is that the Task Order objectives, related to this activity have been fully met.

Marketing

One of the crucial missing skills within the private sector in Kosovo is marketing. Many companies at the beginning of the period did not have even a rudimentary concept of modern marketing methods, let alone possess the skills to allow them to compete successfully. The marketing activities of KBS were designed to address the emerging needs of the broad business community and to provide a large number of enterprises with basic marketing concepts and an outline of necessary marketing activities in a competitive economy. Those objectives appear to have been well addressed and met. Out of a total of 520 marketing plans to be developed over the life of the project 496 have been developed to-date. The original objective is likely to be exceeded.

The marketing training is divided broadly into two categories: basic (fundamentals) and other (specialized methods). The training materials reviewed, appear to be well prepared and suited to the original purpose. Discussions with some of the local KBS trainers left a very good impression. The initial take up of the services seems to have been difficult due to the specific circumstances in Kosovo during 2000-2001. The interest among clients however, has increased greatly ever since. The most important aspect of this activity lies not as much in numbers as in the beginning change of mentality, which is already evident among the private enterprises in Kosovo. This will continue to be a crucial functional area for the local economy and there will likely be an even greater demand for marketing services in future. It is reasonable to expect a gradual shift from basic marketing concepts to more sophisticated marketing approaches and therefore a different client-driven demand pattern in the future. In short, the marketing activities appear to have been a very successful, timely and relevant part of KBS. In the next period however there will be a demand for more focused and intensive, enterprise specific marketing services and those might be better addressed through a more direct and concentrated approach.

Strategic plans

According to the task order KBS had the following quantitative targets:

Effective strategic business plans	ATD: 623	LOP: 680
Operational improvement strategies	ATD: 623	LOP: 680

It is really difficult to make sense of this objective and understand the basis on which those quantitative targets were set. If KBS were to produce 680 comprehensive and effective strategic business plans (according to the common industry understanding of a “comprehensive strategic

⁵ The final section of the KBS Evaluation presents the background and appropriateness of the client survey in more detail.

business plan”) it would not be an exaggeration to say they would have needed the whole of McKinsey&Co to complete the target. A simple and basic business plan was probably intended. Whatever the definition of strategic business plan, KBS worked with companies to improve their performance, and achieve the required numerical targets.⁶

The development and implementation of comprehensive strategic plans require a long-term intensive support to the client. The concept could be very useful during the 2004-2008 period, but the quantitative targets should be set taking into account the effort needed for such major interventions and the available resources and skills. The finding is that a useful and much needed service for transforming the emerging private companies into competitive entities has been in part misdirected. Through what appear to be arbitrarily selected quantitative targets, the project has been engaged in a number reporting frenzy, instead of being meaningfully used in a reasonable number of selected industries or enterprises with a high growth and employment generation potential.

Business plans/financing

Throughout the period under review the private companies in Kosovo had a great need for outside financing, in order to be able to expand their operations and take advantage of available opportunities. There was however, hardly any understanding of the credit process, how banks approach company credit and the underlying need for solid business plans. The advent of the KBF and the supporting KBS business plan development service is an excellent example of an integrated, problem solving oriented approach, addressing a crucial need. In the early days of the two projects, there was clear coordination as KBS brought its best clients to KBF for consideration. In verbal instructions from the CTO, KBS was required to refer 20 clients per month to KBF, numbers well beyond any meaningful KBS-client relationship. The conclusion is that the initial targets have been achieved and this is a very successful component of the program.

A typical example is Molika, a woodworking company, located just outside of Pristina. They had some old, low capacity equipment for the production of heating briquettes, from wood refuse. With KBS support they identified a larger market, found better, more productive equipment and obtained a KBF loan to finance this project. Currently they operate at two shifts and this new briquette production is the best performing part of the company.

This success of the joint KBS/KBF activity is evidenced by the reported 12.7M Euro in loans extended by KBFF/RBKO to KBS clients and by the first international venture capital financed, “Greenfield” investment, realized with the active participation of KBS. The total value of the venture capital financing, obtained by the KBS client Kondiroli from an Austrian venture capital investment fund, is 1.2M Euro and it sets a new standard in enterprise financing in Kosovo.

⁶ An oft-repeated concern throughout this assessment is the relationship between the small-box targets established by USAID and the impact of KBS assistance. It is not that KBS did not do its job, just that the priorities and direction were significantly affected by USAID’s numerical indicators that were in some cases irrelevant to the tasks and in others, overly detailed. The good news is that KBS fulfilled most of the USAID targets. But KBS development impact requires assessment by other criteria. The team has attempted to do that.

A further indicator of quality and relevance of the service is that RBKO has continued to extend loans to KBS clients after its full acquisition from KBF. An important effect of this activity has been the spreading of business planning models and skills among the larger business community. KBS services also set a standard for the provision of such services in Kosovo. Certainly, there might have been room for some improvement and for more aggressive expansion of those services. For example, in addition to the approaches KBS made to Pro-Credit and the ABU, it might have included other banks, donor-financed lending programs and even microfinance institutions. It is concluded that this activity has met its objectives and has contributed to the achievement of the overall strategic objectives as set forth in USAID's 2001-2003 strategy.

Trade and Investment

Trade and Investment linkages have been introduced as an element in the KBS portfolio of business services. The performance indicators in Modification # 10 were as follows:

	Achieved	Target
Trade and investment data on enterprises	ATD: 9 000	LOP: 9 500
Number of linkages	ATD: 682	LOP: 765
Investment resulting from linkages (Mln. Euro)	ATD: 23.7	LOP: 77.9
Number of B2B events	ATD: 21	LOP: 27
Number of Trade Fairs	ATD: 11	LOP: 27
Number of Kosovar Businesses participating	ATD: 839	LOP: 1 640

See the detailed analysis of KBS Task Order targets in Exhibit One of Volume 2 for consideration of the importance of the final-year targets, a case of where "more" is clearly not "better". The early facilitation of business linkages and the organization of specialized B2B events appears to have been a very much needed, timely and useful support provided by KBS to the Kosovar business community. Some of the original quantitative targets seem likely to be achieved by the end of the project, while others will not be met. Whether the stated objectives will be met, however has as much to do with the way those targets were set, as with the efforts put into their realization. Although there could be certain cavils on the trade fairs selected and the organization of focused B2B, the Trade and Investment Linkages should be judged a successful activity. It meets the original spirit of the USAID Strategic Plan and it has contributed greatly to expanding the business linkages, broadening the trade horizons and providing the Kosovar business with new and promising business opportunities. Exhibit 2, the "KBS Core Clients Survey" supports this judgment.

The provision of the accompanying "Trade Fairs Participant" training also helped to increase the awareness of the local business community of the trade opportunities and to provide local businesses with much needed skills. This has certainly been relevant support in light of the strategic objective of integrating Kosovo into the regional and international economy. There is likely to be a continued demand for such services in the future, with a focus shifting more to specialized, industry-or-market-specific activities.

Minority office

The Zvecan office was established in February 2002. Two additional outreach offices were later established in Lapoje Selo and Shtpce. The original objective of the Zvecan office was to

provide General Business Services in the Serb minority areas. The implied goal was to contribute to the economic recovery and development of those areas by assisting the local business communities to expand their business and create jobs. It was also hoped that this would create new business opportunities and facilitate the process of reintegration of the Serb minority. Several Evaluation Team visits were paid to Zvecan office clients and held with the local Serb RMs. The office seems to have been very active and their work has definitely contributed to the achievement of the original and modified objectives.

As an example, DTS Kondi is a small, Kosovar Serbian candy manufacturer, located in the village of Gracanica. They produce jelly and Turkish delight. They were able to organize this production with KBS support. Further they had the chance to participate in several B2B and trade fairs, and as a result they currently do approximately 50% of their sales from linkages made during these events. During the Belgrade Trade Fair, they established contact with a wholesaler from the Czech Republic and had a preliminary agreement for the export of 30 tons of products/month. Unfortunately this was well above their capacity and as the company could not obtain additional financing at that point of time, this excellent opportunity was missed. They did not give up though. Currently, again with KBS support, they are trying to expand their sales in Kosovo and are also pursuing an expansion of their business through the addition of praline production.

As a major achievement, it is possible to identify the beginning of an attitude change among the Zvecan office clients. Many of them are now keen to link their businesses to the rest of the Kosovar business community. The Zvecan office, with the support of the rest of KBS, has successfully assisted their clients in establishing inter-ethnic linkages with companies from the rest of Kosovo. To date there are 16 such linkages reported with a total of 138,000 Euro in trade agreements, mainly as a result of several inter-ethnic B2B events organized by KBS. In addition the Zvecan office has been very successful in helping local construction companies take part in donor and PISG financed tenders and has provided much needed advice and linkages to the relevant institutions.

An example is Kamilija, a construction company from Leposavic, which has received Zvecan office support in obtaining much needed financing for road construction equipment, attended the Nurnberg Fair with KBS support, identified a potential supplier, negotiated and structured the transaction. As a result the company increased its capacity and is currently bidding for PISG funded road maintenance contracts.

The activities of the Zvecan office, although not included as an objective in the original Task Order, have been very much needed, well targeted and fully consistent with USAID's strategic objectives for both 2001-2003 and 2004-2008. It would seem prudent to continue some manner of interethnic business linkage program in the future.

5. Main strengths and weaknesses of the project

Strengths

Timely – KBS started to address crucial business needs, at a point in time when other donors were concentrated only on reconstruction. This was one of the few projects in economic

development that was oriented to laying the foundation for faster economic growth in the future, rather than just dealing with the realities of the day.

Relevant – KBS addressed crucial knowledge gaps and aimed to provide the local business community with much needed skills and new business models, that are critical for the revival of the local economy and thus for the future of Kosovo.

One point of contact – There were many NGOs that were trying to address similar needs. Most of them had very limited presence and outreach and often disappeared as quickly as they appeared. Just an example, in 2001 it took the “Private Sector Development” section of the Department of Trade and Industry over four months just to identify all “private sector service providers” and present them in the “Roadmap for Private Sector Assistance”. In contrast KBS had a well known presence throughout the period.

Weaknesses

Extensive Business Assistance –In order to concentrate on the needs of your customers you must have the flexibility to do so. The fulfillment of target indicators often made KBS unable to concentrate on the specific needs of the individual enterprises in the emerging private sector. That is, it sometimes lacked the necessary depth of approach—an intensive approach-- needed to have the desired impact on the client operations. The finding is that the extensive business development model, understandably important in early years of reconstruction, in late periods distracted the staff from the original USAID strategic objectives. Had they been able to concentrate on specific high-growth enterprises, instead of the broad spread required by the reporting indicators, there could well have been higher impact in terms of economic performance and job creation.

Less than full coordination with other donors and programs – There was coordination with other projects but perhaps not all that there could have been with other donor activities in the same field. Coordination was stronger in agribusiness activities than enterprise services but the finding is that the coordination undertaken was consistent with the objectives that KBS was pursuing.

Lack of a formal system for client feedback - Regular analysis of the client satisfaction with the services provided would have been useful. Although there seems to have been informal feedback and analysis, formal surveys should have been carried out on a regular basis and the results disseminated. That could have served as a solid basis for the fine-tuning of the service package and for improving the quality of the services and making them more relevant to the customer needs.

6. Major constraints? How can constraints be ameliorated?

Below is a brief table summarizing some of the major external constraints, the situation at the beginning of the KBS project and currently, and its impact of the efforts to support the emerging private sector.

Factor	Beginning situation	Impact on assistance	Current situation
Starting competitiveness position of assisted enterprises (sectors)			
Experience and tradition, technological skills and knowledge	Loss of tradition, skills and knowledge	Negative	Some more sophistication. Still lagging far behind
Level of business skills	Lack of essential skills	Negative	Some improvement, still lacking essential skills
Access to markets and information, services	Little, lack of market information	Negative	Improving
Access to external financing	Almost none		Short-term available, no long term
Customer perception of domestic products	Low, preference given to imported products	Negative	Somewhat improving, needs major change
Perceptiveness of target group			
Understanding of how markets function, understanding of competitiveness	Low level of understanding, lots of misconceptions	Negative	Competition becoming a major factor
Dependence of beneficiary's income on competitiveness	A lot of income generated from reconstruction, donor money and diaspora remittances	Reduces readiness to face competitive realities	Degree of dependence of company income on local production increases, likely to become a major factor in future
Readiness to embrace change	Low	Negative	Medium

Enterprise managers reports these constraints:

- Customs and tax regimes that give preference to imported products while charging 26.5% (customs plus VAT) for machinery and raw materials required for production;
- The inability to obtain credit on terms and conditions applicable to their production environment; and
- Lack of energy (electricity) in rural areas which prevents using machinery or entails costly diesel generators.

7. Have activities been well coordinated with other donors and other USAID projects and focused on achieving mutually agreed objectives?

There is clearly coordination at the program level between USAID and the EAR and undoubtedly other major donors. At the project level, the bright spot was KBS working cooperatively with KBF in earlier years. FINCA reports no direct cooperation with KBS. The SFS project had and continues to have cooperative activities with KBS agriculture. In one instance, for vegetable processing, cooperation ended when the new competitiveness initiative

generated by Modification # 10 did not include the activity and KBS stopped supporting the processing company, Progress. Coordination is usually a positive outcome if there are resources that can help deliver more than one output. The Regional Enterprise Activities of the EAR might have provided some value added, particularly in regions well away from the Pristina headquarters, but did not appear to be a point of focus.

8. Have the project activities been implemented efficiently and are they cost effective?

At our request, KBS divided the funds available to the project, not including home office costs, but to include all of the project's supporting project infrastructure—office space, vehicles, management, etc.-- and apportion it to the various project activities. General Business Development Services (including enterprise accounting, support and marketing), Trade and Investment and the minority office. This is the estimate:⁷

General Business Development Services	\$5,300,000
Trade and Investment	\$1,000,000
Zvecan Minority Area Office	\$ 851,000
SCAAK (considered below)	\$ 861,000
Agribusiness (considered below)	\$1,695,000
Wood Processing and Construction	\$ 750,000
Total Estimated Field Budget	\$10,459,000

GBS, T&I and Zvecan add to \$7,151,000, which is 68% of the total field budget. The conclusion is that USAID received value for money for this portion of the project, which was a strong producer of benefits and cooperating, growing business clients.⁸

Impact

1. Is the assistance provided achieving the desired results as set out in USAID's strategy for Kosovo for 2001-2003, SO 1.3 and IR 1.3.5, including objectives and benchmarks set forth in contract with the implementing firm?

A detailed analysis of the KBS Task Order and Modification Targets has been presented in Discussion Paper No. 1, "Assessing the Development Impact of KBS", presented as Exhibit1 in Volume II. Many of the targets were not consequential in determining impact. Others were sound concepts, but were measured in ways to provide no useful indicators of success.⁹ In the absence of useable measurements from the Task Order Modifications, the evaluation team has generated a new set of development impact indicators and attempted to find KBS data, often newly created from their own data base, to apply to them.

⁷ See Exhibit 5 in Volume 2.

⁸ Modification #10 required fee charges for GBD services, other than those supported by Zvecan. The fee requirement is considered below.

⁹ An unanswered question is why the home office of the contractor, Chemonics International, did not review the targets, particularly of Modification #10, and provide formal feedback to the Contracting Officer on either, in some cases, the impossibility of reaching the goals or, in others, the futility and misplaced resources in providing the required data.

The table below summarizes the main indicators, the data requirements and the relevant Exhibits, where detailed information is presented have used the data referenced to provide the conclusions contained in this report.

General Business Development (enterprise accounting, business and action plans, marketing,)	Data Requirements for Indicators
Revenues and Profit growth from assisted enterprises	<ul style="list-style-type: none"> • KBS client survey of revenue & profit for 24 months – Exhibit 3.1, 3.2, 3.3 • Definition of client base – Exhibit 4
Satisfaction with services provided	<ul style="list-style-type: none"> • Survey of clients (evaluation team) – Exhibit 2
Business Development Services related to budget	<ul style="list-style-type: none"> • Relate <u>services</u> to <u>funds available</u> to field team – Exhibit 5
In later years, willingness to pay for services	<ul style="list-style-type: none"> • KBS statistics on payments by service type Exhibit 6
Jobs created	<ul style="list-style-type: none"> • KBS statistics – Exhibit 3.1, 3.2, 3.3
Trade and Investment Linkages (Marketing Team, B2B meetings, trade fairs, foreign direct investment)	
Investment resulting from T&I initiatives	<ul style="list-style-type: none"> • KBS statistics on investment - Exhibit 7
Trade agreements results from T&I initiatives	<ul style="list-style-type: none"> • KBS statistics on trade agreements – Exhibit 7
T&I services related to budget	<ul style="list-style-type: none"> • Relate B2B, Trade Fairs and other <u>services</u> to <u>funds available</u> to field team – Exhibit 6
Satisfaction with services provided	<ul style="list-style-type: none"> • Survey of clients (evaluation team) – Exhibit 2
Willingness to pay for services (In later years)	<ul style="list-style-type: none"> • KBS statistics for specific services provided
Access to institutional credit	<ul style="list-style-type: none"> • Credit obtained assisted by KBS Exhibit 8
Inter-Ethnic cooperation	
Services in minority areas or for minority clients	<ul style="list-style-type: none"> • Services by type and time period provided to minority clients - Exhibit 9
Minority client satisfaction with services provided	<ul style="list-style-type: none"> • Survey by evaluation team – Exhibit 2
Inter-ethnic Linkages	<ul style="list-style-type: none"> • KBS and evaluation team research – Exhibit 10

The assistance provided by the KBS General Business Services has contributed meaningfully to the achievement of the desired results as set out in USAID’s strategy for Kosovo for 2001-2003, SO 1.3 and IR 1.3.5. There have been a large number of trained local professionals, hundreds of accounting and marketing employees received basic and more advanced training. New business skills and concepts were introduced and there is a noticeable change of mentality among the local community, not least due to the effect of KBS activities. The results from the T&I and business plan development/financing, trade linkages, trade fair and B2B results, bank financing and enterprise performance and job creation, are judged to have significant development impact, particularly given the extremely difficult environment in Kosovo throughout the analyzed period.

2. What are the main accomplishments from these activities?

Accounting

The great accomplishment is the active part this training played in the introduction of the IAS. As a result Kosovo is on its way to adopting what may be the most modern accounting standards of all neighboring countries. The high number of businesses where accounting and financial systems have been installed and the number of people who were trained, created a critical mass

needed for the adoption of much needed new approaches to accounting and financial management.

This support also played a large part in establishing a benchmark standard among the Kosovar businesses and helped develop a market for this professional service. The amount of fees collected and the existence of competing, private sector providers of accounting software, training and advice shows that this sector is well on its way to sustainability and would require little or no additional outside support, as far as those activities are concerned.

Marketing

The greatest accomplishment in our opinion is the already visible change in mentality among the local businesses. More and more realize that marketing is an integral part of the value added chain in every business. Kosovar companies are now trying different marketing approaches and the first results are clearly visible. There is also a group of local professionals, well equipped to carry out basic marketing training in the near future.

The challenge that will most likely be posed in the coming years is how to successfully deliver simultaneously, broad based basic marketing training to the many hundreds of SMEs in Kosovo and provide increasingly sophisticated, corporate like, consulting services to a selected group of high growth potential enterprises and industries.

Strategic plans

The wide outreach given to new concepts and approaches to business management was an essential element in attitude change. A more long-term, in-depth approach will be needed in the future for each company attempting to respond to increasingly competitive markets.

Business plans/financing

This service provided an extremely useful model for company financing. The business planning models and approaches to banking finance developed under the KBS project continue to be used and applied across the board, also by other institutions and programs. This could be considered a major breakthrough in business services in Kosovo.

Trade and Investment

Demonstrated the usefulness of trade fairs and B2Bs in fostering economic development. Provided a working model for preparation and attendance of trade fairs and organization of B2Bs.

Zvecan office

KBS provided much needed business development services to a previously neglected community. These efforts contributed actively to the development of interethnic linkages. Continued interethnic business development services are likely to be an important element in efforts at reconciliation and reintegration.

3. How have these activities contributed to income generation and job creation?

The table below summarizes the available statistics on sales, operating profit growth and job creation of KBS clients for whom there are data covering at least two years. The results from all KBS clients, if such data could be extracted, would be much higher.¹⁰

Year	Number of companies surveyed	Increase in sales 000' Euro	%	Increase in operating profit 000' Euro	%	Increase in number of employees	%
2001	82	24,717	45	4,207	47	423	23
2002	117	17,855	39	5,655	67	363	18
2003	57	3,176	13	1,352	28	68	2
Total		46,066	37	11,207	50	870	12

Notes: Each company had base year data and then a following year to calculate increases. Samples are low for 2003 because annual figures are made available in April for annual tax reporting.

This sample study, although incomplete, clearly shows that there has been an impact on client revenue, profit and job creation. Another important conclusion is that with the decrease in donor funds and leveling off of remittances, the glory days of 2001 and 2002 are no more and competition has slowed the very high enterprise growth of earlier years. If during the initial stage they were able to achieve results due to the overall expansion of the market, in the coming years growth can only be achieved through capturing a larger share of the market, which means competing with imports and other domestic producers.

In the future, it will be crucial for the private Kosovar businesses to increase their competitiveness for both import substitution and exports. That will also require a different set of approaches and skills and more focus on the internal factors as opposed to the external environment. This should have significant impact on future private sector assistance – more focus, more in-depth skills and more concentration of effort as opposed to wide outreach and basic business skills training.

Sustainability

1. Are institutional and legislative reforms related to private sector development being carried out?

Many institutional reforms have been achieved and implemented. The issues raised by enterprises concern customs duties and taxes (VAT), the availability of credit and appropriate terms (cost, length of time and collateral), and energy availability.

¹⁰ It is not easy to agree on a clear definition of KBS clients. Many companies were assisted in earlier years that no longer use KBS services, particularly as for most, fees are now required. But in measuring impact, all of the increases in business performance, present and future, belong to the benefit stream of the project. This conceptual model is limited by the ability of KBS to extract financial data from companies with whom they are historically connected, concerned that their accounts reach the hands of the tax auditors. So over time, the “active” clients who furnish accounting data diminish, but the KBS client’s total performance continues to grow as a result of the project’s contribution.

2. Is the assistance effective in building local capacity to carry on SME development efforts, after USAID funded technical assistance is ended?

The KBS has been successful in training a number of local professionals in the provision of basic business training, marketing and business plans, trade fairs and B2B participation. As a result, there is local capacity to continue to provide those services to the broad business community. However, there is serious doubt as to how many of the KBS staff will set themselves up as business service providers and therefore to what extent will this expertise continue to be available to the broad business community once the KBS project ends. Judging by discussions and the number of staff leaving KBS as the program winds down, most of the local professionals are rather looking for a well paid job in other donor programs rather than at the opportunity of becoming professional consultants.

In addition there is likely to be a difference between assistance provided so far, under the emergency and reconstruction phase and assistance needed in the future, under a development and competitiveness phase: more sophistication, focused, larger scale, strategic interventions. Therefore additional skill sets, such as market research, database management, strategic planning and human resource development will be needed in order to respond to the changing demand patterns.

3. Are fees sufficient to maintain service delivery?

There may be real confusion in KBS goals to be achieved, none greater than the requirement to extract fees for some KBS services and then to equate fee revenue to sustainability. The Evaluation Team found that the opposite is more likely to be true. It is not clear why fees were added to the program in Modification 10.

Modification 10, page 3, states the tasks of, "...simultaneously developing post-project sustainability. This shall be accomplished through:

- A) Kosovarizing the business development staff and commencing a co-payment strategy which will be sufficient to cover the full cost of providing those services.
- B) Increasing the impact of Trade and Investment (including B2B and Account and Auditor Training and Certification activities, while developing and implementing a plan for sustainability....

While post project sustainability of capacities developed under KBS is a very important topic, the relationship of sustainability to the collection of fees for KBS services is murky at best. There appears to be no good reason to charge fees if those fees cannot be used to sustain services in the future. According to the past Regional Contract Officer, the fees must be added and then subtracted from the Chemonics voucher, effectively washing the transaction. Therefore, no one benefits from the fees paid, but the paying clients clearly lose. And by paying KBS for services, clients use funds they could pay local institutions that could use the fees to build capacity and continue services after KBS ends.

In addition, KBS fees are heavily subsidized in the beginning. They are likely to prevent, or at least slow the emergence of alternative local suppliers of consulting services.

Fees might have been included in the Task Order to prove that some KBS services are valuable enough that, even in the constrained economy of Kosovo, clients will pay. Those services that lead to immediate income gains—such as certified accounting training—are most easily monetized. In 2003, some 60% of KBS fees originated in accounting and audit training. Sustained services cannot be achieved by a client charging fees that based on a USAID contractor's costs. even for local hire staff. Sustainability is reached by providing services for which there is a demand at a price point the local enterprises will bear.

There is no way to make KBS sustainable in its present form. USAID contractors do not work at price points appropriate for local consulting services. However, components of KBS can be integrated into local institutions, many already created with KBS assistance, so that capacity developed can be sustained. These include SCAAK, for certified accounting training, the Kosovo Export Association (KEA), and the many associations or working groups associated with the 12 product lines under the competitiveness initiative. If the fees collected from some KBS services could be used to support local associations, for example, Trade and Investment payments collected for KBS services made available to the Kosovo Export Association, then there would be some merit in their application.

The sustainability-fee discussion needs to be held with a better understanding of four elements:

1. Revisiting with the new Regional Contracting Officer, the potential use of fees, presently washed through the KBS voucher, to bolster sustainability of local agencies and institutions;
2. If 1. above is not contractually possible, then disregarding the fee requirement in the Task Order so that local associations can receive full benefit of KBS training or trade linkages to improve their chances of sustainability;
3. The value in allowing KBS staff to be seconded to local agencies and institutions to create capacity and sustainability during the final months of the project; and
4. The potential loss of capacity being delivered by the project if all services (other than competitiveness and minority projects) must be fully paid (99% of local staff costs and 60% of most Other Direct Costs associated with local staff providing the services)) by fees during the project's final six months.

The fee requirement confounds the understanding of what USAID is attempting to accomplish in providing business development services. Not to undertake a re-evaluation of the fee requirement set against the goal of continuing sustainability of local capacity will place KBS in a nearly impossible position attempting to satisfy two conflicting USAID-announced goals for the project.

Lessons Learned

1. What are the developmental strategy lessons?

There is a need to move assistance from emergency to development, from reconstruction to competitiveness, from general to specialized, from broad based to focused. KBS began in what

is now another time for Kosovo. It made significant contributions. Efforts to turn KBS into a more directed and focused project (considered in the sections that follow) has fallen prey to too little resources, too late in the project cycle. KBS might have accomplished more pursuing its original broad-based objectives and ending in September 2003, with a new program cycle to follow that could provide the concentrated attention that intensive business enterprise development deserves.

2. What are the project implementation lessons?

KBS experience suggests that there are different business services best provided to certain groups. The following table codifies these insights.

Customizing Business Development Services

<u>Target group</u>	<u>Broad business community</u>	<u>Target sectors or clusters</u>	<u>High growth potential enterprises</u>
Level of assistance sophistication	Low to medium, mostly basic business plans and marketing training,	Medium to high – development of marketing, action plans and implementation of sector strategies	Usually high – development and implementation of long-term company specific competitiveness strategies.
Repetitive activities	high	medium	Low, usually case specific support
Potential implementation partners	RDAs, Business associations, Chamber of Commerce	Cluster/industry working groups, CBD	CBD
Implementation	Local professional service providers, co-financing by USAID	CDO, qualified local consultants supervised by the SMC, volunteer professionals	SMC, supported by few local consultants, qualified volunteers
Cost effective outreach	High	Medium	Low
Impact on client performance	Low	Medium to high	High

RDA – Regional Development Agency

CBD – Center for Business Development

CDO – Cluster Development Officer

SMC – Senior Management Consultant

3. What are the technical lessons?

Contractors need to be able to establish a dialog with USAID CTOs and engage in a give and take on target achievability and indicator meaningfulness. Not to do so means that USAID’s implementing arms may be pursuing small-box numbers which do not add to the desired development outcome. In the early years of KBS, a meaningful give and take was, by all accounts and from more than one project contractor, not feasible. This is seen most clearly in Modification # 10. The “Partners” were directed to perform according to targets that were often arbitrarily established, sometimes calling for significant resources to fill un-useful numbers.¹¹ Although the approach of the mission has changed, old targets die hard and they continue to be strived for, achieved and reported.

¹¹ See Appendix One.

Clearly, it is the contractor's responsibility to provide analysis that shows that targets should not be used to gauge their performance, the client has no formal reason to revise them unless requested. But indicators dictate performance, actions follow targets to be met. Once bruised, forever cautious was the COP's approach. The request to revisit the Modification 10 targets was not forthcoming from the Chemonics International home office where it should have come from when the opportunity was available. This was a significant failing to support a far better alignment of resources against the overall goals of the project. On the other hand, since USAID knew the targets were not useful objective measures of performance in many instances, and potentially wasteful of resources in others, it could have played a more pro-active role in ensuring that a revision took place. While the pursuit of less than optimum targets does not diminish KBS's strong performance, more rational indicators of success could have improved the impact of the program in the final years.

Recommendations

The approaching expiration of the KBS project in a way marks the end of the phase of emergency and reconstruction in post-conflict Kosovo and the beginning of a phase of economic development. Although the services provided by KBS have been well appreciated, the new economic realities merit a different and more sophisticated approach. Here is a brief draft of an alternative approach to needed business services that facilitate the economic growth of the private sector and develop the economic capacity to create jobs on a long-term, sustainable basis.

The main emphasis is the shifting of the focus from general business services provided to the private sector at large, to a more focused, higher value added consulting, provided through the emerging local consulting community. An integral part of the new model will be a concentrated, hands-on support for the upgrading of the skills and the development of suitable models among the local consultants.

We consider this best achieved through the creation of a Center for Business Development (CBD) as a separate entity, which will work closely with the targeted clusters (this assumes that the emerging new USAID program will give a prominent place to cluster development) and the emerging local consulting community in order to:

- ▶ Upgrade local capacity;
- ▶ Provide value added consulting services to targeted cluster companies; and
- ▶ Ensure sustainability of local knowledge and skills through accumulation of practical experience.

The CBD will work in close cooperation with the targeted clusters and will maintain a Cluster Relationship Manager (CRM) for each cluster. The CRM will work closely with the Cluster Development Officer (CDO), who is expected to be a senior expatriate industry specialist assigned to each cluster. The Business development services will be provided on a competitive basis through local consulting companies, under guidance from the Senior Management Consultant (SMC) from the CBD. He/She will closely work with the selected local services provider on any new/complex assignments in order to provide training-on-the-job. The local services providers must be fully independent consulting companies who may receive certain

institutional assistance for start-up costs, after they win competitive bids for provision of technical assistance to the target clusters.

The CBD will also provide co-financing for the services in order to facilitate the development of a local market for professional business services. The CBD should maintain a minimum of staff and will also provide short-term experts and volunteers on an as-needed basis. Consulting services will be provided to the enterprises directly by the SMC as a last resort only.

The CBD will consider the target clusters as its “core” clients, although services would extend to individual enterprises within the cluster. In addition, in order to disseminate “best practices”, to ensure wide reach and support for new economic initiatives and influence economic decision making, the CBD will also maintain close relations with:

- ▶ Economic think tanks, policy groups, economic and governmental institutions, similar initiatives among other donors;
- ▶ Local educational institutions such as the University of Pristina, American University in Kosovo, etc.;
- ▶ Business associations, Chambers of Commerce, Regional Development Agencies, etc.; and the
- ▶ Local consulting community.

In all its activities the CBD will be expected also to borrow from the experience of similar USAID programs in neighboring countries and provide a link for Kosovo-wide stakeholders to such initiatives, best practices and lessons learned. The CBD may also use successful examples and referenced consultancies from other USAID funded regional initiatives, particularly those engaged in competitiveness and business development.

Below is a simple illustration of the services that the CBD could provide to the target clusters:

1. Top level consulting expertise, relevant to the cluster objectives and appropriate for individual enterprises within the cluster;
2. Co-financing of TA provided by local consultants, upon request and approval by the Senior CDO. Initially such assistance will be guided by the SMC from the CBD;
3. Short-term experts and volunteers;
4. Links to similar programs regionally and dissemination of “best practices” both within the cluster and the wider economic community in Kosovo and the region; and
5. Other business development services that are considered important and in-line with USAID’s Strategic Objectives.

B. CERTIFIED ACCOUNTING AND AUDIT TRAINING

History

The Economic Reconstruction Project, contracted to Bearing Point, contained a component concerned with Kosovo's Financial Reporting System, which translates into standardizing financial reporting, based upon international practice, for major enterprises, SOEs, POEs, NGOs given special status and in applicable ways, government financial bodies. The original consultant for this work began to organize a local body to certify accountants and auditors, so that once trained, they would be able to manage reformed financial reporting requirements. She asked USAID for assistance, and USAID directed KBS to provide support to the fledging Society for Certified Accountants and Auditors of Kosovo (SCAAK)

KBS, with two international consultants and local staff, designed and presented training courses as follows:

Pre-professional Stage

Leading to a SCAAK Diploma as an Accounting Technician if they have 1 year of practical experience

- ▶ Financial Accounting 1
- ▶ Financial Accounting 2
- ▶ Cost and Management Accounting
- ▶ Commercial Regulations
- ▶ Management Information System (also included in the Professional stage training)

Professional Stage

Leading to the award of a SCAAK Certified Accountant if they have a minimum of 3 years of practical experience

- ▶ Financial Accounting III
- ▶ Financial Accounting IV
- ▶ Introductory Auditing
- ▶ Business Ethics
- ▶ Business Case Studies

At a later date, KBS was requested to create an Auditor certification training program in 6 weeks, containing 10 subjects, a "fast track" course for 11 auditor candidates to fill positions within audit office of the Ministry of Finance.

By the end of 2003, 1,000 accountants had completed SCAAK training courses, taken examinations which were graded while identified only by number, by KBS, or more recently for the Pre-Professional Stage training, by SCAAK staff who have assumed this responsibility. In 2003, SCAAK (and KBS) trained 461 candidates with 57 earning the distinction of Certified Accountants. SCAAK was granted membership in the International Federation of Accountants,

the most recognized Federation in the accountancy profession. SCAAK has held membership meetings, elected a governing council, published a professional magazine and worked to improve the accounting curricula at the University of Pristina and other institutions to help these organizations adopt international accounting standards training. In addition to KBS, SCAAK has been supported by grants from the World Bank, CIDA and the Swiss development agency. SCAAK's modern offices are near the World Bank and hold an Executive Director and four supporting staff.

Objectives

SCAAK intends to create a self-sustainable internationally recognized independent professional organization that provides training for, and certifies, accountants, and training for auditors (who are licensed by a Special Board)

Implementation

SCAAK is for the moment (see below under sustainability) an independent professional organization that has been granted the authority to certify accountants. However, the original KBS international adviser on this subject, who is incidentally also a charter member of SCAAK, reported that he established the examinations for certification and graded them himself, with each test identified only by number. SCAAK has progressed steadily, but is not yet technically ready to do without international finance and accounting experts. The Executive Director explains that there is a need for a new introductory accounting course—for those who find the existing pre-professional material unfamiliar, a requirement to “freshen” the existing training material and incorporate changes in international practice in the last year, and the need to train SCAAK trainers to be able to offer Professional Stage training and certification, and Auditor training. The Director is working diligently and with great determination to attract donor funding (nothing firm so far) and complete SCAAK's technical upgrading process including a continuing education program.

Impact

SCAAK support was not part of KBS's Task Order, it was added by CTO direction. Once engaged, KBS completed the assigned tasks efficiently, which was greatly appreciated by SCAAK. KBS Modification #10 added targets for KBS in the Training and Certification of Accountants and Auditors (2.1-2.6). These are examined in detail in Appendix One. KBS has met all of the targets that were within its control or were reasonable, with KBS training sessions reduced in 2003 as SCAAK has been able to assume responsibility for Pre-Professional training. Eighteen KBS post-course evaluation questionnaires were examined and coded. Overall-rates were high but in some classes, particularly Management Information Systems, the material was obviously beyond the grasp of the older generation of bookkeepers. A split mean rating shows a divergence of students into the appreciators and the non-interested.

Sustainability

The Society of Certified Accountants and Auditors of Kosovo has moved steadily toward financial sustainability. SCAAK's future is presently threatened from two directions, with the most serious challenge being political, rather than financial.

Financially, SCAAK earned 175,916 Euros from training courses in 2003, and 1,692 Euros from membership fees. As there is no liability attached to not paying membership fees—the accounting certifications are not tied to membership in SCAAK (although they might be, a suggestion that has been made to SCAAK). In 2003, audited statement, SCAAK expended 311,164 Euro. Of this total, more than 100,000 Euro were expended for international consulting fees. In addition, SCAAK lost all of the fees paid to KBS under a 50% fee-sharing arrangement for training, a sum in excess of 75,000 Euros. (KBS fee requirements are addressed below under recommendations)

SCAAK is today sustainable in a low level equilibrium—able to keep its doors open and complete the introductory training programs, but not yet able to do advanced training and certification. It needs continuing support, for approximately two years, to complete the steps toward full capacity, and full sustainability.

Politically, the threats to SCAAK may be much more serious.¹² After Bearing Point initiated support to reforming Financial Reporting, while providing technical assistance to the Kosovo Board on Standards for Financial Reporting, a series of short term consultants found the Board—filled with non accountants—difficult and the constituency for reform weak. Gradually other priorities emerged and the Financial Reporting experts have not appeared for the last 9-12 months. During this time the in-theory independent Board was disbanded by the Minister of Finance for what were said to be inappropriate actions although the law which chartered the Board did not give this power to the Ministry of Finance.

A new law has been written that will make a new Board responsible to the Ministry, although it has not yet been passed by Parliament. The World Bank entered this arena as there was an attempt to give licensing and certification powers to institutions in the law—such as University economic and finance departments (that are reported to be using 1975 texts)—the authority to certify chartered accountants. By all accounts, there is only one professional accounting body in Kosovo, and that is SCAAK. However, the ability to certify accounts is a potentially lucrative and a host of other organizations are petitioning to be allowed to enter the game. As the Ministry of Finance has usurped the position of regulator of accountants and auditors, SCAAK, as an independent body with certification authority granted under a prior law, is a potential threat to their control. SCAAK has been informed by the Secretariat established in the Ministry that oversees the now-defunct Board, that the SCAAK license to certify accountants would expire soon. As there is no time limit on SCAAK's certification, and the new law when last seen (it has been sent to legal specialists) did grandfather all organizations that had previously been granted licenses to certify accountants—which applies only to SCAAK, the Executive Director takes this as a warning that control of the authentication process will be in the hands of the Ministry of Finance.

A coterie of advisers to the Minister—including some professors from the university—are attempting to change, some would say subvert, the processes so that certification of accountants will be the right of those that have no appropriate knowledge of how this should be done.

¹² This information comes from SCAAK and an international consultant with an EU project supporting Central Government Administration.

As an election is coming, the maneuvering is strong among the financial reporting advisors to the Minister of Finance. He is unlikely to be aware of the issues, or the potential damage that could be done if SCAAK were not allowed to continue certifying accountants, and/or if other less creditable institutions or organizations were allowed to provide certification-for-a-fee. As there is no international consulting input on this issue, it festers and threatens to topple the work that USAID has put into building a competent, independent society of accountants and auditors.

One solution might be to direct some Bearing Point resources at the issue of reforming financial reporting, and in the process hold a discussion with the Minister that would provide some counterweight to the local professor-advisors who have their own agendas. It would be sad, at this late date, to lose the investment that has been made in building SCAAK.

Lessons Learned

1. The Development Lesson suggests that certification of accountants and auditors should be contained within the economic reform program that includes senior advisors to the Ministries involved—in this case within the Ministry of Finance. It is not an appropriate undertaking for a private sector support project that does not have high-level contacts within the government apparatus. The good work of developing truly independent accounting capacity can be easily overturned by others with different agenda.
2. USAID and KBS have not yet resolved the conundrum of charging fees to local institutions for KBS services, on the one hand, and seeking self-sustainability from those same institutions on the other. If sustainability is an important objective, then the KBS fee requirement should be struck.
3. The technical lessons have to do with the expense involved in creating, whole cloth, accounting training and a local independent professional society for certified accountants and auditors. The proportion of the KBS charge—that is field expenses not including any home office allotment—apportioned to SCAAK is estimated to have been \$861,000.

Recommendations

1. Eliminate the fee requirement for all KBS services, past or present, from SCAAK.
2. Second KBS accounting staff to work with SCAAK to increase the capacity of SCAAK training staff.
3. Dispatch Bearing Point senior financial experts to the Ministry of Finance to re-examine the issues involved in reforming financial reporting, and in the process provide a counterbalance to those who would move certification of accountants away from SCAAK and into those agencies or institutions neither trained by nor committed to an independent accounting and audit profession.
4. Consider the value of assigning a long-term financial advisor to SCAAK, and to the Ministry of Finance's new Oversight Board, to bring to fruition the self-sustainability and the continued independence of the Society of Certified Accountants and Auditors or Kosovo.

C. SUB-SECTOR COMPETITIVENESS: AGRICULTURE/AGRIBUSINESS

Background

Modification #10 (signed 12/19/02) to the Chemonics International contract for Kosovo Business Support – Employment Generation Program (KBS) extended the contract completion date for one year from 9/30/03 to 9/30/04 and modified the Scope of Work for the entire project including the Agribusiness and Competitiveness Component, that was created by Mod #7 (July 2002). Mod.10, among other changes to the SOW, added a new sub-sectoral focus on Competitiveness with agribusiness getting particular strong emphasis. The project team was directed to select high-potential firms from the chosen sub-sectors to assist them to improve their competitiveness with business services in finance, marketing, business strategy, and operations. In addition they were assigned to provide technical assistance on technological subjects in product processing, production factors and other subjects that could improve a firm's business performance. The selected sub-sector had export potential or had relatively high levels of imports that could be reduced in the near term by KBS program activities. In order to concentrate project efforts to achieve short-term results, a single product focus was adopted from the outset. Product lines chosen for immediate and concentrated action were: Processed Yogurt, Poultry and Eggs, Processed Milk, Processed Potato Products, Herbs and Essential Oils, and Wild Mushrooms. Two additional products were to be added in 2004. Individual work plans were developed for each product line.

Objectives of Agribusiness Sub-sector Competitiveness Component

- ▶ Provide high-quality industry and functional expertise to select firms;
- ▶ Develop and implement comprehensive strategies to achieve competitive advantage in sub-sector to support export generation or import substitution; and
- ▶ Provide the KBS “package” of business services and training in accounting, marketing plans, strategic business plans, and operational improvement strategies.

Implementation

Processed Yogurt and Processed Milk

The project worked intensively in the dairy cluster from selected producers up through the processors. The primary focus was on two progressive moderate-sized dairies and their raw milk suppliers to improve the quantity and quality of their milk products. Experts assisted with new premix feeds to improve animal nutrition and milk output. New products were identified for the processors. Assistance was provided in milk collection techniques, handling, testing of raw milk, and the installation of a testing laboratory. Experts helped with procurement of a wide range of appropriate processing and laboratory equipment and supplies to improve processing and products. Milk supply forward contracts were introduced in collaboration with the CARE International Project allowing the processors to forward contract with their suppliers for high quality milk at specified standard, quantity and price. The agribusiness team assisted with the introduction of international milk identity and quality standards to KBS clients. Numerous training programs and specific technical assistance were provided to the processors, suppliers and others in the industry.

The results of these efforts in conjunction with the CARE project assistance have increased milk production, the quality of the milk and milk products, and the variety of products now available from domestic producers. Sales of the targeted firms have increased over 50% in two years.

Poultry and Eggs

This sub-sector was like others severely damaged in the war. At the beginning of the recovery period, only a small percentage of the eggs consumed in Kosovo were domestically produced. A number of producers began operations immediately to supply the demand in Kosovo, which is estimated to be an average of 292 eggs per person per year. As of 2004, it is estimated that domestic producers are supplying about 50%, a significant accomplishment given where the sub-sector began. Donor projects, including KBS and the IFDC Poultry and Feed project assisted in this growth. The other 50% that is now imported remains a market target. The broiler side of the poultry sub-sector has progressed much less with only a few small producers now beginning to grow. The broiler market remains a major target as well for domestic producers.

The project has focused its development efforts in poultry and eggs on:

- ▶ Appropriate technology;
- ▶ Management practices; and
- ▶ Use of lower cost – higher quality feed to reduce cost of eggs.

The project works with the five largest, more progressive egg producers and feed millers. They have wide geographic distribution and represent nearly 50% of national egg production capacity. KBS has provided expert volunteers to assist with feed formulation and software, disease control, veterinary care, and marketing. A group went to a three-week training program in the U.S. KBS coordinated a joint venture to establish a breeder egg operation in Kosovo of high producing genetic stock. The project is also assisting broiler raisers to establish operations.

Processed Potato Products

KBS has assisted small producers and processors technical assistance from volunteer experts in selection potato varieties for processing and in proper growing and handling techniques. Assistance was provided in processing and quality control as well. An expert introduced grades and standards for processing potatoes. A market report was done on the frozen French fry market.

Two processors are now ready to produce and market frozen French fries after considerable assistance from KBS staff and experts.

Herbs and Essential Oils

The project assisted in reestablishing the herb harvesting that was disrupted by the war. Studies were conducted on the availability of marketable herbs. Linkages have been established with buyers in the export market. The agribusiness team facilitated a contract between two clients whereby pickers were employed during three months during the summer of 2003 to gather 16 types of herbs. These will be used for making certain herbal teas. A number of trade shows were

attended and contacts established. It is a fascinating niche market but small and not one with a great deal of potential business development or employment.

Wild Mushrooms

KBS staff, volunteer experts and consultants have provided extensive assistance to three established wild mushroom companies, primarily in processing, packaging and marketing. The team has also provided assistance in studying the potential for growing mushrooms in Kosovo for the export market. They examined the collection of other wild products as an expansion of the mushroom business.

1. Are activities properly targeted to achieve objectives?

USAID wanted to give stronger emphasis to the agribusiness sector and to find companies with product lines that were already in the market and had export or import substitution potential that could be part of an accelerated business development program with a very close horizon. The results show that all of the firms chosen in the poultry and dairy sub-sectors had growth potential and market opportunities and most of them in fact achieved or exceeded the growth targets. Potato has a small processed market opportunity domestically that seems to be working well. The fresh potato market probably also has strong potential for development with high-yielding varieties, agronomic practices, handling and storage, grades and standards and marketing. Potato could be a good income producer and employment generator for small farmers. The other products selected represent interesting but small niche markets that probably have very little potential for income generation or employment.

2. What are the main strengths and weaknesses of project activities?

The weakness of the project design was that it specified eight product lines for life of project when three or four key high potential products would have allowed the team to concentrate efforts for a higher return. The project strength is that it was able to select two dairy products and one poultry product with high potentials for success. Dairy products and eggs are mainstream core agricultural products with high domestic market demand, the suppliers of which had been severely damaged in the war and replaced by imports. The probability for success was high from the outset. These product lines would have grown even without projects to assist them. The assistance was very useful and no doubt accelerated the recovery of these producers and companies and provided a strong boost to the economy. Livestock and poultry feed have the same basic ingredients so responding to consumer demand generates demand all the way back to the maize and sunflower growers, the seed and fertilizer dealers, diesel fuel suppliers, transporters, etc. The backward and forward linkages in a national livestock-poultry-feed sub-sector (cluster) are traditionally among the strongest in an agricultural sector of a modern economy. It is a sub-sector that can lead the sector in growth and be strong force in the national economy.

3. What are the major constraints? How can constraints be ameliorated?

The constraints of this project relate primarily to the short timeline. To take full advantage of the potential represented in this group of companies, the project should have at least two more years to really achieve superior results and be able to firmly establish the gains. An added advantage of

more time would be that other companies in the same product lines would follow the examples set by the KBS assisted companies. The same constraints that affect all of agriculture are discussed extensively elsewhere in this report apply here: small subsistence-level farms, idle and under utilized socially owned agricultural land, debilitated irrigation systems, low access to credit, weak technology transfer and market systems. By addressing or circumventing the constraints on a product line basis, the theory goes, productivity can be increased at least for that product and it can provide a model and lead other sub-sectors.

4. *Have activities been well coordinated with other donors and other USAID projects and focused on achieving mutually agreed objectives?*

KBS cooperates with a number of other donors and USAID projects that are operating under the same Strategic Objective. CARE in dairy and IFDC in poultry and feed production are both KBS collaborators. The project objectives are certainly close and complementary in some cases.

Impact

The company results for dairy and poultry were very encouraging but they need to continue for several more years to have a real impact on import substitution or exports nationally. It is not altogether clear what the results would have been in the dairy and poultry sub-sector without the project. Probably significant growth would have happened in any case. There is no doubt that the project has had a positive impact but it is reasonable to ask whether or not the impact might have been stronger if there were a concentration of resources and attention on feed production and the inclusion of more dairy and poultry producers. Product quality is important but the increasing the quantity of product is also essential.

Sustainability

The improved practices that have been adopted by the participating firms will be sustained by the managers of those firms, provided their cost structures continue to improve and they can become solidly price-competitive with subsidized imports. Producers and processors reported decreases in the cost per unit of milk due to lower feed costs and higher productivity of cows. Prices received for milk products will no doubt increase as quality continues to improve. As it now stands, project activities will probably stop altogether at the project conclusion in September 2004, with the possibility for some of the domestic technical advisors to connect with another organization or project that would allow them to continue providing support to their clients.

Lessons Learned

Technical lessons

The technologies for higher quality and quantity milk production and processing and higher quality and quantity of egg production are readily available and not particularly difficult to teach. It starts with good feed formulas herd and flock management and proper and hygienic handling of the products with consistent testing and monitoring. The maize, sunflower and soybean crops needed for dairy and poultry can be produced in Kosovo with higher yields under good management. The technologies can all be taught in a well-conceived technology transfer project.

Project Implementation lessons

This project proved the old development axiom: “do not try to be all things to all people.” USAID insisted on too many product lines. The small product lines with minimal market development potential should be left to NGOs who do very well with market development for these types of items. With more time available, the project staff could have involved more producers, increasing the supply of raw milk to the processors who could have converted it to products to displace imports.

Developmental Strategy

Providing business services to private companies in the right circumstances can be a valid concept and a good approach but it is not strategy. A development strategy requires a much broader scope. There are often structural problems in the cluster that require remedial action.

Recommendations

The evaluation team recommends that USAID Kosovo create a follow-on project to KBS and SFS to focus exclusively on the feed-dairy-beef-leather-eggs-broiler cluster (sub-sector) for at least five years, addressing all of the constraints to competitiveness, including: production and processing technologies; private sector technology transfer mechanisms; business management services; marketing and market development; credit and finance; transport and storage; grades and standards; testing and inspections; input supply; policy analysis and advocacy. The finding is that it is more advantageous to focus on one sub-sector and do it comprehensively.

In the remaining time for the project it is recommended that the agribusiness component give its attention to the dairy and poultry activities in order to prepare for a cluster development effort in the next phase.

D. SUB-SECTOR COMPETITIVENESS: NON-AGRICULTURE/AGRIBUSINESS

Background

With the signing of Modification #10, two non-agribusiness product areas were added to the then existing KBS contract. The objectives set out were to identify constraints and develop and implement comprehensive sub-sector-wide strategies and action plans to increase productivity and competitiveness. As required by the modification, a consultant reported on the opportunities for cluster development in Kosovo.¹³ On the basis of this report and additional consultant findings, the “Wood Processing Action Plan” and the “Construction Action Plan” came into being in July 2003.

The actual work in both sub-sectors began in August by KBS Relationship Managers contacting enterprises in the selected sectors. In the second half of September 2003, sector specialists Matt Anderson (Wood Processing) and Sue Anderson (Volunteer in Construction) arrived. This left

¹³ Peter Bearse, “Organizational Clusters to Foster Kosovo’s Industrial Development”, March 2003.

approximately 12 months for any practical work to be done in both sub sectors.¹⁴ In recognition of the time constraints, the activities do not represent a cluster, in the meaning of modern competitiveness theory, but truncated components of a sub-sector. Still, this time frame is exceedingly short for any wide ranging results to be expected. Below the implementation of the two action plans are addressed and the important conclusions and recommendations for such activities in the future are presented.

Wood Processing

This sub sector actually comprises two product groups: a) wooden windows and doors, and b) wooden furniture. The forestry sector has been omitted from the action plan, due to complexities associated with forest ownership, felling rights and the existence of a number of Socially Owned Enterprises in this category.

The main objectives set forth in the action plan are as follows:

“The objective of the KBS intervention in the Kosovo wood processing industry is to facilitate an increase in the quantity and quality of high value wood products produced by local businesses, in addition to facilitating implementation of improvements in wood processing technologies and marketing strategies for domestic and export markets”.

Since there are no clearly identifiable indicators and benchmarks against which to measure progress to-date, the evaluation team has decided to measure the implementation so far, against those objectives.

Implementation

Implementation has concentrated on two main approaches: a) assistance to individual enterprises and b) creation of working groups to address common problems. Most of the enterprise specific assistance has been directed toward short-term measures to improve product quality and to reduce the operating cost of the client (Called also Tier1) companies.

Details of the day-to-day activities have been provided in KBS monthly reports, not repeated here.

¹⁴ Why it should take so long to get started, particularly in wood processing? Exhibit 12 in Volume 2 contains the timeline for wood processing actions, each one linearly following from the last. While no contractual failings are evident, the requirement to do a cluster study, and then an action plan, and then approve international consultants all stretches the time to implementation. It could have and should have been faster. To do so would have taken the cooperative efforts of USAID and the contractor to agree to simultaneous actions in the interest of a timely start-up.

Company specific assistance

The table below summarizes the main company specific assistance provided.

<u>Company</u>	<u>Main production</u>	<u>Assistance provided</u>
Brovina	Wooden windows and doors	General assessment
Korenica	Wooden windows and doors	Window design program, basic inventory control, basic production advice
ERA	Custom wooden doors	Comprehensive facility assessment and evaluation
Mobileria Djellza	Upholstered furniture	Raw material processing, production sanding, work safety, links to new clients and suppliers
Duglas	Doors and windows, cabinets, bedrooms	“Best practice awareness”, promotional materials
Molika	Wood ceilings, briquettes	Links to new suppliers, product line extension, production and warehousing improvement
Gacaferi	Kitchen cabinets	Inventory and operational control, marketing mix
Ukaj	Doors, chairs, tables	Inventory management, “best practices”, linkages

*The table contains only sub sector specific assistance provided by the Wood Processing Team. The general business services, provided by the rest of KBS, have been dealt with above.

Working groups

The KBS Wood Processing Team has been very active in the creation of the “Wood Industry Working Group”. The group has held several meetings so far, mostly focusing on the issue of standards and certification. In addition the following product specific working groups have been set, as part of the Industry Working Group, in order to address product specific problems:

- ▶ Doors and windows;
- ▶ Furniture; and
- ▶ Kitchens.

1. Are activities properly targeted to achieve objectives?

In general the activities have been reasonably well targeted. However, the large amount of time and effort allotted to the “Standards” issue is of concern. Very often interviewees stated that, ‘there are no industry standards and that this is one of the main constraints to the development of the sector.’

The finding is that this is not the case – applicable quality standards do exist in Kosovo. They are the Yugoslav Standards and they have not been declared inapplicable by any of the Governing Institutions in Kosovo. Moreover, they are based on the German DIN standards and cover all major wood product areas. They have been judged by the industry specialists to be solid and as good as any. Actually, many wooden products sold in Kosovo by leading companies like LESNA, SIMPO, SVEA, are based on those same standards. What is clearly lacking is knowledge of those standards by the newly created private companies and a lack of technical and production skills needed to apply them. This, rather than a lack of standards is the issue.

There is another explanation for the concentration on standards. The Evaluation Team attended a meeting of the Wood Processing working group. It seems clear that not every wood processing

company believes they have anything to learn—part of the owners/managers must-know-it-all syndrome described in the environment for General Business Development Services. By concentrating on standards, and explaining in detail what standards apply to the products of the assembled companies, the owners/managers can begin to understand the possibility of quality far higher than they can produce.

2. What are the main strengths and weaknesses of project activities?

The main strength of this activity lies in addressing problems crucial for this sub-sector and therefore for the achievement of economic growth and job creation. Those are quality, efficiency, operational management, marketing and selling. The effort should be primarily concentrated on those as the most direct way of achieving the Action Plan objectives.

There are no major weaknesses identified, this activity is in its formation stage. There does seem to have been a problem with the procurement of much needed training materials and with the purchase of the EN standards applicable to the wood working industry. A second concern is the danger that this project could turn into a standards debating activity instead of targeted provision of much needed technical assistance to address critical competitiveness issues.

3. What are the major constraints? How can constraints be ameliorated?

The major constraint in this case in our opinion is time. Cluster competitiveness is a great concept, sub-sectors are valuable, but either requires much longer time horizons in order to achieve a breakthrough.

A second important constraint, common for most producers, is the lack of access to long-term capital for expansion. What is particularly missing in Kosovo is any kind of leasing financing, which is the most convenient and often cheapest way to obtain additional machinery.

4. Have activities been well coordinated with other donors and other USAID projects and focused on achieving mutually agreed objectives?

There has not been much evidence of coordination with other donors. This is a project weakness that should be corrected in the near term. There could be similar programs supported by other donors and additional resources that could be attracted to this project and thus leverage the support already provided by USAID.

Impact

The activities carried out under the Wood Processing Action plan have had no time to create a major economic impact on the sector. However, if carried out properly and if focused on meaningful targets, they can and will have such an impact.

In order to provide a clearer picture of the potential economic impact of this assistance, the table below provides the operational results of the assisted companies during this period.

Operational Results of Project-Assisted Wood-Working Companies ¹⁵

Baseline Period 9-1-2002 to 8-31-2003	Doors & Windows/Wood construction material		Wood Furniture/Kitchen Cabinets		Other wood products		Total Sales	
	Domestic Sales	Export Sales	Domestic Sales	Export Sales	Domestic Sales	Export Sales	Domestic Sales	Export Sales
Month	€	€	€	€	€	€	€	€
Sep-03	28,900	0	162,800	0	0	0	191,700	0
Oct-03	25,000	0	166,900	0	0	0	191,900	0
Nov-03	20,900	0	163,000	0	0	0	183,900	0
Dec-03	17,400	0	113,600	4,500	0	0	131,000	4,500
Jan-04	19,000	0	17,300	4,500	0	0	36,300	4,500
Feb-04	19,700	0	14,000	0	0	40,000	33,700	40,000
Total	130,900	0.00	637,600	9,000	0.00	40,000	768,500	49,000

* The implementation period so far, coincided with the low season in the wood processing business. The high season is May-October. Data from KBS records and special interviews conducted at the request of the Evaluation Team.

Similar to other enterprises that KBS has assisted, a major achievement is the emergence, among the targeted sub sector, of a mentality change. This is leading them to realize the need for a new business model and new approach to common problems. For example, all of them need wood kiln-dried to a specific reference standard. By working together, they have a much high probability of insisting on, and obtaining that standard to improve their own product quality. The foundations are being laid for a cluster development, perhaps in the next phase of USAID's program in Kosovo.

Sustainability

Is the assistance effective in building local capacity to carry on with product competitiveness efforts after KBS is ended?

Competitiveness is an extremely complex and sophisticated subject, requiring multidisciplinary skills, years of experience and access to information across the globe. There is no way that those can be acquired in such a short time frame. This is not meant to underestimate the skills of the KBS local professionals – they have been well trained in basic business and consulting skills. The development of a competitive sector simply requires different level and set of skills, which take time and practice to acquire and develop. The Working Groups might continue in the absence of KBS support, perhaps, but they are unlikely to have the impetus to take the actions needed for sub-sector development.

¹⁵ Source: KBS reports

Lessons Learned

What are the project implementation lessons?

If this non-agricultural competitiveness sub-sector serves as the foundation for the next generation of USAID competitiveness programs in Kosovo, it is an investment well made. If it does not, it will be a case of too little, too late to have a major impact on enterprise and sub-sector growth.

Recommendations

1. For activities to stimulate product competitiveness

It is concluded that given the limited time and the complexity of the task, there has been a reasonable success and considerable meaningful and relevant activity undertaken or initiated. In our opinion this sub-sector could be considered among the prime candidates for future assistance, preferably on a larger scale. In the remaining period the following should be a priority:

- ▶ Development of Tier 1 company specific action plans in order to address critical issues within the remaining time. Those could be in the form of cooperative agreements, whereby the company agrees to undertake mutually agreed actions and KBS agrees to provide needed technical expertise and assistance. Each of those action plans should have clearly identifiable objectives, schedules, benchmarks and deliverables. This could be an invaluable support to the target companies and also an excellent foundation for the continuation of the competitiveness on a different scale and under a different approach, dictated by the different environment expected during 2004-2008, as opposed to 2001-2003.
- ▶ Procurement of a relevant set of industry specific EN standards. The quoted sum is around 3000 Euro, which in light of the objectives of this project seems more than justified. Those should be translated into the official languages in Kosovo and used as a base for a common industry standard, to be discussed by the working groups.
- ▶ A short compendium of the critical gaps between needed skills of the wood processing managers and workers, and those presently available, could be extremely valuable to serve as an excellent base for future programs in this sub sector.

2. For future strategies and coordination methods

Cluster competitiveness is fast becoming an important concept in international economic development and rightly so. It is likely to achieve even bigger recognition as a potent tool for economic growth, job creation and poverty alleviation. More and more donors are likely to follow USAID's lead and start to implement such projects.

A principal concept in modern competitiveness theory is that companies compete, not countries. It is already largely accepted that the creation of a vibrant, actively competing and core competency-focused companies are an integral element of cluster competitiveness. Given the economic realities in Kosovo and the stalled privatization process, the wood-processing sector is

one of the few that merits a competitiveness development approach. Unlike the current project, such an approach would require between 36 and 48 months in order to bring significant improvements and create sustainable results.

In such future programs each cluster should be treated as a separate activity, guided by an experienced industry professional (called above Cluster Development Officer) and should concentrate more on cluster specific threats and opportunities, on overcoming weaknesses and building of competitive advantage as an ultimate objective. The much needed business development services could best be delivered through a specialized institution (called Center for Business Development in the preceding section). This should be coupled with the creation and support of professional bodies, such as associations, chambers, etc., that can tackle common problems, voice common concerns and interact on a higher level with all potential stakeholders.

Construction Sub Sector

Background

The evaluation of the “competitiveness” activities in the construction sector poses a significant challenge. In being tasked to focus on 4 sub-sub-sectors¹⁶, KBS did not have a great deal to choose from. In the very limited time frame, and even smaller budget, the opportunities to make large improvements in the construction sector were few. So KBS settled on what could be done. Unlike all other activities this one has been primarily oriented towards institutional development. There may be important institutional pre-conditions to economic growth and job creation involved in the activities selected, that are discussed below. However, the sub-sector contains few clearly identifiable measurement indicators, benchmarks or deliverables. The main focus has been the formation of working groups and associations. The Construction Team has concentrated on two main groups:

- ▶ Architectural design and engineering; and
- ▶ Construction services building and erection.

Here is how the Construction Action Plan identifies its objectives:

“The objective of the KBS intervention in Kosovo’s construction industry is to facilitate Architectural Design and Engineering and Construction Services sub-sectors in achieving establishment of regional uniform building codes (standards), implementing professional and technical certification procedures, programs and licensure, and assisting in developing or adopting manufactured building material standards for import as well as locally manufactured products.

In addition, KBS will facilitate implementation of improvements in operational technologies and marketing strategies for domestic and potential export markets. The goal is to establish regional working groups by sub-sector within the first three (3) months and by the end of six (6) months

¹⁶ The selections are not sub-sectors, not product groups, not products, certainly not clusters—wood processing, for example, does not extend to wood supply—so the nature of the unit that is being assisted is a bit amorphous. This makes the language describing activities in the “groups of products” uncomfortable.

to establish goals and guidelines for uniform building codes and building materials standards, technological requirements, marketing schemes for domestic sales and any potential export markets, and capital improvements needed for sustainable development.

A second feature that makes this activity unique among other KBS activities is the provision of international technical assistance by an Industry Volunteer Professional.

Implementation

The construction sector team broadly divided its activities into five areas:

Industry Sector Working Group – The group was formed, held its first meeting and developed a set of objectives

Technical Support Group – The scope of work for this group foresees provision of technical expertise to the relevant Ministries in development of specific standardization, mainly focused on:

- ▶ Uniform Building Codes and applicable standards for construction; and
- ▶ Certification and licensing.

Professional Associations – Active support was provided for the formation of the Association of Civil Engineers of Kosovo (LINK) and the Mechanical Engineers Association of Kosovo (MEA).

Statutory Regulations and Legislative Issues – At the request of the Ministry of Trade and Industry (MTI) assistance has been provided with regard to the Law for Standardization, Law for Metrology Standards, The Law for Precious Metals Processing and The Construction Law of Kosovo.

Technical Assistance – Mainly along the General Business Services lines. In addition the team is helping a KBS client to identify a Project Manager and Contractor for a factory construction.

1. Are activities properly targeted to achieve objectives?

This question is best answered in two stages.

1.1. Are the Construction Action Plan objectives relevant to USAID's SO 1.3 (Accelerated Private Sector Growth) - IR 1.3.5 (Expanded Formal SME Sector)?

The first answer was, no. On reflection, the reasoning behind the attention to standards was traced and it goes as follows:

- ▶ Kosovo construction materials are low quality and scarcely compete against better quality imports;
- ▶ If there standards developed, and if the manufacturers followed the standards, there would more domestic sales and fewer imports;

- ▶ One way to get standards adopted is to have the architects and engineers that design buildings to call for explicit standards in the construction materials that are being used;
- ▶ And then the construction contractors would demand these standards from the suppliers; and
- ▶ Therefore, KBS focuses on architects and engineers and construction contractors hoping to generate backward linkages to higher quality production by Kosovo building material manufacturers and suppliers.

This chain of logic is not totally conclusive. All activities have been concentrated on the service providers – designers, architects, civil engineers, etc. The producers of construction materials have been omitted, except in the case where a construction contractor is also a material producer. Yet this is exactly where the local business faces huge pressure from imports. In addition, the reconstruction period has ended and construction in Kosovo is now done by Kosovar-owned companies, employing Kosovar workers. It is hard to see the direct link between the project activities and the acceleration of economic growth through import substitution and exports and ultimately job creation. It may be that this activity is best justified by saying that KBS needed to add two product-groups beginning in October 2003 and these two were available, could be positive in the long run and within the resources and timeframe available. On those grounds, the response to being consistent with the SO for this sector would be a qualified, maybe.

1.2 Are the actions taken by the construction team in line with the Action Plan?

The activities are found to be consistent with the Action Plan.

2. What are the main strengths and weaknesses of project activities?

Strengths

The project has focused on one important issue and that it has laid the foundations for a constant and productive dialog between the main stakeholders (apart from end-users) within the construction services sub sector.

Weakness

The link between the service sectors supported and increased economic opportunities, job creation, import substitution and export potential is tenuous, when these same opportunities definitely exist within the construction materials sub-sector.

Recommendations

The Construction Team has been actively engaged with an activity that, although important for Kosovo, seems lightly related to the past and future USAID Strategic Objectives, as understood by the Evaluation Team. Although standards are important, the enactment of those is more likely to be an issue for the negotiations between Kosovo and the EU, as Kosovo begins the process of future integration, rather than a crucial economic growth activity. Therefore those issues are much more likely to be influenced by considerations outside of USAID's declared focus.

In light of the above discussion and despite the dedicated and serious efforts of the Construction Team, there are two main alternatives for the future, based on USAID Strategic Plan 2004-2008:

- ▶ Re-target the project as a nascent cluster competitiveness activity by including the construction materials sub-sector and shifting focus to working directly with producers. This will provide significant opportunities for import substitution, as at the moment most domestic consumption of construction materials is supplied by imports. Many of the imports could be successfully substituted for by locally-made products of similar quality and lower price.

- ▶ Continue the project as is, on a shoestring budget, by using an IVP and a minimum of local staff and shifting most of the organizational work to the newly formed local professional bodies. It is noteworthy that both Wood Processing and Construction sub-sectors are said to consume only \$750,000 LOP, which, while not a “shoestring,” is certainly not an overwhelming draw on KBS resources.

EVALUATION TEAM NOTES ON KBS ASSESSMENT

PROJECT TARGETS USAID MANAGEMENT STYLE

The Evaluation Team concentrated on assessing the impact of KBS and in the process analyzed in some detail the KBS project targets set by USAID. The team assessed the appropriateness of the targets with regard to project objectives and the level of commitment of resources to respond to the targets. The Evaluation Team finding that many of the targets were inappropriate and irrelevant was presented to the Mission and was the subject of a meeting with concerned USAID project staff. The report on target analysis was placed in Volume II of the Draft Final Report submitted to the Mission and is now included as Appendix One to this chapter on KBS and the issues are further discussed here.

There were two reasons why USAID's role in the setting and oversight of KBS targets was highlighted in the Evaluation Report. The first is that targets and how they are set are obviously very important factors in determining the success or failure of a project. It is to USAID's benefit that this analysis is done as a part of the evaluation. Targets and lessons learned are within the scope of work for each project under review. New programs and projects should know how targets have been used in predecessor programs, particularly when the assessment findings indicate important issues.

The second reason for the extended discussion of targets in this case is the role of the USAID program manager in program implementation. It is truism to say there are all types of management styles along a broad spectrum ranging from passive gatekeeper to dictatorial tyrant, with many permutations in between. Obviously, how the CTO goes about providing direction and oversight of a project affects the contractor's behavior and decision-making process. In the KBS case the Evaluation Team found that the original CTO's extraordinary management style had a very negative affect on project implementation that carried over to the time of this evaluation. The project started with a highly directed, non-collaborative target-setting management style that all of the contractors reported as highly intimidating and in general, counterproductive. The contractor reported attempts to revise the targets to better fit the project realities were summarily rejected with a hostile attitude and without serious consideration. Other projects reported similar experiences. When the CTO changed part way through the project, the management model shifted to somewhere toward the more passive end of the scale but remained non-collaborative, but without the hostile attitude. The Evaluation Team found that continued adherence to the USAID set targets and indicators was wasteful of time and resources and seriously inhibited communications between USAID and the KBS contractor. It was also found to be the case with many of the other contractors. The Team was surprised to find that the home offices of the contractors and grantees did not do more to rectify the situation with USAID, particularly after the CTO changed. When asked, the contractors stated that Chief of Party firings by the CTO and threats of contract cancellations had everyone intimidated. There is no evidence that USAID condoned this management style and indeed some corrections were made.

In recognition that development is a difficult business under any circumstances, the evaluation team would recommend to all USAID Missions and all contractors that they attempt to engage constructively in a collaborative partnership in which each party endeavors to improve the impact of the development assistance being provided. The team recommends a model wherein

the contractor and USAID work together to identify problems in implementation and hold an ongoing dialog to seek changes that will improve the results of the projects being funded. There are positive and productive examples of this model in projects in operation within USAID/Kosovo and in the office that oversees KBS, so it is clear that USAID understands collaborative management.¹⁷ Unfortunately this model was not used in the case of KBS or the other projects assessed by this Evaluation Team.

CLIENT SURVEY

Given the short (three week) time frame for conducting this evaluation and the scope and reach of the KBS project, the Evaluation Team employed the use of a client survey to determine the effectiveness of the business services provided by KBS to small businesses and agricultural enterprises in Kosovo. The team chose to interview firms that were in the Core Client category in order obtain maximum data possible in the short time period available. The survey was not prescribed in the scope of work, it was initiated by the Team as part of the evaluation methodology. There was no intent to compare firms that received assistance with those that did not. The purpose of the survey was limited to determining the effectiveness of KBS in providing business services to applicants. Were time and resources available, a comparative study would have been helpful. Within the Core Client group, random sampling was used to select those that were interviewed to avoid biases in the results.

A relevant point is that the 20-firm survey was only one input into the evaluation findings that also included 15 client surveys conducted directly by the Evaluation Team. The survey and its most significant findings are found in total in Exhibit 12 of Volume II.

There is another reason to use Core KBS Clients for a sample. This type of in-depth assistance—that is, multi-service provision—is most likely to be featured in a follow-on program that includes competitiveness and cluster concepts. Thus, the potential to offer more insights for programmatic follow-on is higher than with single-service clients from an earlier period in Kosovo’s reconstruction and development.

This \$15 million project had not before been subject to an independent client evaluation. While KBS’s role was positive from the client’s perspective in the interviews held, earlier use of this tool might have provided better targeting and honing of KBS services. Extracting client perspectives should be considered an integral part of follow-on activities.

¹⁷ USAID oversight of the Bearing Point contract appears to work in this fashion, although an in-depth assessment of this project was not included in the scope of work of this evaluation.

APPENDIX NO. 1

ASSESSING THE DEVELOPMENT IMPACT OF KBS: TASK ORDER TARGETS

SUMMARY

The SME Evaluation is charged with determining the impact of Mission programs and the results of the investment made in SME development in Kosovo. One place to find indicators of development impact would be the KBS Task Order Targets. The analysis that follows profited from discussions with KBS and USAID but reflects the Evaluation Team's judgment on the issues.

The KBS project should be examined against the requirements of Task Orders and Modifications. The timing is:

Original Task Order	Agribusiness Modification (#7)	Competitiveness Modification (#10)
October 2000	July 2002	December 2002
	Adds Agribusiness targets to Original requirements. In practice this lasts one quarter from 1 July 2002 through 30 September 2002 when superceded by Modification #10.	Revises all Targets for year 3 and 4 beginning on 1 October 2002

EXAMINING THE KBS TASK ORDER AND MODIFICATION TARGETS

Each target is considered against five criteria:

- A. Is the concept represented by the target important in determining the impact of an SME development project?
- B. Is the measurement of the target/concept well defined and specified?
- C. Is the target realistic?
- D. Does the target lead KBS toward work that might be important in future USAID programs?
- E. Should satisfaction of the target (or failure to satisfy) be used to judge the performance of KBS?

There are critical issues involved in the targets that are important in a consideration of the impact of SME programs in Kosovo: sustainability, service fees, capacity generation, import substitution, export development, competitiveness, institutional capacity building, etc. As the Task Order has been revised for years 3 and 4, the impact of the later-year's operational priorities will undoubtedly affect the achievement of targets set in prior-years. I have attempted to consider this influence in the analysis that follows.

1. Business Development Services and Training

1.1 Managerial and financial systems installed (and employees connected with the systems trained). [These are systems provided by the Accounting Team, either stand-alone or as part of a business plan]

Targets year 4: 150 ATD: 496 LOP: 520

- A. The concept of broadly-based SME capacity improvement was important in early years of reconstruction when KBS began. Later years TO Modifications apparently change the priority to more directed assistance at a smaller number of selected product clusters and fee-paying clients.
- B. Clear measurements from KBS records of the systems installed and employees trained in the systems, by enterprise. The number of employees trained is not counted for this indicator.
- C. The targets by year are 1:80, 2:120, AgBis:20, 3:150, 4:150.¹⁸ Considering the narrowing of the KBS client base (due to fee-for-service requirements and a priority on few businesses in product areas, the year 4 targets seem high. Achievement has been good todate.
- D. Broadly-provided SME development is not a strong priority of the revised KBS project and does not appear to be critical to future SME programs support by USAID.

1.2 Marketing plans developed and implemented in enterprises. [These are generated by the Marketing team with different modules: sales, trade fairs, marketing components of business plans, etc.]

TargetsYear 4: 130 ATD: 552 LOP: 580

- A. Same as 1.1 above
- B. Clear measurement from KBS statistics.
- C. The targets by year are 1:120, 2:180, AgBis:20, 3:130, 4:130
- D. Same as 1.1 above

¹⁸ Years 1 and 2 from the Original Task Order; one quarter of 2002 from the AgBis Modification, years 3 and 4 from the Competitiveness Modification. ATD=Actual to Date, the Yr 1+2+3+4 totals from the KBS Task Order Targets and Actuals list. LOP=Life of Project Target, which has been calculated as the sum of the targets listed above.

1.3 Effective strategic business plans developed and implemented in enterprises [These constitute Action Plans for the enterprise]

Targets Year 4: 180 ATD: 623 LOP: 680

- A. Same as 1.1
- B. Clear measurement from KBS statistics
- C. The targets by year are: 1:120, 2:180, AgBis:20, 3:180, 4:180. With a shift in priorities against general business development, this target remains high.
- D. Same as 1.1
- E. Indicator useful for examining KBS support to broadly-based SME development—an original concept of the project.

1.4 Operational improvement strategies developed and implemented in enterprises [These are from the Operational Review Meeting (ORM) conducted by the RMs on the implementation of the Action Plans in 1.3 above]

Targets Year 4: 180 ATD: 623 LOP: 680

- A. Same as 1.1
- B. Clear records maintained by KBS
- C. The targets by year are: 1:120, 2:180, AgBis:20, 3:180, 4:180. No reduction in targets in year 4 to reflect new priorities and fee-based requirements.
- D. Same as 1.1
- E. Indicator useful for examining KBS support to broadly-based SME development—an original concept of the project.

1.5 For enterprises assisted, demonstrate sales increases of not less than 20% per month reported month to month by enterprise count of those above 20% sales increase.

Targets: year 4: 90 ATD: 302 LOP: 360

- A. The concept of increased sales from assisted enterprises is important in demonstrating the results of SME business advice. It is predicated on longer-term relationships with enterprises, so that assistance is provided, the business prospers, and figures are available to demonstrate success.

As the enterprise base of long-term clients shrinks—due to the revised KBS priorities and fee-for-service requirements, the numbers of enterprises in the reporting base declines. Thus, the numbers no longer capture the concept of all benefits that have accrued to the enterprise cohort assisted by the project. Continuing sales and profit figures are unlikely to be available from enterprises that KBS assists one-time on a fee-for-service basis.

- B. Month to Month sales comparisons are rarely used to judge performance, since most businesses have seasonally-affected revenues. Either annual figures or moving 12-month averages would provide a much better indicator. The measure as taken is a compound number which puts impossible demands on any one individual enterprise.. That is, if the business sells \$1,000 in month one, 36 months later, to obtain 20% per month sales growth each month, it would need to have gross revenues of \$361,761.50. So this indicator does not reflect steady growth of individual enterprises. Instead it reflects a count of how many enterprises, from the total in the KBS client base, obtained a 20% growth rate for one month. A company could have a 20% growth rate in January, fall 50% in March, April and May, achieve a 20% growth rate in June over the May figures, and be counted as achieving the target. In the following target on profit growth month on month, figures show how it is not necessary to have any overall upward growth for this target to be met.
- C. The targets by year are: 1:60, 2:120, 3:90, 4:90. While the concept is valuable, the measurement is seriously flawed. The original Task Order does not specify month to month sales increases as the measurement for this target.¹⁹
- D. Increasing sales from assisted enterprises, captured and reported in a meaningful way, should be an important indicator of the success of any future SME development program.
- E. This target as measured is not a useful indicator of KBS performance. KBS has annual figures for sales and profit collected from their clients which will be used to assess business development impact for the evaluation.

¹⁹ KBS reports direct CTO instruction in May 2002 to begin using month on month percentage increases as noted for this target indicator and for the percentage profit indicator below.

1.6 For enterprises assisted, increase operational profitability²⁰ by not less than 5% per month, reported month to month by enterprise count of those above 5% profit increase.

Targets: year 4: 90 ATD: 714 LOP: 360

- A. The concept of increased profit from assisted enterprises is critical in demonstrating the results of SME business advice. It is predicated on longer-term relationships with enterprises, so that assistance is provided, the enterprise grows and is increasingly profitable, and figures are available to demonstrate that success. As the enterprise base of long-term clients shrinks—due to the revised KBS priorities and fee-for-service requirements, the numbers of enterprises in the reporting base declines. Thus the numbers no longer capture the concept of all benefits that have accrued to the enterprise cohort assisted by the project. Continuing sales and profit figures are unlikely to be available from enterprises that KBS assists one-time on a fee-for-service basis.
- B. Month to Month profit comparisons would be interesting if provided for the same firm, each month. But the indicator is a count of all firms in the KBS client base which achieve a 5% profit growth one month over the previous month. The measure as taken for one firm is a compound number which puts exceedingly high demands on individual enterprise performance. If the business has a profit of \$1,000 in month one, 36 months later, to satisfy a 5% per month profit growth each month, it would need to earn \$5,791.82 This would move the enterprise from an annual profit rate of \$12,000 to an annual profit rate of \$69,501 in 3 years. This indicator is counted by noting each instance of one firm achieving a 5% profit increase over the prior month. Twenty firms were on the list in August 2003, 41 firms on the list in December 2003. Eight firms were on both lists. The following table of shows the complications in using this indicator:

<u>Firm</u>	<u>August 2003</u>	<u>December 2003</u>
	<u>Ending Profit</u>	<u>Beginning profit</u>
Adi	28,100	19,350
Tandems	5,800	5,150
Maja Nesovic	3,280	4,170
Liria-Maliqi	23,446	16,841
Ribnjak	2,100	1,600
Bazim Wood	750	390
Mladenovic	800	1,000
DTS Kondi	9,850	12,800

²⁰ Operational profitability is thought to be Earnings before Interest, Taxes and Depreciation (EBITD).

Only three firms on both lists actually had profit levels increase between August and December 2003. The others dipped, but made the list because they scored a 5% increase over a previous-lower base-month.

- C. The targets by year are: 1:60, 2:120, 3:90, 4:90. The concept is important but the measurement is seriously flawed. The original Task Order did not specify month to month comparisons of profit levels.
- D. Increasing profit in assisted enterprises, captured and reported in a meaningful way, should be an important indicator of the success of any future SME development program.
- E. This target/indicator has no value in assessing KBS business development performance. KBS has annual figures for sales and profit collected from their clients which will be used to assess business development impact for the evaluation.

1.7 Effective training programs offered to the broad business community measured by the number of people trained

Targets year 4: 600, ATD: 2,618 LOP: 1,675

- A. Concept valuable for rehabilitation and reconstruction as KBS began, but less valuable as an indicator of SME development in more stable conditions.
- B. Measured from KBS records
- C. The targets by year are: 1:75, 2:400, 3:400, 4:800. Life of Project targets are already exceeded.
- D. Not a priority moving forward
- E. Useful in demonstrating broadly-based non-differentiated support to the SME community, an original project target.

1.8 Business resource materials disseminated to enterprises

Targets: 4: 2,000 ATD: 7,897 LOP: 4,500

- A. Same as 1.7
- B. Same as 1.7
- C. The targets by year are: 1:150, 2:350, 3:500, 4:3,500. Life of Project targets are well exceeded.

- D. This activity was undoubtedly important in earlier years but is not sufficiently targeted to be included in future SME programs.
- E. Useful in showing KBS providing an input to SME development.

2. Training and Certification of Accountants and Auditors

[Targets 2.1 through 2.6 were added in the Competitiveness Modification #10 in December 2002. They are in support of legal and regulatory reform. The reforms called for certifications by accountants and auditors, and none was available. The targets were intended to provide training, examination and certification for accountants and auditors. By themselves, these targets are only lightly connected to SME development, but did support of the Economic Reconstruction Project which affected the environment in which SME business is transacted.]

2.1 Provide certification training for auditors by number of attendees.

Targets year 4: 80, ATD: 13 LOP: 130

- A. Import for regulatory reform
- B. Measurements are clear from KBS records
- C. The yearly targets were not specified in the original task order except as offered by “partner organizations” totaling 90 participants. KBS has met all of the certification training responsibilities that have been made available by the KFRB²¹, which has the responsibility to schedule/license certification exams for auditors. Training was provided for 13 “Fast Track” auditors. The Ministry of Finance dismissed the KFRP Board, and no further certified auditor training has been authorized at this time. Thus, the targets are not useful in analyzing KBS performance, since the fulfillment of the target is not within its jurisdiction.
- D. KBS responded to requirements for specialized auditor training and examination and could respond again if government agencies scheduled the examinations.
- E. A tangential KBS performance achievement.

2.2 Provide certification exams for auditors by the number of exams.

Targets year 4: 2 ATD: 1 LOP:4

Same issue as described above

²¹ Kosovo Board on Standards for Financial Reporting

2.3 Provide pre-professional stage certification training for accountants by number of attendees

Targets: year 4: 500 ATD: 763 LOP: 900

- A. A task to improve the inventory of certified accountants who could sign-off on business applications, tax submissions, etc
- B. Measurement from KBS records
- C. As part of creating a sustainable accounting training and certification process, KBS assisted in establishing SCAAK.²² For the past two training cycles, SCAAK has provided pre-professional stage certification training, eliminating the requirement for KBS training. Thus the year 4 targets may not be met for good reasons—the building of local capacity to provide what is needed.
- D. If KBS can transfer skills to SCAAK during the remainder of the contract, there will be little requirement for continued certified accounting training in future USAID-sponsored projects.
- E. A tangential KBS performance target.

2.4 Provide Pre-professional exams for accountants by number of exams

Target year 4:3 ATD: 3 LOP: 5

Same issues as above

2.5 Provide Professional stage certification training for accountants by number of trainees

Target year 4: 100 ATD: 127 LOP: 150

- A. Specialized directed training for purposes of implementation of legal and regulatory reform
- B. Measurement from KBS records
- C. Not in original Task Order. Relatively straightforward requirement to be met before the project ends.
- D. Not required for continued USAID SME development programs.
- E. A tangential KBS performance target

²² Society of Certified Accountants and Auditors of Kosovo

2.6 Provide professional stage certification exams for accountants by number of exams

Target year 4: 3 ATD: 3 LOP: 6

- A. A continuation of the task noted above.
- B. Measurement from KBS records
- C. KBS provides certified examinations at the request of SCAAK. When SCAAK agrees to hold future examinations, KBS will provide them. If not, KBS should not be held accountable for the target, which is out of its control.
- D. Not required for continued USAID SME development programs.
- E. A tangential KBS performance target

3. Trade and Investment

3.1 Trade and investment data of enterprises developed/expanded. [Included in KBS website]

Targets: Year 4: 500 ATD: 9,000 LOP: 9,500

- A. This data base might be shown to be useful for trade and investment linkages, but no data are yet available to make this claim.
- B. Measurement by data entry numbers
- C. The targets by year are: 1:1,000, 2:3,000, 3:5,000, 4:500. This target is easy to satisfy (adding 500 entries) if it is worthwhile. Some discussion should take place on the utility of this data base and the alternative use of KBS staff in potentially higher priorities.
- D. Useful as part of a forward program only if shown to influence trade or investment in some positive way.
- E. Not a useful indicator of KBS impact on SME development.

3.2 Trade and investment linkages lead to increased investment, by number of linkages

Target year 4: 350 ATD: 682 LOP: 765

- A. Linkages are important to SME sector growth and if combined with investment or sales are important concepts to measure to demonstrate performance.

- B. Linkage as used by KBS has specific definitions to be included in the statistics if a linkage: a) identifies new raw material suppliers, b) adds new technology or capital goods, c) adds exports, d) joins two Kosovo firms to create import substitution.
- C. The targets by year are: 1:30, 2:60, 3:100, 4:575. Unclear why the very large target increase in year 4. This target does not meet the “reasonable” test, in the absence of information that explains why year 4 should be 3 times the expected total of the prior 3 years. KBS has over fulfilled its three-year targets.
- D. Some indication of success in linking Kosovo and external firms to increase trade and investment should be included in future USAID SME programs.
- E. A useful indicator of KBS performance on trade and investment goals.

3.3 Trade and investment linkages lead to increased investment valued in EUR million.

Targets year 4: 35 ATD: 23.7 LOP: 77.9

- A. Important concept for SME development
- B. Measurements available only from KBS client firms while a good deal of KBS energies continue in broadly-based SME support (non-clients) or one-off paying SME clients who are unlikely to provide investment figures.
- C. Targets by year are: 1:10MM, 2:25MM, 3:50MM, 4: -8.9, meaning that the original targets were reduced when it became clear they were unreachable. Given that the actual to-date numbers are 23.7 million EUR, which includes the value of loans drawn by KBS client companies, the attainment of 77.9 MM by contract end ranges from unlikely to impossible. Since the original targets were set out of the range that could be accomplished, the attainment or lack of attainment of the target does not appear to accurately reflect the performance of the KBS team.
- D. Measuring investment and trade increases is important and should be continued in a future USAID SME development program.
- E. The achievement of, or failure to achieve, arbitrary targets should not reflect, one way or the other, on the performance of the KBS project.

3.4 Business to Business (B2B) meeting by number of events

Targetsyear 4: 15 ATD: 21 LOP: 27

- A. Business to Business meetings are a process to increase trade and investment. In so far as they do, they are a useful input. The concept to be measured is increased trade and investment, not meetings.
- B. Measurement is uncomplicated.
- C. Not included in the original Task Order. There have been 21 B2B meetings to date with more planned. This does not seem to be a case where 1 B2B is good and thus 25 are better. There must be a number of meetings that maximize trade and investment opportunities while minimizing supporting funds. This number is likely to be less than 15 in the third year. Returns from B2B and Trade Fairs declines as the linkage market is saturated. B2B and Trade Fairs generated 5,862,000 Eu during 2002. In 2003, the corresponding number was 1,581,000 Eu. In 2004, some B2B are lightly attended. Thus, not scheduling 15 trade and investment meetings in the final year of the contract may be sound financial management, rather than a failure to meet an arbitrary (that is, contains no explanation of why this number is better than some other number) target.
- D. This input measurement should not be included in future USAID programs as it is essentially “buying” B2B meetings, rather than promoting SME development.
- E. Useful indicator of KBS organization and promotion of trade linkages through meetings.

3.5 Trade Fairs by number of events

Targetsyear 4: 5 ATD: 11 LOP: 27

- A. Trade fairs are a process to increase trade and investment. In so far as they do, they are a useful input. The concept to be measured is increased trade and investment.
- B. Measurement is uncomplicated and contained in KBS records.
- C. Not included in the original Task Order. This does not seem to be a case where more is obviously better. See the above discussion of B2B meetings, as Trade Fairs are analogous.
- D. It is trade and investment that should be measured in future USAID programs.
- E. Useful to show KBS ability to organize and get attendance at trade fairs.

3.6 B2B meeting and trade fairs by the number of Kosovar businesses participating

Targetsyear 4: 1,000 ATD: 839 LOP: 1,640

- A. As above, meetings and fairs are inputs into increased trade and investment, which is the concept to be measured.
- B. Measurement is uncomplicated.
- C. Not included in the original Task Order. The final year target appears to be arbitrary and, if pursued, might create a diversion of KBS resources from other more important priorities. See the discussion under B2B above for consideration of what is important in linking businesses.
- D. Future USAID SME development programs should find ways of measuring increased trade and investment.
- E. Useful in showing KBS ability to bring Kosovar businesses together.

4. Sub-Sectoral Competitiveness

4.1 Sub-sectoral competitiveness plans developed and implemented

Targetsyear 4: 4 ATD: 12 LOP: 12

- A. This input is completed.

4.2 Reduction in imports of year 3 sub-sectors targeted for import substitution (cumulative) [from processed potatoes, mushrooms, eggs, yogurt, processed milk, medicinal herbs, wood furniture and wooden doors and windows. Only eggs, processed milk, yogurt, mushrooms and medicinal herbs had reported import substitution production in year 3]

Targetsyear 4: 40% ATD: 8% LOP: 55%

- A. A cluster approach would examine the totality of the products produced in the cluster, and determine how the overall enterprise group responded and prospered. The concept of import substitution and export generation as a result of business assistance is excellent.
- B. The devil is in the measurement. There are no direct statistics that will capture imports or exports at the level of detail needed for this analysis. So KBS uses sales from companies within the sub-sectors as proxies.²³ The process used to generate the numbers—and KBS expended significant resources to accomplish this—was to estimate from any possible source

²³ Any product which has zero in the base makes a percentage calculation unmanageable.

total imports in 2002 for the 5 products identified above. They then established an estimated domestic production base for the five products for 2002, calculated the additions over and above the base from September 2002 to August 2003 (this makes four months overlap, so the increase is only for 8 months). All imports and production figures were monetized, and the additional production figure was taken as a percentage of total imports of the product in 2002. The weighted average increase was 7.9%. There are so many imponderables in the assumptions used to generate the calculations, that one disaster, or lucky strike, will condition the entire set of numbers. I would be hesitant to use these numbers to score the performance of SME business development support.

- C. I can find no basis for the generation of the targets. They appear to be unreachably high given the condition of Kosovar business at this time. A 55% reduction in imports when the cost of production in Kosovo is not appreciably lower than nearby exporters, is probably wishful thinking in the short period of time between the revision to the original Task Order and the end of the contract.
- D. The concept is excellent, the measurements need careful attention and improvement.
- E. This target is not useful in assessing KBS SME development performance.

4.3 Reduction in imports of year 3 sub-sectors targeted for import substitution in Euros

Targets: year 4: 30,000,000, ATD: 3,040,000, LOP: 41,240,000

Please see 4.2 above, as this is the mirror image of the same requirement levied in Euros.

4.4 Exports for year 3 sub-sectors targeted for export increase in % of sub-sectoral exports. [from mushrooms, medicinal herbs, essential oils, wooden furniture and wood doors and windows]

Targets year 4: 200% ATD: -20% LOP: 250%

- A. Good concept, experts should increase in a successful SME program.
- B. Measurement, as 4.2 and 4.3 above, is the challenge.
- C. The assumptions, the small number case, and the zero base for percentage calculation, make the numbers vulnerable to serendipitous highs or lows—in this case a drop in mushroom production and sales that was weather related. Mushroom exports dominate this category, providing 98.5% of the exports identified in 2002. But these exports are from wild mushrooms, collected in the forests. When it does not rain, there are far fewer mushrooms, reducing exports in a way that KBS cannot influence. KBS

has assisted with international marketing of wild mushrooms, with technology for domestic production (button mushrooms, a different variety than the exports), and has all three major mushroom processors as clients. But the level of exports, in this very thin market, cannot be used to judge KBS performance, that is, KBS did not work to create a negative impact on exports. Similarly, if the numbers were very high from an unusually high-yielding wild mushroom production, KBS should not be credited with great achievement in increasing exports. Small numbers, short time percentage changes, seasonal fluctuations, all make conditions that are not sufficiently stable to be used to judge performance of business advisory services.

- D. The right concept for future consideration of SME support but needing far more precise measurement to judge performance and impact.
- E. Not a useful target under present measurement restrictions to judge KBS performance.

4.5 Export increase for year 3 sub-sectors targeted for export increase in Euros. [from mushrooms and essential oils]

Targets year 4: 10,000,000 ATD: -595,000 LOP: 12,500

See the discussion immediately above, this is the mirror image of percentage export target.

4.6 Employment creation (with the competitiveness sub-sectors selected)

Targets Year 4: 2,500 ATD 697 LOP: 3,500

- A. Good concept
- B. Measurement is from the enterprises that are long-term clients of KBS
- C. Meeting the targets requires either unused capacity that can be activated without new capital equipment—that is with only working capital—or new capital infusion to expand plant and equipment. If new capital infusion, assuming a very small worker to new capital ratio of 1/1,500E, reaching the target would require 5,250,000E in new investment. If the employment ratios reported by Raiffeisen Bank (12,700 per new job) are used, reaching the LOP target would require an infusion of 44,450,000 E. In the time since December 2002, it seems just as unlikely that this investment would be made as that hopeful target(3.3), of 77,900,000E in new investment funds could be reached. This target as stated appears wildly optimistic and arbitrary.
- D. Employment generation is an important goal if that employment is in productive enterprise adding value to a product that can be sold. Many

rehabilitation programs use labor-intensive manual labor—road constructions, canal cleaning—to generate immediate cash in the hands of a desperate population. But there is little sustainability in this approach, and value added employment takes capital, management, marketing and productive efficiencies, all aspects of business that require improvement over time.

- E. Meeting the arbitrary target does not appear to represent a useful standard for determining the impact of the KBS program.

4.7 Number of targeted sub-sectors with quality certification programs (cumulative).

Targets year 4: 8 ATD: 0 LOP: 14

- A. Good concept for judging sector/cluster performance
- B. Certification programs require standards, which are then certified as being met by individual enterprises. Kosovo does not have a set of accepted standards. These must be created, explained, agreed and approved by a certification body, which must be formed. We have observed working group meetings in action, and they are taken seriously by the participants. But the process is not fast, and the targets are likely not going to be met by project completion since this is not an output that KBS can deliver on its own. There must be some local organization that agrees to be part of the standards/certification process, both to set standards and to certify that they are being met.
- C. The Evaluation Team paid special attention to this target to attempt to determine if there is a faster path to fruition of a certification program. We did not find one.
- D. The concept needs to be expanded and made part of cluster development support in any future SME program.
- E. The time frame before project completion makes this target unreachable by KBS.

5. Revenue Generation

The target deserves some special explanation as it is not a question of whether it can be met—it is question of whether it is reasonable to assign this target when USAID has other priorities that are important, such as creating sustainability for the capacity generated by KBS. There may be a real confusion in goals to be achieved, since the Task Order seems to state that fees equal sustainability, when the Evaluation Team believes that the opposite is more likely to be true.

Modification 10, page 3, states the tasks of, "...simultaneously developing post-project sustainability. This shall be accomplished through:

- A) Kosovarizing the business development staff and commencing a co-payment strategy which will be sufficient to cover the full cost of providing those services.
- B) Increasing the impact of Trade and Investment (including B2B and Account and Auditor Training and Certification activities, while developing and implementing a plan for sustainability.
- C) Expanding the focus on Sub-Sectoral Competitiveness through.....”

While post project sustainability of capacities developed under KBS is a very important topic, the relationship of sustainability to the collection of fees for KBS services is murky. There appears to be no good reason to charge fees if those fees cannot be used to sustain services in the future. According to the past Regional Contract Officer, the fees must be added and then subtracted from the Chemonics voucher, effectively washing the transaction. Therefore, no one benefits from the fees paid, but the paying clients clearly lose. And by paying KBS for services, clients use funds they could pay local institutions that could use the fees to build capacity and continue services after KBS ends.

Fees might have been included in the Task Order to prove that some KBS services are valuable enough that, even in the constrained economy of Kosovo, clients will pay. Those services that lead to immediate income gains—such as certified accounting training—are most easily monetized. In 2003, some 60% of KBS fees originated in accounting and audit training. However, sustainability is not reached by charging client fees based upon USAID contractor’s costs, even for local hire staff. Sustainability is reached by providing services, for which there is a demand, at a price point the local enterprises will bear.

There is no way to make KBS sustainable in its present form, USAID contractors do not work at price points appropriate for local consulting services. However, components of KBS can be integrated into local institutions, many already created with KBS assistance. These include SCAAK, for certified accounting training, the Kosovo Export Association (KEA), and the many associations or working groups associated with the 12 product lines under the competitiveness initiative. If the fees collected from some KBS services could be used to support local associations, then there would be some merit in their application. However, fees collected from local associations and paid to KBS—such as from SCAAK, or fees foregone for T&I services--from KEA, confound sustainability goals.

The fee discussion needs to be held with a better understanding of four elements:

1. Revisiting with the new Regional Contracting Officer, the potential use of fees, presently washed through the KBS voucher, to bolster sustainability of local agencies and institutions;
2. If 1. above is not contractually possible, then disregarding the fee requirement in the Task Order so that local associations can receive full benefit of KBS training or trade linkages to improve their chances of sustainability;
3. Allowing KBS staff to be seconded to local agencies and institutions to create capacity and sustainability during the final months of the project; and

4. Reconsidering the potential loss of capacity being delivered by the project if all services (other than competitiveness) must be fully paid (99% of local staff costs and 60% of most Other Direct Costs associated with local staff providing the services) by fees during the project's final six months.

Not to undertake these steps will place KBS in a nearly impossible position attempting to satisfy two conflicting USAID-announced goals for the project.

KOSOVO BUSINESS FINANCE PROJECT (KBF)

HISTORY

On 10 May 2001, Deloitte Touche Tohmatsu Emerging Markets, Ltd. signed contact No 167-C-00-01-0010600 for the implementation of the Kosovo Business Finance (KBF) project. This project is complementary to the Kosovo Business Services project (KBS) which had begun six months earlier. As with KBS, KBF was also initiated under the Mission's Strategic Objective 1.3: Establishment of an Economic Policy and Institutional Framework that Facilitates the Recovery and Expansion of the Private Sector-Led Economy. IR 1.3.5 was Small and Medium Scale Enterprise Development.

In rapid succession, the KBF team applied for and received a lending license as an NGO, the Kosovo Business Finance Fund (KBFF) in June 2001, and established the internal requirements for a functional lending operation:

- ▶ Recruited and trained 25 Kosovars in lending and administrative skills;
- ▶ Established credit policies and a Credit Policy Manual;
- ▶ Created lending documentation;
- ▶ Established the Loan Information System to track loans;
- ▶ Commenced lending, with the first loan sent to USAID for approval in June, ahead of schedule, but withdrawn due to client issues; and
- ▶ Approved five loans in August 2001.

At the same time that loans were being made, KBF undertook the major requirement of the contract—to establish a full-service bank, the American Bank of Kosovo (ABK). This was originally done with cooperation from Rabobank under the Rabo International Advisory Services (RIAS) of the Netherlands. KBF completed the following requirements in the first quarter of implementation:

- ▶ Obtained a bank license, preliminary in August and final on 8 November 2001;
- ▶ Created the necessary legal entity—a joint-stock company with founding shareholders, KBF (97.3%) and RIAS (2.7%);
- ▶ Arranged for start-up capital to be paid to an escrow account;
- ▶ Secured bank premises;
- ▶ Established corresponding bank relations with Raiffeisen Bank of Austria;
- ▶ Selected a core banking system—Globus—to be installed;
- ▶ Established policies and procedures for bank operations;
- ▶ Began accepting deposits on 12 November 2001; and
- ▶ Booked 50 loans of the 61 KBF submitted for USAID approval.

By the end of the first year, KBFF lending operations had been fully incorporated into the ABK, which at that time recorded 16.3 million Euros in deposits and 6.7 million Euros in loan disbursements, of which 92.4% were in the manufacturing/production industry sector. The ABK purchased from BPK 6 branch bank facilities and 5 sub-branch facilities and established a joint office with KBS in the minority area of Zvecan.

By the end of the project's second year, 20 months of credit operations, the bank had disbursed 1,060 loans with a total value of 27million Euros, surpassing USAID targets in this area. Approvals by the credit committee totaled 2,175 loans. The bank had 7 branches and 10 sub-branches. On 10 December 2002 seventy-six percent of ABK's equity was purchased by Raiffeisen International Beteiligungs AG, and the ABK was renamed Raiffeisen Bank, Kosovo, with KBFF holding the remaining 24% of the equity. In May 2003, USAID directed KBF to sell the remaining 24% and exit from the Raiffeisen Bank altogether.

On 10 July 2003, Raiffeisen International Beteiligungs AG purchased the remaining 24% equity held by KBFF and the KBF project ended its role in bank lending in Kosovo. USAID elected to change the scope of work for the KBF contract and established an educational endowment fund with the proceeds of the bank sale. The remaining KBF expatriate consultants were demobilized in July 2003.

As of KBF's exit from the bank, its credit officers had approved 2,408 loans, with an average loan size in the portfolio of 28,000 Euro and an average loan term of 15 months. Employment generation was found by survey to result in one new job for every 12,069 Euro of loan volume, considerably above the USAID RFP-estimated number of approximately 5,500 Euros per new job. The portfolio had shifted from its original concentration on productive enterprise. In July 2003, 52% of the loans were in the manufacturing/production industry, 15.8% in the service industry, and 32.2% in trade.

Deloitte reported that the proceeds from the sale of equity to Raiffeisen amounted to 45% of total project costs, listed in the November 2003 quarterly report as \$19,068,489.07.²⁴ If this figure is correct (there is room for some uncertainty as the numbers may add to or be included in other totals), this would value the sale at slightly over \$8,500,000. The project cost is listed as \$10,500,000.²⁵

OBJECTIVES

Deloitte describes its mission in each Quarterly report as follows:

- ▶ Support the recovery and revitalization of small and medium enterprises (SMEs) in Kosovo by providing a quick response SME credit facility;
- ▶ Establish a full-service bank to mobilize deposits and provide other financial services to SMEs in Kosovo; and
- ▶ Provide technical assistance to develop the financial analysis and management capability of Kosovar bank professionals to assure post-project sustainability.

USAID assigned award fees to this contract that provide another insight into what was expected, analyzed under the Impact section, below.

²⁴ Deloitte Touche Tohmatsu, Kosovo Business Finance Project, Quarterly Report September 1-November 30, 2003, "The sale of shares resulted in a reimbursement of approximately 45% of USAID funds spent on the implementation of the KBF project." Page 4.

²⁵ The Evaluation Team has no way to value the loan portfolio purchased by Raiffeisen.

IMPLEMENTATION

1. *Were activities properly target to achieve objectives?*

All through this evaluation the issue of what USAID desired compared with the private sector profit interests of the commercial bank partner is discussed. The interests of the two do not completely coincide. USAID wanted SME loans in productive sectors and got them early in the project, but continuing pressure by Raiffeisen to increase profitability decreased the percentage of the SME loans in the ABK/Raiffeisen portfolio. USAID wanted the commercial bank to continue “specialized” SME lending, but the Raiffeisen policy was and is to lend for profitability, including to SMEs. It was also USAID’s objective to establish a full service commercial bank operating in Kosovo. At the same time USAID wanted loans to SMEs in priority development sectors with employment generation potential that in many cases ran counter to the revenue requirements of the bank. The activities were not properly targeted. SME lending cannot be a major part of a commercial bank business plan. A small portfolio of profitable SME loans are compatible with commercial bank lending but not to the scale that USAID wanted in this project. SME lending should be a separate activity, probably managed by an NGO with lower operating costs and profitability objectives.

2. *What are the main strengths and weaknesses of the project?*

This is a continuation of the above question. USAID set out to achieve something risky, perhaps even audacious, in creating a free-standing commercial bank in Kosovo. With a great deal of hard work by everyone, and the fortunate partnership arrangement that developed with Raiffeisen, the project was a qualified success. But it was not clear from the beginning that they had a successful business plan. ABK was losing money and would have required additional USAID capital to continue operations if Raiffeisen or some other bank had not injected equity in December 2002 and, of equal importance with capital, taken an active role in management.

3. *Major Constraints and Amelioration?*

It is never easy for government agencies to engage in private enterprise, particularly commercial finance. USAID had development objectives, along with conditions and constraints imposed by Congress. As one example, during the period that KBF held 24% of the equity, the new Raiffeisen Bank CEO made a loan to a company engaged in the wine trade, a violation of USAID regulations banning support for enterprises engaged in alcoholic beverage production and sales. This called for Raiffeisen Austria to buy the loan and caused the Kosovo bank managers to carefully study relevant USAID operational policies. USAID also a) had ABK become a disbursement agent for pension payments and other social allotments. The bank managers complained that this caused clogging of the lines at the bank making it difficult to conduct regular retail banking functions. USAID wanted to continue lending to sectors not achieving adequate returns by commercial bank standards. Raiffeisen managers also complained that USAID insisted on beginning ATM machine procurement before the bank was actually

ready for them. and d) regularly intervene in what is meant to be—to ensure sustainability-- a commercial operation.²⁶

4. *Were activities coordinated?*

KBS and KBF were sister projects, even co-locating offices in a Serb minority region. In the earlier days, there were regular meetings between the two projects and mutual examination of the bankability of KBS clients. In later years, KBS was fulfilling an AID-directed target to send 20 referrals a month to ABK. In 2003, for example, this required number would have exceeded the total list of KBS current clients, most of whom had already been submitted for funding. Fulfilling this target changed the relationship from one in which KBS was invested, and had real insights into the company's operations, into one in which there was far less direct contact and ability to explain the company's prospects.

5. *Cost effective implementation?*

The contract contained three CLINs as follows with the expenditure figures for August 2003:

CLIN 1: Technical Assistance:	\$9,969,799.07
CLIN 2: Loan Funds:	\$5,000,000.00
CLIN 3: Bank Startup Costs	\$4,098,690.00
Total:	\$19,098,498.07

Certain contract costs were paid with funds from the proceeds of the bank sale, a total of \$1,551,096.02, which appears to be the approximate difference between the Obligated and Expended project funds. Raiffeisen paid \$8,500,000 for the bank and its portfolio, including loan capital, costed at \$19,000,000 (the above expenditure figure). Since it is not possible to value the portfolio that was sold to Raiffeisen Bank, a good approximation is to ask whether, for \$10,500,000, Raiffeisen, or any bank, would have been willing to set up operations, train staff, obtain agreements and begin lending. And if they could have done so, would the SME community be as well served as they have been by KBFF and ABK? The evaluation team cannot answer those questions but it important for USAID to consider them before undertaking another similar project.

IMPACT

1. *Assessing performance against targets*

Modification #10, signed in December 2002, contains benchmarks against fee award. One such award fee benchmark was, "Percentage of Total Share Capital in Banking Institution Owned by Reputable Foreign Financial Institution". Deloitte met this goal at 100% foreign equity. The

²⁶ This directed method of intervention by USAID was common to all projects in this SO category. "Partners" were required to concentrate excessively, they argue, on achieving specific numerical targets in their contracts and grants, rather than focusing on the overall objectives of the projects and allowing some flexibility and adjustments in targets to fit the changing realities of implementation.

quantitative benchmarks for loan disbursements and deposits, and the Deloitte Self Assessment, are as follows:

Prorated Criteria	Self-Assessment
Loan Disbursements and Deposits:	
• Volume of loans disbursed: 167	Over 475
• Value of loans disbursed: 9M Euro	Over 11.5M Euro
• Delinquent loan rate: 3%	1.80%
• Value of deposits mobilized: 167M Euro	70M Euro

Only in Value of Deposits was a target missed, and this one was placed impossibly high in Modification #10 after KBF exceeded all the original deposit targets. As KBF patiently explained quarter after quarter, deposits leveled out in Kosovo, so increasing deposits meant taking them from other institutions. This, along with the purchase of KBFF/ABK by a reputable foreign bank, has to be judged a highly successful performance by a contractor under difficult circumstances.

2. *Greatest Accomplishments?*

KBF and USAID made it work, that is, the complicated arrangements and process to transform a “socially owned lending facility” into a full-service commercial bank. In the process they provided millions of dollars in SME lending. It might have cost a bit more than alternative models, but one cannot argue with success.

3. *Job Creation?*

KBF job creation goals were not part of the fee award benchmarks. Surveys of KBF/ABK/Raiffeisen clients, in July 2003, showed 5,348 new jobs, one for every 12,069 Euro of loan volume. This is a high, capital-intensive ratio. Smaller SMEs and those financed by micro-credit are generally favored for employment generation, but FINCA shows nearly 6,500 Euro lending for each new job. Enterprises in Kosovo seem to accept loans and add capacity without creating much new permanent employment. They may be overstaffed with excess workers that can only be fully occupied by a new capital infusion.

SUSTAINABILITY

1. *Institutional and legislative reforms*

While many reforms have been taken under the Economic Reconstruction Project, several remain to be completed. A critical one to the sustainability of the banking sector is the ability of creditors to confiscate real estate and other assets when borrowers forfeit on their loans. Decisions regarding collateralized asset confiscation in Kosovo are made by local municipal officers, and the laws are applied inconsistently. Many donors, including the World Bank which has slated a reform activity for funding in their new grant program for Kosovo, argue that more powerful creditor rights would free up lending and make it available to those willing to pledge collateral. This might be particularly true for Pro-Credit Bank, which is said to be lending less

than 30% of its deposit base. Raiffeisen Bank has a rate of 60%, the five local banks are closer to 70% and FINCA lends close to 90%.²⁷

2. *Can Raiffeisen Bank carry on?*

Although not yet profitable, Raiffeisen Bank is moving in that direction. It has entered Kosovo for the long term and expects to show positive numbers in 2004. The owners²⁸ added 2.5 M Euro in capital in 2003 and are preparing to add 5M Euro in 2004. Like any new bank, it is still finding efficiencies and the right portfolio to obtain operating profits that cover operating costs. Loans from Raiffeisen are longer in term and more favorable than for Pro-Credit and it provides a welcome bit of competition in the international banking market.

LESSONS LEARNED

1. Raiffeisen Bank is lending commercially in Kosovo, including housing, consumer credit and trade loans. Its portfolio of agribusiness, defined very liberally to include all food processing and soft drinks, is down to 10%. Its minimal loan has become 10,000 Euro, with 16-18% interest for first time borrowers under 35,000 Euro, and 2% a month between 35,000 and 50,000 and 1% above 50,000. They expect to make 50 loans a month. In loans over 30,000 Euro, they want immovable collateral. In the city, land is acceptable, but in the countryside, there may be no market for repossessed property as all of the neighbors may be relatives or friends who would not buy a bank-auctioned property. If there is a new start-up activity, the bank will want to see cash flow from an existing business line that would cover the full costs of interest and principle. While in theory it will lend for agricultural inputs, in practice, they like regular payments, not seasonally adjusted. The Bank provided credit to a mushroom grower with seasonal income and did not receive the repayment as scheduled, which further dampened its enthusiasm for “irregular” lending. In some circumstances, they are prepared to accept a grace period for one year of interest-only payments. The lesson is that commercial banks will act like commercial banks, not like an extension of a USAID project.
2. In development terms, the question is whether it was worth \$10,500,000 to create the commercial bank and do the other activities of this project. When compared to other donor expenditures in Kosovo, where the impact is often hard to see after the money flow has ended, the sustainability of the result suggests this investment was worthwhile. Getting support out to the SME sector early in the recovery process was a definite benefit. The confidence in the “American bank” was an important impetus in the financial sector. The speed with which USAID was able to move in getting this (and other projects started), according representatives of other donors, was an inspiration to all. This is particularly notable for an organization not generally known for quickness.

²⁷ FINCA, of course, does not take savings and thus has far lower reserve requirements.

²⁸ Raiffeisen is owned by hundred of local banks in Austria, the periphery owns the center, rather than the other way around. This gives the bank great stability, as the local banks exist by serving a community and are not, by all reports, complete profit maximizers in the usual way.

RECOMMENDATIONS

This was a very high-risk undertaking in the context of a very unique set of circumstances that are not likely to be encountered again anytime soon. The project succeeded in large measure because a private bank came along at just the right time and was also willing to take a substantial risk by joining an enterprise with a foreign government agency whose objectives and procedures were not fully compatible. There are not many companies in the international arena that would be willing to take that sort of risk. USAID and Deloitte were having a very difficult time managing the bank. It was showing operating losses at a substantial level. Without the Raiffeisen buy-in, with continuance of the non-commercial direction from USAID, the ABK was not a sustainable operation at the time of the first equity sale in December 2002.

USAID is a government bilateral development agency and has a very clear developmental mission statement and objectives. It has organizational procedures and requirements that prevent it from operating effectively in the commercial sector as an “owner-manager” of business enterprises whether in finance, trade, agriculture or manufacturing. If it is necessary for USAID to get involved in order to jump start private sector activities in critical situations as in Kosovo after the war, we recommend then by all means take some risk, get things going and turn it over as soon as possible to a commercial enterprise that knows how to do it. But have a clear program plan the starts out with the mandate to identify the private sector hand-over firm to receive the enterprise at the earliest possible date.

FINCA/KOSOVO

BACKGROUND

FINCA International was the first microfinance organization to be licensed in Kosovo after the 1999 conflict, officially registered on January 28, 2000. The initial USAID grant founding FINCA Kosovo (FINCA/K) was 4,042,381 US dollars. FINCA/Ks first disbursement was in March of 2000 in a ceremony with HRM Queen Rania of Jordan (a FINCA International board member). FINCA now has five locally staffed offices, Prizren (HQ), Gjakova, Ferizaj, Gjilan, Peja and 10 sales and service sites offering credit programs in 21 of 30 municipalities in Kosovo including 11 municipalities considered “minorities” areas where FINCA provides services to Serb, Bosnia, Turk and Roma clients. FINCA/K received tranches from FINCA/Int’l as needed for TA and loan capital.

FINCA/Ks current net unrestricted assets (Equity) are 2,585,948 M Euro as of August 31, 2003 (Independent Auditor’s report by Deloitte and Touche) of which a majority is from the original USAID grant. FINCA/K has also received a 300,000 DM grant for Loan Capital from UNMIK in 2001 and a 102,258 Euro grant for Loan Capital from OSCE to support Micro/Small business lending to minorities (Serb, Bosnian, Roma, Goran, and Turkish) in Kosovo. FINCA/K was the first to lend in Serb enclaves. In June of 2002, FINCA/K received the first disbursement of a 1.75 M Euro revolving loan fund from KfW. This was the result of an extensive 2-year process involving three feasibility studies. FINCA/K is the only Micro Finance Institution (MFI) selected by KfW to participate in this loan fund. The loans are for a 5-year period ending in 2007 at 3% per year. FINCA/K currently has a 3.8 M euro (5 M USD) outstanding loan portfolio. With the above-mentioned 1.75 M Euro fund, FINCA/K should have sufficient loan funds for the short to medium term depending on demand for the small loan sector in Kosovo. FINCA/K is also pursuing an additional 1 M euro KfW credit line for its new housing improvement loan product (see Exhibit 13 in Volume 2).

COMPETITION

There are 10 active Microfinance Institutions (MFI) in Kosovo. These MFIs are competing for the micro entrepreneur, small family business and the rural or agricultural based loan. There average outstanding loan size is between 636 Euro and 2,910 Euro with FINCA/K being in the middle with an average outstanding loan size of 1,881 euros (BPK monthly statistics for Dec. 2003). The majority of the MFIs belong to the Association of Microfinance Institutions of Kosovo (AMIK), which produces a monthly loan activity report for the Banking and Payments Authority of Kosovo (BPK). AMIK also keeps an updated chart on member statistics. FINCA/K is the second largest MFI by outstanding loan amount and the fourth largest by outstanding number of loans (Table 16 and 17 of the BPK monthly statistics bulletin).

The financial industry leader is the EBRD funded Micro Enterprise Bank (MEB) renamed Pro-Credit as of 2 months ago. MEB was the first registered bank in Kosovo after the conflict. This fact quickly gave it a virtual monopoly on international banking transactions and quickly allowed it to become the leader in savings collection. These savings, an unprecedented 254.4 M Euro,

portfolio software. Ten percent of the clients in the portfolio have in reality outgrown small lending from FINCA but continue to borrow up to loan maximums out of respect and sentimental reasons, as FINCA gave them their first loans and a chance to grow. They take loans from banks in Kosovo including Pro-Credit bank to cover their other needs. FINCA/K has a policy of risk diversification over many sectors including Production, Service and Trade with a significant number of Agriculture loans in the rural areas of Kosovo. As mentioned above FINCA/K participated in a special 100,000 Euro ethnic initiative grant given by the OCSE to provide loans to minority groups in Kosovo. Both Serbian and Albanian permanent staff disbursed the grant immediately. The average maturity of loans is 11 months but many of the older clients have maturities of up to 22 months.

Quality of Portfolio: Portfolio at risk: January, 2004

Current loans:	94%
Current Restructured Loans:	0.6 %
1-30 Days:	3.7 %
31-60 Days:	0.3%
61-90 Days:	0.2 %
91-180 Days:	0.9 %
180 + Days:	0.3 %
Loan Charge Offs/Write offs to date:	76,980 Euro (0.35 % of current portfolio)

Note: Loan charge offs include 15-20 loans with problems all over two years old. These were mainly due to the turbulent start to Kosovo's lending history and lack of local expertise. Early clients would get loans from many MFI's and banks and then just leave town or the country. FINCA/Kosovo is continuing efforts to collect these bad debts employing a bad debt collection officer and two lawyers. Debt collection can be quite dangerous in the post war period where almost every household can be assumed to have arms left over from the conflict.

MANAGEMENT OF FINCA KOSOVO

The current country Director is Yuriy Shulhan a Ukrainian national with 9 years of banking and consulting experience. His experience includes the IFC post-privatization support project in Ukraine, credit experience with the Western-Ukrainian Commercial Bank and the Western NIS Enterprise Fund, Small Business Loan Fund. He later joined Mercy Corps in Micro/Small business lending in Kosovo and spent three and a half years as their credit program manager until Mercy Corps nationalized their portfolio and exited. He was then hired by FINCA/Kosovo in September 2002 to replace former Country Director, Edward Greenwood.

OTHER INFORMATION

FINCA/K is presently installing the FINCA International portfolio control software (SIEMS). This software has been adapted to the conditions of Eastern Europe and the NIS for implementation in all FINCA affiliates in this region. FINCA affiliates in Latin America and Africa are already using this software for portfolio management. SIEMS will provide state of the industry systems for Portfolio management with consolidation of accounts updated on a continuous basis. Installation should be completed the first half of March.

Objectives:

	Proposed Result: Original Cooperative Agreement	Actual Result: End of USAID grant - September 2002 (source: Final Performance report to USAID)	Result to date: February, 2004 (source: FINCA Kosovo "Financial Ratios" and Portfolio Information)
Objective:	Establish a sustainable Village Banking system in Kosovo	Achieved 101 % Financial Self sufficiency (excluding expatriate costs paid by HQ and inflation data)	Achieved 118 % Financial Self sufficiency (including expatriate costs paid by HQ and inflation data)
Outreach goals:	7000 clients reached (3 years)	1,805 clients outstanding versus approximately 2650 clients reached since startup	2138 clients outstanding. Statistics unavailable for total clients reached
	\$5 Million in loans disbursed (3 years)	\$ 13 Million disbursed since inception	Statistics unavailable
	Disburse \$ 3M in Loans annually	Statistics Unavailable	Statistics Unavailable
	11,000 jobs created (3 years)	450 jobs created	Estimation: 750 (see Sustainability/job creation for rational)
Sustainability goals:	Cover 100% of operating costs by the end of year 3 through interest income	101 % operating self-sufficiency	133 % operating self-sufficiency
	Be financially self-sufficient by the end of year 5	101 % of financial self-sufficiency	118 % of financial self-sufficiency
Program Indicators: 1st 9 months	Target	9 month	Current: February 2004
No. of Village Banks Created	150	Statistic unavailable	249
No. of Clients	1,500	215	2138
Jobs Created or Sustained	2,250	25	750 (see above)
No. of Beneficiaries	6,000	300 families	Statistic unavailable
Strategic Objectives:			
1. Create a model, operationally self-sustaining local subsidiary of FINCA International serving Kosovo by October 2002		Completed by September, 2002 (Currently 133 % Operationally self sufficiency – Feb 2004)	
2. Develop local management capacity		66 local staff including all managers except Country Director	
3. Build confidence in the financial sector and , specifically, the microfinance sector		High Client Satisfaction (2% VB client turnover rate – Feb 2004)	
4. Expand the model project to several regions within Kosovo		FINCA/K currently has five fully staffed offices and 10 meeting places throughout Kosovo	
5. Support the reconstruction of a regional judicial system by promoting a sound policy environment for micro enterprise development in Kosovo		Formation and founding member of the Association of Microfinance Institutions of Kosovo (AMIK) and the Kosovo Credit Information Service (KCIS) promoting judicial reforms and policy development	
6. Build the foundation for conversion to a regulated formal financial institution serving micro entrepreneurs in Kosovo		FINCA/K officially registered as a licensed microfinance organization on January 28, 2000 fully regulated by the BRK	

Note: There have been amendments to the original Cooperative Agreement. However, neither USAID nor FINCA Kosovo could produce these amendments. The explanation being that the original Cooperative Agreement was signed in Washington D.C., all further amendments were handled from DC, and only verbal targets were set with the local USAID office.

IMPLEMENTATION

Were activities properly targeted to identify and support products that can compete against imports and/or compete against imports and/or hold potential for exports:

FINCA/K has targeted its activities to accomplish the above goals and objectives laid out in the original USAID Cooperative Agreement. In the beginning of the project a great deal of resources were used to target producers. Although this was not a stated goal in the original Cooperative Agreement with USAID/DC it supported USAID/K and pursued with vigor targeting the development of Kosovo's production base. This goal was eventually supplanted by an objective of diversification and rapid growth of the portfolio in order to meet the sustainability requirements outlined above. However, FINCA/K still maintains a sizeable portion of producers in its portfolio (approximately 30 %) accounting for a majority of the small enterprise loans. The Evaluation Team visited several FINCA producers who are struggling due to cheap imports. They are overcoming this obstacle by specializing in a niche market and surviving nonetheless (see Exhibit 15, success stories and client visits).

STRENGTHS OF FINCA KOSOVO

1. Self-Sustainability

FINCA/K is only one of only three MFIs that have accomplished self-sustainability in the short (3-year) period while concurrently supporting rapid geographic expansion and customer outreach.

2. Institutional Capacity/Outreach

Only the Director is expatriate, all other staffs are highly trained and professional local hires including 66 loan officers and support staff providing financial services to Micro and Small business. FINCA/K has developed extensive outreach with a lending network of 15 point of sales and service (5 full offices and 10 meeting points) covering 21 of 30 municipalities in Kosovo. With its trained local workforce, incorporating members of the major minority groups within Kosovo, FINCA/K has the institutional capacity to expand the current outreach to cover the remaining municipalities.

3. Access to International Sources of Loan Capital

FINCA/K participated in a 2 year due diligence (3 missions) with KfW. Of all the MFIs in Kosovo KfW chose FINCA for its credit line. So far, FINCA/K is the only MFI to obtain a KfW credit line. This is a short-medium term, 5 year, Euro resource. The drawbacks of this international source of funds is that they are more expensive than the local savings market and there is a certain dependence on KfW development goals for Kosovo, i.e. some funds are earmarked for certain sectors (eg. housing credit line which is not for business development). Additionally, FINCA/K has access to FINCA Internationals Village Banking Capital Fund for Loan resources.

4. *Working Purely in Cash*

(loans and repayments). In a business environment like Kosovo cash basis lending reduces hassles to entrepreneurs by eliminating the loss of valuable time traveling to and from banks, waiting to repay or receive transfers. It also reduces the entrepreneur's administrative costs by avoiding the bank transaction costs thus increasing the level of service and FINCA/Ks competitiveness.

5. *Agricultural Lending*

Of FINCA/Ks 1.1 M Euro Village Banking portfolio, agriculture lending has been a significant part of the VB product with half of all VB groups being composed of Ag clients or mixed Ag business clients. FINCA/K would like to greatly increase its Ag and VB portfolio and is searching for a source of inexpensive finance for this expansion. Historically, FINCA International is a predominately agriculture based MFI giving it the appropriate lending technology and knowledge base for expanding the agricultural and agribusiness products.

6. *FINCA Network/Hub*

The FINCA network has been a valuable source of experience and expertise for FINCA/K. As an example, there is a team from FINCA International in Kosovo conducting an MIS migration from an excel-based portfolio management system to a more modern, efficient software system that will generate detail for portfolio management. New financial services product development assistance has been provided by FINCA hub to FINCA/K. The Moscow hub participated in the development of FINCA/Ks new consumer loan product.

7. *Extensive Experience Lending to Disadvantaged Groups*

FINCA Kosovo has participated in several initiatives to provide financial services in the minority areas of Kosovo including the Serb enclaves. Lending to women and minorities is always a FINCA priority.

WEAKNESSES OF FINCA KOSOVO

The inability to receive and use savings from clients as a method to raise loan capital is the major weakness. To become a deposit-taking MFI, FINCA/K must reach a level of 4 M euro in equity as per the rules governing MFIs of the BPK (Banking and Payment Authority of Kosovo). Its' current 2.58 M euro equity (August 2003) is not sufficient to meet this requirement. The CD for FINCA/K estimates it will take 5-10 years for FINCA/K to raise this by interest income alone. Note; As an International NGO FINCA/K cannot transfer equity from country to country. It can lend to its affiliates excess loan capital but cannot transfer that as equity.

MAJOR OPPORTUNITIES

1. New product development is underway to provide a product aimed at serving the Kosovo housing improvement market. Negotiations are ongoing for an additional KfW 1M Euro loan funds for this new product including TA to finish the development of the loan product and to disperse the first loans. The goal of this product is to improve the standard of living in Kosovo and diversify sources of income for FINCA/K. Market demand for this loan type is growing rapidly.
2. No additional urban credit products are planned. The only future product opportunity seen by FINCA/K is a new pure Ag loan product in addition to the current mixed Micro/Small loan product. A new initiative for women starting businesses is being discussed as a potential future project (due to a low percentage of women to date in the lending activities – 16 %).

MAJOR CONSTRAINTS TO REALIZATION OF OPPORTUNITIES

The only major constraint FINCA/K faces is the inability to receive and use savings deposits from the rural population thus inhibiting FINCA use of a cheap and seemingly abundant source of loan capital. This is particularly unsettling for FINCA because savings is an integral part of the FINCA global approach to Village Banking (VB). FINCA/K currently has 68,421 euro in savings within its 252 VB groups (December 2003). The savings are currently managed by the VB group officers (as distinct from being available to FINCA as a deposit that allows expanded lending) and are used by the groups as an additional source of loan capital that can be taken by any member of the group with permission of the group.

SOLUTIONS TO THESE CONSTRAINTS

The current BPK requirements to begin receiving and using savings are 4M Euro in equity. Five local banks are very close to this threshold (KSB: 5.7 M Euro, BpB: 5.9M Euro, NBK: 4.7 M Euro, BKP 4.5 M Euro and BE: 4.4 M Euro) and the two international banks are 2 and 3 times over this threshold (Raiffeisen with 7.5 M Euro and Pro-Credit with 12.3 M Euro). Considering the economic and lending environment in Kosovo 4M Euro does not seem to be a reasonable requirement for a Kosovo MFI. To solve this constraint FINCA/K must either search for grant opportunities to increase its equity (currently at 2.6 M Euro, a 1.4 M Euro shortfall) faster than the 5 (optimistic) to 10 year (pessimistic) prognosis for increasing equity from interest income. A second more economical (from a Donor perspective) solution is to convince UNMIK and specifically the BPK to reduce the requirements for MFIs in order to promote rural development in Kosovo. This seems prudent since the banks are predominately working in the urban areas and the MFIs are working in the rural areas. The overall idea being that when savings is entrusted to FINCA/K it will be used to provide financial services to rural areas directly promoting grassroots development.

FINCA/KS WORK WITH OTHER DONOR ORGANIZATIONS/FINANCIAL INSTITUTIONS

FINCA/K has worked with other donors and financial institutions. It has received two grants, one from OSCE (102,258 Euro, May 2003) for lending to minorities and the other from UNMIK

(300,000 DM, August 2001) for special lending projects to women and minorities. FINCA/K also received 1.75 M Euro in medium-term loans from the German Development Bank (KfW) in June 2002, September 2002 and June 2003. (Annex 3) In addition FINCA/K has received a loan of USD 150,000 (Oct 2000) and a loan of USD 250,000 (July 2002) from the FINCA International Head Office, Village Banking Capital Fund (Independent Auditors Report for the year ended August 2003).

USAID AGREEMENT ON MUTUAL OBJECTIVES

FINCA/K's work with other donors was not coordinated with USAID, but USAID provided positive references to enable other donors to have confidence that the program was financially and developmentally solid. USAID support was one of the main reasons that other donor funding, such as the UNMIK grant for targeted lending, OSCE minority grant, CIDA grant for the establishment of AMIK, were provided to FINCA/K.

IMPACT

Achievements as set out in USAID's Strategy for Kosovo 2001-2003, SO 1.3, IR 1.3.5, objectives and benchmarks set forth in task orders and the cooperative agreement

The above Objectives table outlines the objectives, goals, program benchmarks (indicators) and strategic objectives of the FINCA Kosovo project in order to achieve the desired results laid out in SO 1.3 and IR 1.3.5. Sustainability has been the most challenging objective to achieve and maintain. In an area with a population of approximately 2 million, only 40 – 50,000 businesses officially registered, currently served by 10 MFIs, 5 small business banks, and 2 international banks, the financial services market in Kosovo is extremely competitive. The level of service required to reach FINCA's target group is much higher compared to the level of service in other developing countries in Eastern Europe and the NIS. This high level of service is very expensive to provide in this environment, requiring large salaries to retain trained and qualified Financial Service Officers (FSO) and support staff. This fact has kept administrative expenses high for FINCA/K. Nevertheless, FINCA has been diligent in cost management and efficiency improvement efforts while keeping staffing levels consistent. The new SIEMS portfolio management system should allow further advances in efficiencies, facilitating FINCA's expansion of its offered services.

The limited number of Micro and SMEs, combined with the high level of competition and client demand for both longer loan terms and larger loans, has made it extremely difficult to achieve the original outreach goals and program indicators listed above. These original outreach goals and program indicators were included in the initial proposal to USAID by FINCA International. These goals and indicators were not achievable considering the realities of Kosovo and created extremely high and unreasonable expectations for FINCA/K to fulfill. This situation was exacerbated by USAID/Kosovo's focus on supporting production industries and job creation, thus narrowing the scope of FINCA/K's activities. This narrow scope forced FINCA/K to forgo portfolio diversification and sustainability goals. All these factors contributed to the missing of the original targets. The Kosovo micro and small business market demand has shown a tendency to larger loans and longer terms, forcing FINCA/K to lengthen loan terms and offer larger and larger loan amounts. FINCA/K is combating these factors by adding new services and continuously analyzing the target client changing demands for financial products. FINCA was

forced to add services that target not only the micro and small entrepreneurs but also the population as a whole with its consumer loans and new housing improvement loan product. FINCA/K recently redesigned its VB (including Agricultural component) and SEL products to better meet the current requirements of existing and prospective clients.

The job creation statistics are much lower than originally proposed. This is in part due to the above-mentioned factors specific to Kosovo and the unrealistic goals set in the original proposal. Another factor is the difficulty of measuring the impact of growth on the employee base of micro and small business. This is due to the large number of family run businesses supporting very large extended families. Labor fluctuations are generally within the extended family depending on current demand and extremes in seasonal fluctuations.

FINCA/K has been very successful in fulfilling its 6 Strategic Objectives listed above for several key reasons; self-sustainability activities, local staff training high customer satisfaction and loyalty (high number of repeat clients), expansion into the majority of regions within Kosovo serving all sectors of the population including minority areas, work as a founder of the Association of Microfinance Institutions of Kosovo (AMIK) and the Kosovo Credit Information Service (KCIS) which lobbies Kosovo governing bodies for the continued improvement of the judicial systems and the implementation/continuation of sound policies for micro enterprise development, which provides coordination between the MFIs and banks for accurate information on the credit histories of clients and the coordination of registration of collateral.

GREATEST ACCOMPLISHMENTS

- I. A lending base of 2,138 clients and an outstanding portfolio of 4.9 M Euro (February, 2004);
- II. High client satisfaction and low portfolio at risk;
- III. Financial services outreach through an extensive service network;
- IV. Creation of local capacity in the form of professional and well trained local staff;
- V. Sustainability achievements; and
- VI. Establishment of AMIK, KCIS and a judicially recognized collateral registry system.

CONTRIBUTIONS TO INCOME GENERATION AND JOB CREATION

Judging by the increase from FY 00 of the average outstanding loan amount (\$ 759) and the current average outstanding loan amount (\$ 2,290) in February of 2004, FINCA/K clients are growing and increasing their income generation thus requiring larger and larger loans. It was estimated that by the end of the USAID grant to FINCA/K that over 450 small business jobs were created with an outstanding portfolio of 3 M USD. If this trend continued to this day with a portfolio of 5M USD then an estimated 750 small business jobs would have been created.

SUSTAINABILITY

Institutional (government) and legislative reforms progressing to support business development

The biggest obstacle to further business development in Kosovo is the current abuse of custom tariffs policy. This situation is especially beneficial to traders importing cheap goods from

surrounding countries and Turkey. Local producers cannot compete with these low cost imports with their comparatively high cost raw materials and machinery. Another contributing factor is the difficulty in the system of VAT reimbursements. The supply of reliable energy is also a factor especially in rural areas where the service can be very sporadic.

Creation of local capacity to continue SME development after USAID funded technical assistance is ended

Current resource availability of FINCA/K (4.9 M Euro in Total Assets – September 2003) as of February 2004 was 90% utilization for the net loan portfolio. Combined with future access to KfW loan capital and the possible access to savings facilities, FINCA/K will be a strong capital base. With a competent, well-trained staff, FINCA/K is well positioned to contribute to the current local capacity to continue SME development in Kosovo.

Sufficiency of fee structure to maintain service delivery

The February 2004 OSS (133 %) and FSS (118 %) demonstrate the sufficiency of FINCA/Ks current fee structure to maintain service delivery in the future.²⁹ Current market interest rates in Kosovo are 1.5 % to 3% per month (AMIK Member Statistics), with repeat clients receiving discounted rates. FINCA/K SEL rates are currently 3% per month declining and 2% flat for VB groups with discounts for successive loan cycles. Serving the micro clients is a core priority of FINCA but a very expensive undertaking due to distribution costs. These costs include operating costs for 5 offices and 10 regional collection centers. There are very high fixed costs with Local Offices, transportation costs to region, office rent and support staff and security for working only on a cash basis. “VB is a break-even operation only” Yuriy Shulhan, Country Director, FINCA/K. Consumer and small loans subsidize village-banking operations. With the high concentration of International organizations in Kosovo, achieving a goal of keeping qualified staff is difficult thus requiring relatively high salaries.

LESSONS LEARNED

Technical lessons

Strict control methods must be maintained to minimize costs maximizing asset utilization for the provision of financial services.

- ▶ increased understanding of the opportunity costs (startup grant) of the heavy use of T/A funds; and
- ▶ Defined Ratios for T/A and lending funds use to better control initial costs.

²⁹ See Exhibit 14 in Volume 2. Operating Self Sufficiency = operating income/operating expenses (including financial expenses and loan loss reserves). Financial Self Sufficiency=operating income/operating expenses + (inflation, equity, not including expatriate costs paid by the HO)

Project implementation lessons

Efficient use of resources requires thorough understanding of the goals and objectives of the micro and small business sectors in Kosovo, including:

- ▶ Acceptance of staff turnover as both a reality and positive expansion of the Kosovo knowledge base in lending practices, allowing a more competitive wage structure within FINCA/K;
- ▶ Better defined job descriptions for appropriate staffing (e.g. large portion of staff having foreign language skills) levels to achieve project goals while controlling costs;
- ▶ Lack of mid-point market assessment to realign the project goals and objectives to better reflect the realities of the rapidly changing Kosovo economic environment;
- ▶ Consumer and housing improvement loans, though profitable, take limited resources (funds, staff, expertise) away from the village banking lending product. The reliance of profits from consumer and housing improvement loans is removing the incentives for FINCA/Ks further streamlining of its VB lending process; and
- ▶ The directed initial focus on production-based enterprises restricted the resources allocated to other sectors of the economy. The focus on production mitigated the rapid achievement of the project sustainability goals.

Developmental strategy lessons

In Kosovos competitive lending environment (10 MFIs and 7 banks) services must be reviewed often to ensure timely additions/changes to the financial services required to further the development of Kosovo and fulfill the demand of its entrepreneurs. This includes:

- ▶ Increase focus on industries with vertical marketing streams improving efficiencies along the entire product lifecycle (i.e. competitiveness clusters);
- ▶ Increase coordination of lending products with other local and international development initiatives; and
- ▶ Making criteria for success not only job creation but depth and breadth of enterprises funded increasing the economic diversification of Kosovo. In a culture like Kosovo, one new enterprise provides fulltime and part time employment for a vast extended family. This part time employment is frequently not reflected in the employment numbers.

RECOMMENDATIONS

FINCA/Ks progress to date shows real potential to play a significant role in the future development of micro and small enterprises throughout Kosovo. This can include special development interests such as agriculture and agribusiness, women and minorities (possibly through an interethnic joint venture initiative), and competitiveness cluster priorities.

This can be accomplished by taking advantage of:

- ▶ The extensive outreach FINCA has currently created: 66 well trained local staff working from 15 points of sales and service (5 full offices and 10 meeting points) covering 21 of 30 municipalities;
- ▶ FINCA/Ks experience lending in Kosovo including agriculture, micro and small business;
- ▶ FINCA Internationals agriculture base and appropriate lending technology;
- ▶ Experience lending to disadvantaged groups in Kosovo including women and minorities as well as Serbian enclaves; and
- ▶ FINCA/Ks lessons learned to date and its new MIS portfolio management software to wholly address USAID and Kosovo's current development initiatives and really have an impact on the rural areas of Kosovo.

Being able to accept savings is integral in providing services to the rural areas of Kosovo. As a solution to this issue USAID can either grant FINCA funds to bring it up to the minimum requirements (1.4 M Euro) or as a more economical solution convince UNMIK and specifically the BPK to reduce the requirements for MFIs in order to promote rural development in Kosovo. The overall idea being that when money is invested in FINCA, either in grants or savings, that money is lent out to the villages' directly promoting grassroots development.

USAID could target grant funds to develop and capitalize specific lending products to reach the target areas in Kosovo i.e. competitiveness cluster priorities, or agribusiness production capacity. A very important component of the cluster development is the ability for the participants to receive financing for working capital and asset investments to improve efficiency and quality of operations. With the readily available expertise of the FINCA hub (drawing lessons learned, best practices, expertise and experience from 9 FINCA affiliates in the NIS/eastern Europe and 22 affiliates world wide) it should not be difficult for FINCA to create loan products specifically targeted at priority areas of the Kosovo economy and expand on its success with women and minority groups. The FINCA hub structure can be better utilized leveraging their knowledge base to the benefit of the target clients and continuing efforts to control costs.

With USAID's participation in a directed lending program, FINCA/K can be refocused to return to providing purer business development financial services and minimize its use of precious resources on non-development lending activities (i.e. Consumer loans and Housing Improvement loans). A priority can also be to use the existing institutional capacity to expand the current outreach to cover the remaining municipalities of Kosovo. FINCA could be one valuable contributor to the rural liquidity needed for a newly developed agribusiness cluster program.

KOSOVO EMERGENCY AGRI-INPUT PROGRAM (KEAP)

BACKGROUND

The Kosovo Emergency Agri-Input Program (KEAP) was started by USAID immediately following the war in October 1999 to address the urgent needs of the agricultural sector with an assessment of the farm input requirements and an activity to organize and mobilize private sector supply networks. KEAP was implemented by the International Center for Soil Fertility and Agricultural Development (IFDC) under a direct grant agreement. This was the initial USAID project dealing with the agricultural sector. KEAP was implemented for one year and provided the foundation for the follow-on Kosovo Agribusiness Development Program (KADP) and other projects.

KEAP OBJECTIVES

- ▶ rapid assessment of agri-input needs for spring 2000 season.
- ▶ identify type emergency agri-inputs needed and how delivered.
- ▶ identify suppliers of inputs willing to participate.
- ▶ establish linkages between Kosovo suppliers and regional input suppliers.
- ▶ disseminate basic market information regarding inputs.
- ▶ assess input credit needs and delivery systems.
- ▶ assess war damage repair needs of input supply installations.
- ▶ develop emergency plan for jump-starting selected agribusinesses.
- ▶ assess priority policy issues regarding private input supply and ag sector

GENERAL PROGRAM DESCRIPTION

NGOs distributed seed, fertilizer, and pesticides valued at about \$10 million (25%) of the spring planting needs. The \$30million balance was organized through private dealers with their own capital and the help of a \$10m revolving credit fund. IFDC helped start up the Kosovo Dealers in Agri-inputs Association (KODAA) as the supplier's organization. During this period and in the follow-on KADP project, additional associations were started, including: Kosovo Flour Millers Association (SHMK), The Kosovo Association of Poultry Producers and Feed Manufacturers (SHPUK) and the Alliance for Kosovo Agribusinesses (AKA), the umbrella association of associations.

IMPLEMENTATION

Input supply was clearly the major requirement in the emergency period and targeting the private sector suppliers to mobilize and implement the importation and distribution of the inputs. This approach by IFDC worked better than an attempt to manage the entire input supply operation itself might have, as is often done in emergency situations.

IFDC's knowledge of Kosovo and its agribusiness sector, and its on-site capacity to move quickly were clearly the major strengths in getting this project implemented. A weakness, if there was one in this situation, was the inability to affect the policy apparatus that imposed the import duties and VAT on agricultural inputs, excepting fertilizer.

1. Major constraints to KEAP achieving project objectives

- ▶ Absence of transfer system, public or private.
- ▶ Lack of access to farm credit or agribusiness investment credit (short-term supplier credits were available).
- ▶ Absence of policy framework and regulatory system.
- ▶ Loss of export markets from pre-war status for agriculture products (Kosovo was net exporter of fruits and vegetables).
- ▶ The Kombinants control of large parcels of better farm and pasture land that were inaccessible to growers.

IFDC's activities apparently were well coordinated with other donors and other USAID projects and generally focused on achieving mutually agreed objectives for providing relief assistance in the agriculture sector. IFDC coordinated with UNMIK, World Bank, other bilateral donor programs and a large number of NGOs to achieve the project goals.

There is no cost analysis on this project but the method of operation was selected in part for the cost effectiveness benefits. The utilization of private sector input supply companies and financing was a very efficient and cost effective means of mobilizing the input supply program. Equally important it provided the basis for the private sector to begin functioning again on sustainable basis.

The impact of KEAP's accomplishments were quite significant. The project contributed to getting the agricultural economy of Kosovo moving again after a long period of deterioration and violence. Farmers were able to begin growing crops again with the seed and fertilizer made available through this project. This was a great accomplishment in a very short period of time.

Project activities contributed to income generation and job creation. The farmers income was largely in-kind as they were able to begin producing crops again to feed families and sell in the market. Additional people were employed in the input supply distribution companies, the credit institutions, the trucking and other service companies, although there are no data to confirm the income value of those jobs. The whole effort was an important part of getting the economy moving again.

As an emergency operation, sustainability was not a goal of this project but in fact the activities laid the groundwork for future development of a national agriculture input supply system that have continued and expanded until 2004.

LESSONS LEARNED³⁰

1. Technical lessons?

The high quality seed and fertilizers supplied under this program definitely achieved higher yields than the farmers were accustomed to getting.

³⁰ From IFDC reports

2. *Project implementation lessons?*

It became clear that farmers were ready for a market based agriculture sector for input supply, crop and livestock marketing and credit utilization. Working through associations provides significant efficiencies in technology transfer, input supply

3. *Developmental strategy lessons?*

Private sector managed, high quality, reasonably priced farm input supply is an important component of an agricultural sector development strategy.

RECOMMENDATIONS FOR THE FUTURE BASED ON THE LESSONS LEARNED

Reducing the cost of imported inputs – seed, fertilizer, chemicals, tools, equipment, tree seedlings, breeding stock, veterinary supplies - that are subject to duties and VAT, should be a high priority for policy reform. This is a major constraint for Kosovo farmers becoming competitive in Kosovo and in the region and serious barrier to economic growth.

The continued availability of high quality seed, fertilizer, pesticides, livestock feed ingredients and veterinary supplies is critical for increasing yields, productivity, and profits. Low quality inputs are almost always more expensive on cost-per-unit-of-yield basis.

The formulation of the agricultural development strategies of Kosovo should include strong participation of the farmers, processing, marketing and input supplier associations to ensure rationalization of objectives and planning up and down the chain.

KOSOVO AGRIBUSINESS DEVELOPMENT PROGRAM (KADP)

BACKGROUND

In the year after the implementation of KEAP, in mid-2000, USAID created a follow-on project called the Kosovo Agribusiness Development Program (KADP) that was implemented by a grant agreement with the International Soil Fertility and Development Center (IFDC). The purpose of KADP was to address the constraints to agriculture recovery and development that consisted of weak technologies, low crop yields, a devastated input supply chain, internal and external markets eliminated, absence of governmental agricultural sector policies, support systems or regulatory framework. There was also an absence of credit for farm production or agro-processing, and very few established official developmental programs. At the time IFDC was considered well qualified to manage KADP, having worked in Kosovo agriculture before the war and implementing KEAP since October 1999. It was initially a two-year project, subsequently extended to 32 months.

Taking off from the KEAP base of operations and a network of partners and contacts, the defined project goals were to strengthen and expand the private sector agribusiness system in Kosovo and to provide farmers with inputs, post-harvest processing, and marketing.³¹ The program purpose was to assist the recovery of established private agribusinesses and revitalize agricultural production, improve incomes, support private agribusiness growth, all with no new bureaucratic institutions.³²

PROJECT OBJECTIVES

- ▶ Provide policy analysis, formulation and implementation for trade, taxation, regulatory functions and privatization related to agribusiness development.
- ▶ Organize trade associations to deliver program assistance to members, and function as commercial agents in marketing.
- ▶ Link agribusiness with university and agricultural institutions to create private extension services of input dealers and agro-processors.
- ▶ Develop selected private sector agro-processing industries including competitive, viable, privatized Kombinats.
- ▶ Facilitate credit access by training in business planning, financial counseling and monitoring in conjunction with banks.
- ▶ Provide assistance to processors on adopting technologies to increase efficiency of food processing in quality and quantity sufficient to compete with imports from neighboring agricultural countries.
- ▶ Assist in establishment of standards for food and packaging to assure industry quality.
- ▶ Assist processors and input suppliers develop production packages for farmers on crops and livestock products with market demand.

³¹ IFDC, KADP proposal, June, 2000.

³² Ibid

GENERAL DESCRIPTION

KADP focused on four key elements as drivers for agribusiness development: trade associations, policy analysis and reform, technology transfer, promotion of agribusiness and credit.³³

The technical assistance team worked through the associations for most activities. There was a heavy emphasis on developing the capacity of the associations as agents of change in the sector. The strategy was to increase the private sector capacity to deliver inputs and new technology to producers and processors and expand their market share.

IMPLEMENTATION

KADP met or exceeded its targets (Table 1 below) in every case and went to new targets and accomplishments during the life of the project. The team capitalized on its extensive knowledge of the country and earlier relationships with associations and private businesses acquired during the KEAP project to rapidly move into the implementation of project activities. Strengthening of the associations begun in KEAP continued in KADP. Accounting and business management training was conducted; annual meetings and regional meetings, trade missions and study tours were supported by KADP. The team conducted agronomic field trials and demonstrations to introduce new varieties, fertilizers and pest control methods to improve field crop production for livestock and poultry feed. Management of the poultry farms was a key target of the advisory services and technology transfer efforts. Demonstrations were conducted on potato production with improved varieties and practices with excellent results. Training programs and study tours introduced participants to new technologies and management practices. The project also conducted policy studies and prepared several import policy reports to focus on the critical issues of land tenure, taxation, socially-owned enterprises and agricultural land.

³³ IFDC, Completion of Project Report

TABLE 1³⁴

Intervention	Units	Targets		Actual	
		Year 1	Year 2	Year 1	Year 2
Extension services	Training programs	2	2	4	4
	Surveys	1	1	1	1
	Media articles (brochures, newspaper)	30	60	47	42
	Field demonstrations	10	30	40	360 ^b
	Reports of project demonstrations trials			2	3
(Actual-- Project Life)					
Input availability	Fertilizer	+8%	+20%	43%	
	Seeds	15%	15%	64%	
	Pesticides (CPPs)	5%	15%	67%	
Farm production (Kosovo wide)	Avg. wheat yield	+15%	+10%	+29%	
	Avg. maize yield	+25%	+20%	+25%	
	Avg. potato yield	+5%	+15%	+76%	
	Avg. egg production			+90%	
Farm income increase to farmers using IFDC technologies (wheat and maize)	\$	0.9 M	2.4 M	2.45 M ^c	
Net income increase to KODAA dealers	\$	0.5 M	1.0 M	7.0 M	
Net income increases to flour millers (SHMK)	\$			4.8 M	
Net income increases to poultry producers (SHPUK)	\$			5.6 M	
New investment	\$			15 M	
Association-- dues and services	\$	125,000	125,000	250,000	
Association—grants received	\$	50,000	50,000	227,000	
Agribusiness equity	\$	125,000	500,000	2 M	
Agribusiness credit	\$	500,000	1 M	16 M	
Cost sharing by associations for project	\$	187,200	334,600	10.9 M	

a. Association of Kosovar Agribusiness (AKA) umbrella agribusiness advocacy association founded by members of KODAA, SHMK, and SHPUK. Later three additional trade associations joined AKA, bringing total membership to +3,000.

b. Includes on-farm demonstrations (320) conducted with MAFRD.

c. Euros to dollar \cong 1:1.

³⁴ IFDC reports

TABLE 1

Intervention	Units	Targets		Actual	
		Year 1	Year 2	Year 1	Year 2
Trade policy analysis	Technical Reports	2	2	1	2
Taxation of Ag Inputs		1	1	3	3
Banking (Guarantee Fund Design)		1		1	1
Privatization policy impacts	Poultry feed and flour milling	1		2	
	Commodity storage	1		2	1
	Seed production		1		
	Egg production		1	2	2
	Vegetable processing		1	1	
Input regulations (fertilizer law)		3			1
Ag land zoning			1	1	2
Product standards			1		1
Comparative advantage			1	1	1
Role-direct foreign investment			1		1
Trade Associations (3)	Membership AKA ^a				159
	KODAA	120	150	72	65
	SHMK	50	70	60	60
	SHPUK	25	50	23	30
	Business plans	3	3	10	15
	Income schemes	1	3	2	2
	Regional meetings	70	70	30	36
	Annual meetings	6	6	3	4
	Trade missions	2	4	3	3
	Media events	12	25	36	55
Training programs/study tours	9	9	10	13	

Were activities properly targeted to achieve objectives?

KADP activities were selected as targets of opportunity at a time when the highest priority was to get the agricultural sector moving again. Choices were made on the criteria of what was possible to accomplish in terms of establishing or energizing processor and producer associations, establishing trade relationships to procure needed inputs, making technical assistance available and financing enterprises. The targets were moving during the implementation period as the project remained flexible to the needs that arose. This approach clearly served the project well.

Strengths?

The main strength of KADP is the technical capacity of the IFDC team and its ability to organize technology transfer through cooperation with private firms and the associations of producers and processors. The project has focused on the critical elements of animal health and nutrition that are essential to high productivity levels.

Weaknesses?

The project's major weakness is the inability to affect the fiscal policies that increase the costs of imported feed ingredients by 30% or more. It is not clear how the agriculture sector is going to be able to influence the policy apparatus but it will require a stronger effort than has been mounted so far.

Major constraints of agriculture sector as viewed by USAID in 2000

- ▶ Absence of market system for agro-inputs
- ▶ No established system for technology transfer to farmers
- ▶ Unfavorable policies and regulatory framework
- ▶ Lack of credit for producers and processors
- ▶ Weak or non-existent trade associations or producer associations to take the lead in agriculture change

Were activities well coordinated with other donors and other USAID projects and focused on achieving mutually agreed objectives?

The IFDC project cooperated with KBS, Catholic Organization Relief and Development (CORDAID), European Union Agricultural Bank, American Bank of Kosovo (ABK), EAR, Crown Agents, UN/MIK and several government agencies. The project utilized valuable resources from a number of organizations to strengthen the program. It is axiomatic in development that one cannot operate effectively in a major economic sub-sector without the cooperation and collaboration of many other organizations. IFDC clearly recognizes that and carries out its business accordingly.

IMPACT

What are the greatest accomplishments from these activities?

Probably the most important accomplishments of KADP are the establishment of the associations of farmers and agribusiness. Bringing together of many members who can collectively address problems and advocate for policy reforms is always a stronger model than many individuals acting alone and separately. The associations give muscle to the agriculture sector that can be sustained for years, providing economic and political leadership. Introduction of improved technologies are also important and KADP has accomplished major in establishing new production practices, improve seed and fertilizer for feed crops and high producing layer breeds for the poultry houses.

How have the activities contributed to income generation and job creation?

The participating poultry producers increased incomes by an average of 23% according to IFDC and verified by an independent company survey commissioned by the evaluation team. Employment on participating poultry farms increased approximately 18% and at processors by a reported 32%.

SUSTAINABILITY

Associations have continued leading the producers and processors in their efforts to compete with cheaper imports and to gain a greater market share in Kosovo. The primary sustainability mechanism for the future will be the associations. Donors will work with them and through them and they will provide the longer-term continuity. Developing and maintaining associations is not easy in a society with the political history of Kosovo where government organizations tend to be highly suspect. Grass roots organizing by local people who are trusted is key to success.

LESSONS LEARNED

What are the technical lessons?

Field trials with improved varieties from research centers and seed companies, utilizing fertilizer and crop protection chemicals were able to increase yields by significant amounts. Farmers are impressed with the new technologies and want to continue with it. The lesson learned is that technology transfer by field trials and demonstrations are the initial stimulating force for increased yields and production and the concurrent demand for improved inputs. There are numerous technological requirements for agriculture in the future as the systems improve and producers and processors adopt improved practices. It will be a challenge to continually develop new technological packages and delivery systems to meet the requirements of an ever-changing system.

What are the project implementation lessons?

The main implementation lesson is that democratic membership associations are the most effective mechanisms for introducing channeling productive change: technology transfer, post harvest handling, input supply, marketing, credit management, business skills training, policy reform. Being able to organize larger numbers of processors or producers of training sessions or field at demonstration sites and other technology transfer exercises makes the process significantly more efficient.

What are the developmental strategy lessons?

Currently, there is no agricultural sector development strategy for Kosovo. The various efforts by the interim government and donor agencies are not part of coherent plan with clear objectives or coordinated implementation. Many worthy donor-funded and private sector lead efforts are achieving advances in food and agricultural production but they tend to originate from the external agencies and applied from above. As the donors complete their projects and the implementing organizations depart, programs decline, continuity is lost and even small-scale strategies tend to evaporate. The Ministry of Agriculture has produced a document called Agricultural Sector Policy for Kosovo. Written primarily by foreign consultants and government officials, it has little or no direct input from farmers or agribusiness managers. It is an idealized strategy with a lot of merit in the view of the evaluation team but it is not clear what will happen to it.

In the absence of an action plan to implement the ministry strategy, value is limited. Another way to form this issue is to say that there is widespread confusion about what is happening in the

sector and what should be happening. All of analysts and international agencies mention that agriculture is a major sector in the economy and employs over 60% of the workers. There is general agreement that Kosovo's agricultural sector is very inefficient, with low farm productivity, inferior products, high input costs, weak marketing systems, distorted fiscal policies, government inertia on state owned enterprises, etc. What may be the single largest sector of the economy is not contributing much to overall economic growth. Remittances and foreign assistance are the driving forces in the economy right now, along with the new home construction sub-sector. Agricultural resources, natural (soil and water) and human are severely under-utilized, many people and much land remain idle.

In the fourth year since the peace settlement and the establishment of a multinational interim government, critical issues for agricultural development (where most people make a living) remain unresolved. The fiscal policies regarding import duties and value added taxes that stack the deck against Kosovo agribusinesses and producers remain unchanged. The conversion of former state-owned agricultural land to private sector use remains stalled in spite of viable alternative proposals by the Ministry of Agriculture. There are no viable sectors of the economy identified that can lead sustainable growth over the next few years. Remittances and foreign assistance cannot continue indefinitely. Direct foreign investment does not appear reasonable on any significant scale until Kosovo's political status is resolved with some finality. Agriculture has been the leading edge sector for national economic growth in more than successful country that has emerged from third world status. There are a number of serious constraints on agricultural sector growth in Kosovo but there are no absolute blocks with possible exception political will. With determined effort, policy reforms and the creation of sector-wide strategy for investment that had the support of all parts of the sector and the national government, agriculture could take the lead in productivity and employment that would drive this economy out of the doldrums.

RECOMMENDATIONS FOR THE FUTURE BASED ON THE LESSONS LEARNED:

For activities to stimulate agribusiness growth and efficiency in processing, input supply, and product marketing that increase incomes, and employment. KADP has had good success in getting the poultry sub-sector and the program deserves to be continued until Kosovar produced eggs recapture the market. High quality feed production has been demonstrated to have strong potential to compete with imports on quality and on price.

1. For activities to stimulate on-farm production that provides raw material to agribusiness processors and concurrently increase farm family employment incomes

Support the process of acquiring and transferring production technologies to producers to increase yields and farm operating efficiency: genetic material, soil fertility management, disease and pest control, labor efficiency, and post-harvest handling. These are all essential to the overall productivity of the farm enterprise and can be accomplished through well organized efforts of farmer associations, input suppliers, agricultural processors, and individual private technical agents who sell services to producers and processors.

2. *For future strategies and coordination methods*

Kosovo's agricultural sector is primarily small farmers operating with weak technologies and inefficient input supply and marketing systems. Sector development strategies to be successful should be organized from the grass roots upward with full participation of the farmers groups and associations along with the processors and input suppliers. Small, fragmented, isolated family farms are inherently inefficient but can achieve significant productivity gains through good organization and the introduction of efficient technologies and management systems. The medium sized agro-enterprises now beginning to produce dairy, poultry and vegetables with project assistance can only become competitive with imported products when their supply base increases and the smaller farmers have become more efficient and produce surpluses for the market over and above family consumption requirements. The experience of agriculture development projects over the past few years are replete with good examples of small farmer productivity increases. Land values are high, as in most of Eastern Europe now, and small farm production is not generally very high. On the other hand most families already own their land and employment opportunities are limited, even in Germany and other European countries. The unemployed and underemployed family members, including youth and older generations can apply improved technologies with good results. If the marketing system is functioning and the new technology is available along along with the necessary inputs. This is where the associations are essential, individuals cannot do it alone on a small scale. Start-up capital tends to be the major limiting factor.

3. *For policy or legislative reforms*

Incorporate sector and market studies with policy analysis to formulate policy positions with producer and processor associations to create advocacy programs to promote legislative and regulatory reforms that are favorable to the agricultural sector. Import duties, transit assessments, VAT and other taxes are being irrationally applied in ways that distort the farm produce markets of Kosovo. We recommend that USAID put this at the top of its policy reform agenda when engaged in policy reform issues. Land reform issues seem to be on hold and we recommend that USAID put this issue second on the list. The recommendations of the Ministry of Agriculture make very good sense but so far they have not received serious consideration by the policy-makers.

**KOSOVO ASSISTANCE PROGRAM (KAP)
SMALL FARM SUPPORT PROGRAM
SAVE THE CHILDREN FOUNDATION UMBRELLA GRANT**

BACKGROUND

Save the Children (SC) manages a portfolio of 18 NGO projects and five special initiatives that support grassroots social and economic development. This portfolio is under the USAID Kosovo Assistance Program (KAP) that is supporting the transition to a democratic society and a free market economy. The objective is to engage communities in activities that promote changes in their circumstances and increased responsibilities as citizens. The five special initiatives are being implemented through the Small Farm Support (SFS) program with five sub-grants for agricultural projects to address development issues in several agriculture sub-sectors, including dairy products, meat production, poultry, grains and edible oilseed-based industries, fruit and vegetable production, and in specialty products. These five sub-grants are valued at \$3.8m and support the sustainable adoption of improved, appropriate and productive technologies by agricultural producers. The objective of the SFS is to improve farm production so that the quantity and quality of produce moving to markets and processing factories is increased. Increased and improved technologies and inputs are to be utilized in working with participating farmers. The supporting mechanism for this effort was the USAID supported Kosovo Business Service (KBS) activity, through its' client base of agribusiness clients. Access to the processing-marketing chain was to facilitate the product to market emphasis of the projects under the SFS program.

SC serves as the coordinator of the SFS program, working in close collaboration with the five implementing grantees. These grantees include CARE (dairy products), IRC (fruit production), LOL (sheep production), CECI (vegetable production), and IFDC (feed for poultry – maize soybean and sunflower). SC's task was to assist these grantees in rapid start-up and implementation of activities, given that the time frame for completion of their individual objectives was limited to 18-20 months. SC provided assistance in the initial assessments of the sub-sectors and in setting targets that were deemed achievable within the project time frame. In its' role as program coordinator, SC initiated regular meetings with the implementing grantees, that have continued through the time of this evaluation. Field visits and participation in selected project organized workshops enables SC staff to remain knowledgeable about project activities, progress and problems.

SC coordinated the initial meetings with KBS for the cooperation between producers and agribusiness clients to serve as markets for participating farmers produce. The particular case for this cooperation involved the fruit and vegetable producers and the PROGRES Processing Factory. This is described in more detail in the text of the IRC and CECI sections of the evaluation, but in summary this marketing link has not been successful for a variety of reasons, including the business problems that PROGRES is experiencing and the fact the KBS discontinued its' working relationship with PROGRES. Nevertheless, SC seems committed to working with the grantees to seek and encourage other possible production-marketing links for the production of participating farmers.

SC serves as the intermediary between the grantee projects and USAID. Based on a review of the reporting documentation, indications are that SC keeps USAID fully informed of activities, progress and problems with the five projects. SC receives quarterly reports from each of the sub-grantees and then summarizes these reports into a quarterly report to USAID, covering the entire KAP program, including SFS. These reports are well done and provide a clear summary picture of the grantee activities during the reporting period.

This is particularly evident in the case of the LOL sheep project. From the onset of this project there were problems with initiating the activity, there were implementation delays, staff problems, and an inability to get out and work with sufficient numbers of sheep raisers. SC was very much engaged in the efforts to resolve the problems, maintaining close liaison with USAID staff, and eventually working with LOL toward a determination to terminate the project. This seemed to be a mutually agreeable solution among all the concerned parties.

The funding and organizational mechanism for the SFS program seems to be working well. Using an intermediary like SC to fund several projects with a close deadline has facilitated the implementation of these activities. Some of the grantees were already operating in Kosovo, enabling them to initiate activities quickly. And given the tight schedule, there are few opportunities for “course corrections”. This precludes the need for a more direct chain of command that is lacking in this tiered grantee-subgrantee mechanism. USAID has limited ability to direct the activities of the SC grant and SC has limited ability to direct the activities of the sub-grants. In a larger and longer-term program, this mechanism might be less efficient and less flexible in meeting objectives.

IFDC-KOSOVO FEED FOR POULTRY PROJECT (KFPP)

BACKGROUND

The estimated national demand for eggs is approximately 1.6 million per day of which Kosovo producers currently supply somewhere between an estimated 25 to 45%, depending on the season. The balance is imported from neighboring countries and this amount represents a marketing target for Kosovo egg and feed producers. Imported feed ingredients are expensive and there is a shortage of locally produced feed of acceptable quality. Production facilities and technologies are in need of improvement for the egg producers to be competitive.

The Feed-for-Poultry Project (KFPP) is implemented by the International Center for Soil Fertility and Agricultural Development (IFDC), a sub-grantee of the Save-the-Children umbrella grant from USAID. KFPP is one component of the Small Farm Support (SFS) initiative to increase agricultural production and income. IFDC has been working with Kosovo's livestock feed millers and poultry producers since 1999 and has an experienced and technically qualified staff. The purpose of KFPP is to develop an integrated value chain that will increase maize and oilseed production by establishing backward and forward linkages between farmers, feed millers, oilseed processors and egg producers. IFDC/KFPP strategy is threefold: 1) to transfer improved production technologies to maize, soybean and sunflower farmers through field demonstrations, advisory services and training programs and, 2) to assist feed millers in formulating increased quantities and higher quality poultry feeds that can, with some modification, be used by both layer and broiler producers. 3) to assist poultry producers to increase the number and quality of eggs at competitive prices. The program is for 20 months, beginning February 2003 and concluding in September 2004. It is focused on five production regions in Kosovo: Pejë, Gjakovë, Lipjan, Ferizaj, and Gjilan.

The current poultry numbers according to IFDC are:

Table 1.1 Current Number of Birds in Thousands

Layers			Pullets		
2003	2002	Difference	2003	2002	Difference
650,000	410,000	+ 240,000	36,000	11,500	+24,500

Table 1.2 Total Number of Pullets

2003	2002	Difference
390,000	150,000	+ 240,000

Table 1.3 Egg Production per Day

2003	2002	Difference
541,112	341,325	+ 199,787

OBJECTIVES

- ▶ increase use of improved technologies by feed-mills and egg producers,
- ▶ increase the adoption of high producing poultry breeds, and
- ▶ increase the use of high quality ingredients in poultry feed mixes.

IMPLEMENTATION

IFDC/KFPP utilizes a cluster-based model to ensure the consistent delivery of high quality animal feed ingredients by farmers to agri-processors and by agri-processors to poultry producers. The feed grain and poultry project operates in five geographical areas where maize production is established, where climatic conditions are favorable to soybeans and sunflower production, and where there is a demand for grain and oilseed meal by local feed mills and poultry producers. KFPP established field trials for the three introduced crops within the designated areas and conducted on-farm field days. The project links agri-input suppliers, farmers, poultry producers, and feed mills to create a production-processing chain that aims to provide quality products at a competitive price locally and regionally. IFDC also supports policy reform by working closely with Kosovo Dealers of Agro-inputs Association (KODAA) and SHPUK associations to strengthen member participation on policy issues and in advocacy for reforms.

IFDC/KFPP began February 17, 2003 working with:

Input suppliers

Surveying and conducting seminars with the selected cluster members and developing contracts between the suppliers and farmers. KFPP continued trials of feed grains on project test plots. IFDC/KFPP assisted sourcing selected inputs, financing bulk purchases and importation and distribution training. It focused on identifying KODAA members willing to import necessary seed, feed grains, and fertilizers for the project. Field days and training sessions were used to ensure understanding of the technology packages. KBS collaborates by providing business planning sessions to support the benefits of the new technologies. The project worked with local seed producers in the multiplication of proven varieties. Market information was disseminated through news media, newsletters and the cluster association's networks.

Feed grain production

The project moved to training farmers in proper agronomic practices, the cost benefits of the new technology and monitoring crop development through field days and individual visits. Contracts were signed between farmers and millers. Quality control was exercised by testing of nutritional content of feed grains produced by proven technologies against imported competition. The project assisted successful farmers in financing lease or purchase of optimal inputs and machinery, assisted with business plans, partnership arrangements and bank credit applications.

Feed Milling & Poultry Farming

The team identified Kosovo Association of Poultry Producers and Feed Manufacturers (SHPUK) members who would be interested in serving as a focal point for one of the 5 cluster groups. The selected farmers in these clusters would be interested in contracting with the feed mills to plant maize, sunflowers and/or soybeans. They also identified poultry producers interested in contracting with the feed mills to purchase the locally produced feed for their poultry operations. IFDC/KFPP concluded forward supply contracts between millers and arable and poultry farmers. The project team reviewed existing feed mills for adequate feed storage and whether drying facilities were available or possible. They looked into the possibility of setting up extrusion

capacity for processing soybean and sunflower for feed; assisted in bulk procurement of raw feed grains, maize and soybeans along with feed vitamins and additives not produced in Kosovo; provided technical inputs to improve milling systems with seminars and providing demonstrations of milling improvements on “mill days” with the assistance of KBS Agribusiness component. The team established quality control on cluster mills and poultry producers based on standards for quality, packaging, labeling along with monitoring of standards in conjunction with KBS. They worked with KBS Agribusiness Component in providing technical input to improve poultry farming systems that included breeding, hatching and laying technology seminars. Worked with KBS on survey of marketing outlets/opportunities for poultry products and the conclusion of contracts between poultry farmers and product distributors.

The three activities listed above were properly targeted to achieve the objectives.

THE MAIN STRENGTHS IN THIS PROJECT ARE

- ▶ Success with input suppliers in obtaining high quality seed, fertilizer and chemical inputs for crop production.
- ▶ Capacity to assist in the procurement of feed ingredients for the millers.
- ▶ Technology transfer activities with farmers that increased production of good quality maize, sunflower and soybeans.
- ▶ Increased the income of farmers who used the improved technology.
- ▶ Introduction of input suppliers as farmer trainers for agronomic practices, particularly planting techniques, fertilization, and disease control.
- ▶ Major strength was ability to upgrade existing feed-mill operations and increase the volume of quality feed available to egg producers the quantities are changing monthly and the project staff is monitoring and reporting the increases.
- ▶ Forward contracting between feed mills and poultry producers is important method of making the system functional. These need to be firm contracts so that the crop producers can invest in inputs with clear knowledge he will have a reasonable return.

THE MAIN WEAKNESS IN THIS PROJECT ARE

- ▶ Even when fully supplied, the Kosovo egg market is relatively small.
- ▶ Appropriate post-harvest handling and processing of Kosovo-produced feed grains, soybeans, sunflower and maize has not yet been sorted out.
- ▶ The growers generally do not have the confidence to commit to new crops without the guaranteed contracts and financing for the required inputs.
- ▶ The cost of importing quality seed, feed ingredients (minerals, vitamins, antibiotics) soybean meal, sunflower meal and maize made feed costs some of the highest in the region.
- ▶ Lack of funding to support more demonstration plots to promote sunflower, soybeans and other feed grains. The plots used so far have been successful in convincing farmers that feed grains can achieve high yields and solid profits. More demonstrations are needed in other areas of the country.
- ▶ Lack of project funding to promote the use of feed concentrates in poultry feeding rations (dairy, sheep, and beef) to prove their efficacy is also a serious drawback to the project at this time.

THE MAJOR CONSTRAINTS (annual and seasonal variations in precipitation of course can always be a constraint on agricultural production).

- ▶ The 26.5% customs + V.A.T. + 1 to 5% transit taxes makes for one of the highest animal feed costs in the world.
- ▶ It is very difficult to obtain credit for agribusiness investments.
- ▶ The laborious process of obtaining acceptance to the Ministry of Agriculture's National Seed List on a timely basis in order to effect the importation of high quality seed by planting time seriously hampers the introduction of new varieties.
- ▶ Cheap imports of outdated eggs, spent hens, and chicken legs from neighboring countries with strong farm subsidy programs puts Kosovo producers at serious cost disadvantage.
- ▶ There is a shortage of low cost processing capacity for oil seeds for long-term development.
- ▶ Lack of confidence in the Government's capacity to promulgate policies and regulations that promote local Kosovo agribusinesses and farm production quells the incentive of farmers to try new technologies and investments. The border tax policies that place Kosovo farmers at a competitive disadvantage with farmers in neighboring countries is the policy that the farmers object to the most.

IFDC has coordinated and worked well with associations such as KODAA, SHPUK, and AKA, and with other NGOs such as CARE. The IFDC staff has continually collaborated with the KBS staff. The majority of the KBS cooperation has come with the training of poultry processors and feed millers and on food policy issues such as quality control standards.

IMPACT

IFDC/KFPP has had measured success in achieving the desired results set out in the sub-grant agreement to increase agricultural production and farm incomes in certain locations:

- ▶ Working closely with input suppliers, they were able to increase the usage of fertilizer by 1500 MT, quality seed by 200 MT, and farm chemicals (insecticides, herbicides and fungicides) by 11,000 liters. These are not spectacular numbers but they are good start on creating a program. Seeding rates and rates of application of fertilizers and pesticides vary widely throughout the country and from farm to farm, based on the crop, the variety, the soil fertility, whether it is irrigated or rainfed and other factors. Averages are equally meaningless. The increase in input sales boosted profits for the suppliers as well, along with an increase in additional labor.
- ▶ Linked to the input suppliers success, feed grain production increased within the groups of farmers resulting in 4,000 ha. being sown to quality feed grains, using recommended inputs. This increased the aggregate marketable production of quality feed grain: maize by 15,750 MT, soybeans-1,050MT and sunflower seed by 1,050 MT. The details of these initial efforts are spelled out in the projects progress reports and will not be repeated here. It is clear, however, the initial results of this program caused a direct increase on income for the participating farmers.

- ▶ The feed grain production the feed milling/poultry cluster were able to increase the marketable volume of domestically sourced quality feed to 30,000 MT. ³⁵*Several of the large feed-mills also were large poultry producers.* The feed mills in the selected cluster increased their income by 42,500 Euro. Many of the smaller poultry producers, those with out a feed mill purchased the feed from the mills due to contractual arrangement orchestrated by IFDC/KFPP and KBS.

SUSTAINABILITY

It is not clear what the governmental structure will be or what the policy framework will be with regard to support for the agricultural sector broadly and agribusiness development in particular. (In particular fiscal policies require reform for the sector to compete on level field.) Nevertheless, KFPP has begun to build a solid cluster of associations and of established input suppliers, grain farmers, egg producers, and feed-mills that can serve the product line into the future if maintained. However, to continue to grow the program must focus on marketing and the infrastructure to support a competitive market place in livestock feed, dairy, and poultry. Therefore, full sustainability of a viable cluster is at least another 4-5 years off. The precise requirements for that will require a study by a poultry industry expert.

LESSONS LEARNED

1. Technical lessons

- ▶ The introduction of new technology in inputs and production requires establishing processing and markets to assimilate the production no matter how small the program.
- ▶ The cluster is technically sound, but the firms in the cluster lack marketing capability.

2. Project implementation lessons

- ▶ There is a need to establish supportive infrastructure simultaneously with implementing the program's activities. For example there is major requirement to upgrade existing storage facilities to handle imported bulk feed grains, and fertilizer that is not yet part of the plan.
- ▶ The project learned that financing for the introduction of new crops is essential to assist farmers and processors to get started for the first few years.
- ▶ Consolidation of imported feed grains and feed ingredient requirements for larger volume, lower-cost importation is definitely an advantage. Until such time as Kosovo farmers can supply all of the feed grain requirements, every effort should be made to reduce the cost of imports. Certain ingredients of mixed cannot supplied with Kosovo sources and will be supplied by imports for the foreseeable future.

³⁵ Source: Project staff and progress reports.

- ▶ New oil seed and feed grain production should be promoted only after establishing or arranging processing facilities; sounds obvious but needs stating. There are feed mills but only one oil processing facility, causing a competitiveness issue.

3. *The developmental strategy lessons*

- ▶ From a strategy perspective it would probably be more effective to combine all livestock feed requirements in the same developmental program to achieve efficiencies of program activities and economies of scale in operations.

RECOMMENDATIONS FOR THE FUTURE

1. *Activities to stimulate on-farm production and increase incomes and employment*

- ▶ Maintain a sound technology management system within the business cluster, up and down the product lines.
- ▶ Continue to develop and expand the producer's associations as marketing organizations and advocacy instruments.
- ▶ Promote the resolution of the land tenure issues, land fragmentation and the SOEs. Support proposal for a land trust to manage the leasing of agricultural lands until the restitution claims are settled in court.

2. *Recommended measures to stimulate agribusiness growth and efficiency in processing, input supply and product marketing that increase employment and income*

- ▶ Revamp the VAT and import duties and provide exemptions for all essential agricultural inputs as is done now for fertilizer.
- ▶ Focus on methods to lower the cost feed to compete with neighboring countries with farm subsidies. Detailed data on feed costs were not available but the project staff and government officials agreed that the cost of imported seed and fertilizer and fuel, compared to costs to farmers in neighboring countries are significantly higher.
- ▶ A project could assist private investors to upgrade and utilize existing storage facilities to receive larger shipments of feed grains through consolidation of orders from existing agribusinesses, input suppliers and feed mills.
- ▶ USAID should assist private owners to utilize and upgrade current processing facilities to be used for oil seed processing. Kosovo needs just two or three medium size units strategically placed in the production areas, utilizing existing structures.
- ▶ Focus more on marketing. Market programs should identify products that are conducive to a small local market and a competitive regional market. Do not let new technical advances cloud the vision of sound marketing/business decisions.
- ▶ Maintain strong information (daily Ag radio and TV programs) and technical support through local staff. Foreign specialists in needed technical fields can be brought in on short-term basis.
- ▶ Set up a lobby group/association (perhaps AKA) for poultry and legislative reform for the agricultural sector. Such as to prevent the dumping of poultry parts in Kosovo from European over-production. That is reported by project staff.

Poultry represents an opportunity for future growth both in the production of eggs and in broiler production. According to MAFRD up to 1989 the population of all poultry was 4.53 million. It is currently under one million, indicating the potential for continued growth. So far commercial broiler production in Kosovo is very small.

COMPETITIVE MARKETING OF MILK PRODUCTION PROJECT - CARE

BACKGROUND

The dairy industry in Kosovo was nearly wiped out during the war. At least half of the cows were killed and many processing facilities were destroyed and looted. The former state-owned enterprises that produced dairy products remain idle and the process of commercialization is stalled in the adjudication of prior claims. Most of the milk products consumed in Kosovo are now imported from neighboring countries with viable and subsidized dairy industries. These imported products represent an import substitution market target for Kosovo farmers and food processors and are indeed the rationale for this project.

USAID approved the Competitive Marketing of Milk Production Project in 2002. CARE is a sub-grantee under the Save-the-Children umbrella grant for the Small Farm Support (SFS) initiative to increase agricultural production, rural employment and income. The CARE project is: “LINK’s Competitive Marketing of Milk Production Enabling Trade and Enterprise Success” (LINK COMPETES). The CARE team has been working directly with farmers in Kosovo since 1999 and possesses extensive experience in agriculture and business development. CARE’s goal in the dairy sub-sector is to increase productivity and incomes of small dairy producers through appropriate production technology, support to milk collection centers and dairy processors. The project began implementation in January 2003.

OBJECTIVES

- ▶ Increase commercial milk production, income and employment along the dairy production chain;
- ▶ Increase good quality meat production, processing and marketing;
- ▶ Establish training and advisory services with local technicians to prepare selected dairy farmers on milk production hygiene, animal health and nutrition and general herd management.
- ▶ Introduce a silage program with maize to increase the supply and reduce costs of year-around high quality feed.
- ▶ Establish milk collection centers with progressive producers.
- ▶ Assist establishment of producer and processor associations.
- ▶ Establish demonstration plots for livestock feed.
- ▶ Train in simple record keeping system, business plan preparation and loan applications.
- ▶ Train in the preparation and use of forward supply contracts through associations and/or private processors.

TARGETS

SFS Intermediate Result: Increased amount of farm surpluses marketed

GOALS	TARGETS	ACTUAL a/o 12/31/03
Project Goal 1: To increase commercial dairy production, income and employment through targeted and integrated interventions along the production-processing marketing chain.		
	Indicator 1: Overall quantity of milk produced increases by at least 20%.	25%
	Indicator 2: At least 80% of milk production supplied (excluding family consumption) to chilling centers.	70%
	Indicator 3: 425 farmers selling milk production through the chilling centers.	325 farmers
	Indicator 4: Approximately 43,000 liters of Grade A fresh milk sold by MCCs to processors.	16,918 liters
Project Goal 2: To increase the income and employment opportunities of 2,625 Albanian and 875 Serbian farming households in Novo Bërdë/Novo Brdo and Kamenica/Kamenicë municipalities from dairy and meat production and marketing.		
	Indicator 5: Consistent supply of quality livestock to meet agribusinesses contractual demands – target 80 head	255 head
	Indicator 6: 12 cross visits between municipal agricultural staff conducted	12 cross visits
	Indicator 7: 80% of Community Trainers are functioning in their role as extension agents by June 2003	62%

IMPLEMENTATION

CARE identified and selected 425 dairy farmers with the potential for producing marketable quantities of quality milk. On average, each participating farmer owns 5.4 hectares and 6.4 cattle, of which 3.4 are milking cows. Training was conducted with all progressive farmers on land

preparation, maize for silage production, and forage crops to increase feed quality and quantity. Demonstration plots for forage crops were initiated in Lipjan/Lipjane, Kamenica/e, and Gjakova/Gjakovica.

The initiation of 22 of the progressive farmers as demonstration units where they introduced progressive farmers to correct dairy husbandry, silage production and the use of feed concentrates. 43 MCC's have been identified in various conditions. Some with lacto fridge, others are merely a point where farmers bring their milk. The management structures vary, some are farmer owned, some are processor owned and others owned by associations. Because conditions at each of the MCCs are so varied the project provides training to improve general management as well as hygiene standards and testing. A training and quality control manual is provided to each center.

The activities outlined above are properly targeted to achieve the project objectives.

1. *The major strengths of the project*

- ▶ Majority of the local CARE staff have been together in Kosovo since 1999 and function well as a team.
- ▶ The local staff is well trained in agriculture and is skilled in working directly with small farmers.
- ▶ The CARE team has access to good statistics and technical information, allowing them to make accurate assessments and focus on the small farm producers with potential.
- ▶ The staff is well qualified in technology of milk testing and processing and available on a daily basis to the producers.
- ▶ Teaching and demonstrating basic dairy husbandry, providing the support for the dairy farmers to become more efficient.
- ▶ Collaborates with veterinarian services that provide artificial insemination.

2. *The major weaknesses of the project*

- ▶ Lack of funds to increase the advisory services needed particularly in establishing a demonstration/training farm for improved technology.
- ▶ Milk hygiene and quality is a serious issue and the CARE team has found it very difficult to make significant progress.
- ▶ Project has not yet been able to create a satisfactory approach to correcting the inconsistent supply of feed concentrates and supplements.
- ▶ The system for marketing raw milk and market information efforts are weak.
- ▶ The combined dairy association, consisting of both processors and producers, does not serve the producers as well as it serves the processors.

3. *Major constraints*

- ▶ Fiscal policies are biased against the agriculture sector.
- ▶ Lack of an agriculturally-based investment finance program.
- ▶ Insufficient cooling/processing to hold milk while waiting for the processor and to carry milk and milk products through the peak production period of June, July and August

- ▶ Inconsistent supply of feed concentrate and supplements and when available are priced above the regional and world market. (These are both constraints and weaknesses.

These constraints can be improved by providing: an agricultural finance program for producers and processors; providing technology transfer based on product specialization and marketing; assisting the feed milling industry through technology, storage and financing to import feed ingredients in quantities that are price competitive in the regional market; assisting in the promotion of sunflower production and processing that will provide a source of sunflower meal to be used in feed rations not only for dairy, but for beef, lamb and poultry feed as well.

CARE activities have been well coordinated with other donors and with NGOs, such as Heifer International of Kosovo, an affiliate of Heifer International. There is cooperation with the World Bank, Swiss Aid, FAO, and Mercy Corp and others.

CARE and KBS have collaborated closely to take advantage of economic opportunities as well as training to support both the producer and processors.

KBS has provided experts in the fields of: 1) new potential dairy products such as fruit flavored yogurt and whey drinks and 2) milk collection systems, lab equipment and procedures. The seminars and workshops put on by these experts not only provided valuable technical assistance for dairy processors they were of great assistance to the CARE program and the MCC. KBS and CARE participated in a joint training session at the USAID funded Land O' Lakes milk testing laboratory to learn proper techniques for milk testing. KBS worked with CARE to introduce milk processors to the use of forward contracts with the milk producers.

IMPACT

Preliminary results show 425 dairy farmers have increased milk production by 21% on average during the peak lactation period. Net farm income from dairy production has increased at least 25% for the primary 425 farmers, with at least 50 jobs being created. The growth in milk production increased the number of processing centers and created additional milk products for the market, such as yogurt and processed milk, that require more labor. The majority of the additional labor comes from the rural area where poverty is high. The impact of the project is high.

SUSTAINABILITY

Agriculture development requires some serious fiscal policy changes in order to be sustained. Kosovar producers are paying very high customs duties, VAT, and in some cases, transit taxes on agricultural inputs with the exception of fertilizer. Their competitors in neighboring countries do not pay this sort of tax and in fact receive substantial subsidies in many cases. The Ministry of Agriculture has appealed and continues to appeal to no avail, the tax structure that puts an unfair burden on the small farmers who constitute one of the poorest segments of society.

The assistance level in building local capacity to carry on agricultural and SME development efforts are in the building stage. Fundamental agricultural technical assistance will be required for many years to come. Trained technicians and other people possessing other developmental

skills remain very scarce in Kosovo. The input supply and marketing systems are not yet restored to full operation.

LESSONS LEARNED

1. *The technical lessons*

- ▶ Technical bulletins should be written in practical language that is useful to producers and not just food processors or input suppliers.
- ▶ Technical and market information should be provided daily to the producers via radio and TV.

2. *What are the project implementation lessons?*

- ▶ Project target numbers cannot be arbitrary but must be based on careful analysis of conditions and realistic potential for change.³⁶
- ▶ Growth of the dairy-beef-feed cluster can be sustained by a balanced approach to development investments that accounts for market changes and production increases in synchronization.

3. *The developmental strategy lessons*

The lack of funding to develop several key activities:

- ▶ Milk Collection Centers (MCC) require an investment of 10,000 to 15,000 Euro. This includes a building, cooling tanks and lab testing equipment. This is the right strategy but difficult to achieve without a funding/grant or finance package. Where the MCC have been established approximately 20-21 units out of 41 have worked well. A major problem is additional funding for MCC units and the high interest rates in Kosovo is a constraint.
- ▶ Demonstration unit to provide updated technology is necessary strategy component. The ability to train farmers in a demonstration unit where they can do hands-on training far exceeds any other training program.

Associations must be designed to represent a specific group. The dairy association is made up of producers and processors. The processors are running the association with the producers not getting the necessary representation. The overall effectiveness of this association is minimal at best.

It is very difficult to develop any sustainable agricultural programs without a sound fiscal program with a low interest rate loan program.

³⁶ The project documentation suggests some numbers were selected in the absence of detailed analysis. While this may have been necessary in order to get the project started, future targets should be based on study and experience to date.

RECOMMENDATIONS

1. *Recommended activities to stimulate on-farm production, increase incomes and employment*

- ▶ Create an agriculture and agribusiness credit fund to finance processing, marketing and production enterprises with medium-term (5 to 7 years). Ordinary commercial credit does not respond to the critical needs of the agriculture sector.
- ▶ The dairy-beef-feed cluster is a core component of the agricultural sector with strong backwards and forward linkages and wide geographic distribution. Investments in this cluster will arguably have a stronger effect on economic growth in the rural areas than any other. The development of feed grains and alternative forage and fodder crops expands potentially profitable farming opportunities well beyond dairy producers.
- ▶ Maintain and improve the farmer-to-farmer training and technology transfer program. This type of training in conjunction with establishing demonstration units is the fastest and most accurate method to provide productivity and sustainability in the agricultural sector. While there are no data on this approach, discussions with farmers suggests that they get most of their new information from other farmers.

2. *Recommended activities to stimulate agribusiness growth and efficiency in processing, input supply, and product marketing that increases incomes and employment*

- ▶ Agricultural sector fiscal policy should be addressed by government authorities immediately. The present customs duties and VAT policy is unacceptable for agricultural inputs. It is constraining the economic recovery of the part of the population that has the highest unemployment and poverty rates.
- ▶ Develop a comprehensive agricultural loan program for agricultural processing enterprises and input suppliers that are specifically tailored to the needs of agriculture and agribusiness.
- ▶ The Government should generate policies and develop a program to rehabilitate and utilize existing idle S.O.E. grain storage facilities in Kosovo for private dealer leases to import feed grains, feed ingredients, feed supplements in bulk. They can also be used for strategic bread wheat storage.
- ▶ Develop a cluster wide marketing program specifically designed for each product and based on actual market demand, first locally and then regionally.
- ▶ Develop a program that will support the dairy industry to produce milk of USDA-Grade A standard. The percentage of milk reaching that standard now is very low.

Table 1.1 Kosovo Dairy Sector Supply and Demand Scenarios

Demand	Swiss Scenario	GOK Scenario	FIL Scenario (potential demand)
Total population	1,800,000	1,800,000	1,800,000
Per capita milk consumption, annual (all products)	125.97	139.95	180 lt.
Annual national demand liters	226,746,000	251,910,000	324,000,000 lt.
Annual national demand - MT	226,746	251,910	324,000 MT.
Supply – Domestic			
Population- producing dairy cows	155,000	155,000	155,000 head
Mean milk yield per cow/day *	2.7	2.7	2.7 lt.
Total domestic production/ day	418,500	418,500	418,500 lt.
Annual domestic production, lt.	152,752,500	152,752,500	152,752,500
Annual domestic production, MT.	152,753	152,753	152,753 MT
Supply – Imports			
Fluid milk products	36,000	42,240	36,000 MT
Solid milk products (yogurt)	16,800	22,512	16,800 MT
Other solid products(cheese)	6,200	8,303	6,200 MT
Milk powder (liquid equivalents)	15,000	20,100	15,000 MT
Total Imports	74,000	99,160	74,000 MT
Total Supply (domestic+ imports)	226,753	251,913	226,753MT
Total Demand @ x lt. per capita	226,746	251,910	324,000MT
Milk surplus or deficit (deficit as negative)	7	3	- 97,248 MT

* Mean milk yield per cow assumes 1400 lt/cow/yr. less calf consumption at 400 lt./yr.

Source: Swiss project Identification for the Dairy Sub-sector, MOD and Assessment Team

The third scenario used in table 1.1 is the International Dairy Federation (FIL) projection of potential milk consumption at 180 liters per person per year. This scenario shows that, at this level of consumption, Kosovo would need to import over 171,000 MT of milk to meet demand. The table clearly demonstrates the need to continue developing the dairy sector in Kosovo.

IMPROVING VEGETABLE PRODUCTION PROJECT (IVP)

BACKGROUND

As a result of an amendment to the SC grant, five sub-grants were prepared for implementing an agricultural program to address some deficiencies in this sector in Kosovo.³⁷ One of the sub-grants was for a project to focus on the vegetable sub-sector through activities that would increase technology transfer to farm households, improve advisory services available through Farmers Associations (FAs), develop the capacity of Rural Development Organizations (RDOs) and improve business linkages. These objectives would be accomplished through the implementation of a 20-month project totaling \$ 557, 516. This sub-grant was awarded to CECI in January 2003.

STRATEGIC OBJECTIVE

The project's Strategic Objective is to increase the volume of marketed and processed vegetable products in the Southwest region, with a special emphasis on Rahovec, Gjakova and Prizren municipalities.

INTERMEDIARY RESULTS

This SO will be achieved through the following Intermediate Results:

1. Improved access to market responsive advisory services (resulting from an enhancement in the ability of one agricultural services provider and three (3) Farmer Associations to deliver advisory services to farmers).
2. Increased volume and improved quality of marketable production surpluses in the three targeted municipalities
3. Increased marketing of the production surpluses (resulting from the multiplication of business linkages between farmers, their associations and trading and processing companies

The IVP sub-grant became operational just as the first years' growing season approached, so they were able to initiate on-farm demonstration trials in the first year. IVP was fortunate in being able to team with the Kosovo Development Center, a local NGO based in Gjakova. This partnership was crucial to the project getting established and initiating the first years' activities.

IMPLEMENTATION

1. Have activities been properly targeted to achieve the objectives?

The IVP program has selected seven vegetable varieties plus potatoes (see Quarterly Report January 2004, page 10, not attached to evaluation documents) for their technology transfer work with farmers. These selected crops have a history of marketability and consumer preference in Kosovo. Historically, many of these vegetable varieties have been exported to other countries in

³⁷ The five sub-sectors addressed in the SFS program include dairy, meat and feed; poultry – chickens and eggs – and feed; sheep; vegetables; and fruit orchards

the region. Farmers are knowledgeable about these crops and have generally been able to absorb the new technologies presented by the project. Given satisfactory regulatory conditions, there is confidence among project personnel that productivity can eventually meet domestic demand and begin to re-establish some of their former export markets.

The potato producers participating in the IVP project appear to be quite efficient. They have good traditional storage facilities on their farms, enabling them to market produce in the “off-season”. Most seed potato stock is imported and raises their input costs. But it is possible that they could begin to produce their own potato seed.

2. *What are the main strengths and weaknesses of the assistance?*

One strength of the project is that it is concentrating the technology transfer activities in areas that are basic to improved production and quality, such as improved seed varieties, better agronomic practices (such as spacing and pest management), incorporating efficiencies in the production cycle (e.g., lengthening the production cycles) , and enhancing the marketing approaches taken by the farmers. The project is very hands-on with the participating farmers and reinforces trainings through a system of demonstration plots on selected farmer’s fields and with farmer leaders. The project is working with farmers through local Farmer Associations (three each – Anadrini, Horticultura and Perdrini)³⁸ and 18 newly established Farmer’s Clubs.³⁹ These Farmer’s Clubs were added after the Grant was initiated and are intended to strengthen the demonstration efforts at the participating farmer’s level. Farmers have also been involved in the on-farm data gathering and have done well at maintaining records. Periodic reviews of the results encourage their participation in these record-keeping exercises.

The main weakness of the project is the short time frame and the need to accelerate activities that should have a longer horizon. While the work with FA’s has been integral to the project, it has not been as intensive as it might have been under a longer time frame. The project has limited funds, which are mainly for demonstration plots and trainings. There are no funds to initiate physical demonstrations, such as working with green houses and other useful purchases of equipment. The project never intended that equipment for demonstration purposes would be funded, but this would have been a beneficial addition to the project. And while the project is making efforts at introducing new marketing practices and information to the participating farmers, it is insufficient to make a significant difference in the time frame of the project.

3. *Major constraints? Land tenure and land fragmentation, availability/cost of credit, modalities for technology transfer, input supplies, access to markets? How can constraints be ameliorated?*

A major constraint facing the project is the uneven playing field farmers’ face in the importation of agricultural inputs. Farmers are accepting new technologies, even though they increase their costs and associated risks. It is possible that some inputs are not being fully applied due to the

³⁸ Horticultura is a recently organized Farmer Association and has not advanced very much in its operations. Perdrini has received some assistance from Dutch aid and they are working mainly with machinery in their service to farmer members. Neither association is as large as Anadrini

³⁹ The establishment of these Farmer Clubs is explained in detail on page 4 of Attachment B – Project Strategy for 2004 in the Quarterly Report January 2004 (not attached to evaluation).

high cost, therefore reducing the potential productivity benefits. Nevertheless, it appears that some farmers may be assuming that the input constraints might lessen in future years and are therefore enthusiastic about the new technologies. However, given the constraints to efficient use of inputs, the production of vegetables for domestic and export markets will continue to lag. These constraints will be lessened in part if the imbalance in import duties on agricultural inputs is corrected. This issue of duties and VAT is discussed elsewhere in greater detail.

The more important constraint is that farmers are unable to fully benefit from the new technologies due to the limited size of land holdings. Further distribution of land and the associated ownership titles will enable farmers to achieve greater economies of size and thereby increase profits and probably employ additional workers.

The inability of farmers to acquire credit for agriculture inputs further constrains increased application of new technologies and limits returns to their efforts. The larger farmers, those with 50-100 ha or more, producing feed grains and with other sources of collateral, are able to obtain commercial credit. For the smaller, commercial size farms, specifically the vegetable producers, there is still no window of opportunity for obtaining credit. Although farmers are earning a profit from their farms, there are missed opportunities for increasing incomes and adding products to the domestic market, which could be obtained with fewer constraints created by policies that seem to discriminate against development of the agriculture sector.

4. *Have activities been well-coordinated with other donor organizations and focused on achieving mutually-agreed objectives?*

IVP worked in collaboration with an Italian funded NGO, the Bergamo Foundation, which is working with vegetable farmers in the nearby municipality of Peja. There are two Italian technical staff and they are scheduled to depart at the end of 2004. There has been joint participation in each others training programs, sharing of information and knowledge concerning technology transfer to participating producers, and working with municipality based extension agents.

IVP is knowledgeable about the Swiss funded Inter-Cooperation NGO work in vegetable and fruit production with farmers, but the Swiss program focuses on a different set of crops – including strawberries, herbs and some flowers. Therefore, there hasn't been much program collaboration.

IVP is aware of the FAO potato seed development program, but it seems to have not progressed to where IVP can benefit from their activities and will end in July 2004 (see meeting notes in Exhibit 16).

IVP works closely with the Anadrini Vegetable Farmers Association (see the report on the meeting with Anadrini staff in IVP Exhibit 17), which is located nearby. Some of the Association technicians serve as part-time advisory agents with IVP. There is considerable collaboration in the selection of vegetables in an effort to meet current and potential market demand.

Early on in the project, IVP collaborated with KBS to establish a market for the participating farmers' vegetable production (this collaboration is described on page 6 of the grant proposal

submitted by IVP to SC, not included in the evaluation documents). The focus of this collaboration was to be the PROGRES Processing Plant Company in Prizren municipality (see the report describing PROGRES in Exhibit 21). PROGRES was increasingly unable to absorb the produce from the participating farmers. As a result of the company's decreasing activity, KBS's role in supporting PROGRES diminished. This led to less contact and collaboration between IVP and KBS in their planned efforts to provide a market (PROGRES) for the participating farmer output under the IVP project. The other problem with the development of this relationship between the KBS and the IVP projects was that the KBS targets changed during the period of time when the SFS overall umbrella program, and IVP project activities was being initiated. As a result, KBS no longer had the vegetable and fruit sub-sectors among their target products by the time the IVP project, under the SFS program began implementation. Nevertheless, the collaboration between PROGRES and KBS included several consultancies early on in the KBS project, consisting of a microbiologist, a marketing person, and a finance consultant. Had the KBS work with agribusinesses in general and specifically with PROGRES continued, a more substantive product marketing relationship among these projects would have developed.

IVP also worked with KBS to establish a collaborative relationship with the Pestova Potato Processing Company. The addition of a potato production component to the IVP project was aimed at improving production practices in an effort to increase potato yields and assist farmers in seeking broader markets for their produce. This collaboration with Pestova has never really taken off. The Pestova Company produces potatoes on 60 hectares of their own land and has become the primary supplier of its own potatoes for its processing facility. As a result of having this ready supply, Pestova was apparently not ready to pay a reasonable price (at least according to the farmers) for raw potatoes from other suppliers. IVP has felt that the Pestova Company has never undertaken an analysis of their potato production costs, making it difficult for them to establish the real price of potatoes going into their processing factory. They are valuing their own product as a low cost input and not considering the comparative cost of buying from other producers. Thus, when they do have to purchase potatoes from outside sources, they only seem to be willing to do so at a price lower than the expectations of the farmers collaborating in the IVP project. As a result, the anticipated collaborative relationship has not developed.⁴⁰

Seven expatriate consultants have worked with the project for trainings and technology transfer. Participating farmers, local extension staff and project staff benefited from these trainings. The subject areas for these consultancies included: orchard management, fertilizer and water management, harvest/post-harvest handling, marketing, record keeping and business planning, pest management, and extension material development. One of these consultants came through the LOL volunteer program. In observing one of these consultants in the field, it appeared that the participating farmers were very pleased with the assistance they were receiving.

5. *Have activities been coordinated effectively between KBS and IVP to take advantage of economic opportunities in farm production and value added processing?*

As described above, KBS/IVP activity coordination was initiated as the onset of the IVP Project. However, due to external circumstances, this relationship was unable to continue beyond the

⁴⁰ (Note: This analysis is based on discussions with IVP staff. The issue was not discussed with the management of Pestova.)

early discussion stage. There were initial indications that this could be a fruitful relationship to facilitate the marketing of farmers produce. In light of this relationship not succeeding, IVP has proceeded to initiate marketing links through project resources via field trips to Albania to discuss and seek out possible markets and through internal trips in Kosovo seeking domestic markets. This has been done with some degree of success, but will require a more intense effort and more time than is available under the project. The project continues to work with the Anadrini Association and PROGRES to establish marketing relationships with participating farmers, but the effort requires more intensity.

IMPACT

1. Is the assistance achieving or helping to achieve the desired results as set out in Farmer Association's Strategy for Kosovo for 2001-2003, SO 1.3 and IR 1.3.5, including objectives and benchmarks set forth in task orders and the cooperative agreement?

The Project IR's and Indicator Targets are contained in IVP Project Matrix Exhibit 18. A summary of the results are reproduced below in Table 1. The project is on schedule to meet the targets spelled out in the sub-grant proposal. These include numbers of beneficiaries, production from their farms, increases in farm income the inclusion of women and minorities in the project, and marketing of produce. Due to the late startup of the project, some targets are still behind schedule, but are expected to meet the LOP targets. It has been difficult to include women in the technology transfer activities. Few of them venture out to the fields for these trainings. The region where the project is operating is not an area with many minorities. Thus, these numbers are not large, more in the range of 10% rather than the 30% included in the indicators. Due to the projects late start in 2003, the project was unable to initiate early-season crop programs. Presently, there are 298 farmers who will participate the proposed early season cropping activities for 2004. The work with vegetables for processing and marketing has been curtailed during the first year of implementation. The situation with PROGRES, detailed elsewhere in this evaluation, reduced the amount of produce purchased from farmers in the region.

PROGRES certainly purchased vegetables, but it is unclear just how many participating farmers were involved in this activity. In the coming weeks, the project will work with the Farmer Associations and participating farmers to participate in a forum being held in Pristina to seek out vegetable markets in Croatia. This forum is being held under the auspices of the Kosovo Association of Exporters.

The benchmarks for the project are contained in IVP Exhibit 19. In reviewing the listing of benchmarks, most of them are on schedule to be accomplished. The ones that have not been met concern the collaboration with the processing company PROGRES. Many of the targets for demonstration plots and numbers of participating farmers have been exceeded. Others, such as developing training manuals, will be completed in 2004.

2. What are the greatest accomplishments from these activities?

The greatest accomplishments from these activities are that they have energized farmers to consider improvements in their planting regimes, have interested them in record keeping and the

usefulness of data and information, and encouraged them to begin thinking about gaining strength in marketing by working in groups.

The project has accomplished some significant breakthroughs in transferring technology for vegetable production in a very short time frame. This has been achieved by working intensely with smaller numbers of farmers and expanding the dissemination of knowledge through demonstrations and farmer leaders. Using existing and proven technologies has facilitated this transfer. The strategic use of short-term consultants has promoted the acceptance of certain technologies by farmers. Recent examples are the introduction of spinach under cover as an early season market crop. Results to date are encouraging. Greenhouse technologies are being introduced to demonstration farmers and they are encouraged by the prospects for success. One of these participating farmers has recently purchased equipment with his own funds and is utilizing a project consultant to initiate his own greenhouse activity.

3. How have the activities contributed to income generation and job creation?

Production studies have been completed for some of the farmer participants and indicate that the new technologies can produce significant gains in income. However, small land holdings and high input costs do not lend themselves to sufficiently high overall family incomes. Data from the project indicates that the potential exists for increasing incomes. To take the example of tomatoes, comparisons between traditional methods of planting and using new technologies indicate that yields can increase from 60 mt per hectare to 92.7 mt per hectare.⁴¹ This same survey indicates that incomes increased from Euros 3,634 per hectare to Euros 5,615 per hectare. There are more complete data in the Quarterly Report for the period October – December 2003.

With reasonable land distribution, privatization of land, and issuing land titles, farm sizes will begin to increase to where economies of size will have an impact and farmers will have need for additional labor. Project activities that increase production and marketing of produce will eventually have an impact on processing, which in turn will also open additional employment opportunities. There are no studies that provide data on employment potential, but indications are that it would be significant for the agriculture sector. The project was not tasked with increasing on-farm employment, but it could likely be an added benefit from successful implementation of the technology transfer program.

⁴¹ These figures are from a survey of farmers done in October 2003 by the project.

Table 1: Project Matrix for Results Indicators⁴²

Indicator Targets	Actual Results as of December 2003
Amount of additional farm surplus marketed reaches at least 3000 tons by project end	232 mt
The target income for participating farmers over the LOP is Euros 2,700	Euros 1,387
1200 small farm household from 3 municipalities of the Southwest region	628 beneficiaries
3 Farmer Associations providing services to farmers, one each per municipality.	3 Farmer Associations
Direct beneficiaries: 1200 farmers accessing improved extension and marketing services through their Farmer Association.	628 beneficiaries
At least 100 farmers involved in early season crop programs. One group per Farmer Association.	None in the first year of the project but they are now working with 298 farmers on early season crops.
At least 25 farmers involved in the processed vegetables program.	Possibly some are selling to PROGRES, but not through a direct project activity.
At least one processing company (PROGRES) has improved its supply of raw material through buy-back arrangements.	No activity yet due to the problems that PROGRES is having maintaining its cost structure and reduced activity of its processing line.
At least 3 new trading companies have secured business linkages with Farmer Associations	No activity yet, but in the coming weeks, project beneficiaries will participate in a forum organized by the Kosovo Association of Exporters concerning possible exports of vegetables to Croatia

⁴² The complete matrix for the Indicators can be found in Exhibit 18.

SUSTAINABILITY


1. Are institutional and legislative reforms being carried out to support agricultural and agribusiness development?

The major impediment to development and progress in the agriculture sector that is shared by each and every interviewee involves the seemingly unbalanced import duties placed on agricultural products and inputs. However, there are a wide range of opinions on the impact of the import duties and VAT taxes. This issue is discussed at great length elsewhere in this evaluation.

The second most discussed issue is the privatization of land and the distribution of land to agriculture producers. Access is restricted in that farmers are unable to buy sufficient parcels of land to farm efficiently. They are able to rent land, though it is generally insufficient, requires a contract that is one year or less, and from year to year the rented land may not necessarily be the same parcel. This latter restriction prevents farmers from making and enjoying improvements that might be made to the land they are working. These practices reduce soil fertility over time and lead to degradation of the land resource. And while renting land on an annual basis might suffice for production purposes, it still does not afford farmers the land collateral they need if credit were available. The culprit in this land distribution and use issue appears to be the KTA. This issue will be discussed in greater detail elsewhere in this evaluation.

2. Is the assistance effective in building local capacity to carry on agriculture and SME development efforts after USAID-funded technical assistance is ended?

In the case of IVP, it is possible that the collaborator in this project – the Kosovo Development Center (KDC), will seek out other sources of funding to continue the technology transfer work initiated by the IVP. They were approved for a grant by the EU/EAR, but just recently the EAR program was cancelled. They will continue to seek other sources of funding, but without KDC the current efforts might just end in October.

Project personnel stated that some of the Farmer's Clubs might survive and continue collaborating among themselves.  At this end the project will increase its' efforts in these last 8-months to strengthen the management and technology transfer capability of these Farmer Clubs and the larger Farmer Association, such as Anadrini. It is very likely that Anadrini will be able to continue some of the work that has been started by IVP. There is no significant municipal or ministry of agriculture extension agent presence in the regions to carry on the technology transfer and the organizational work with the participating farmers. Project interaction with government staff in the area of technology transfer was very limited. While there has been some collaboration between the government staff and the project, it has not been sufficient enough to enable them to continue the work of the project. And most importantly, they do not have any budget to enable them to conduct the necessary outreach.

According to project staff, some of the Farmer Clubs have already initiated activities that indicate an interest in continuing the collaboration among members. These activities have included local field days in the member villages, individual club efforts to locate new markets, collaborative use of machinery in the villages, observations of techniques at other farmer member fields, and other small activities that are encouraging. During a visit to one participating

farmer's fields (green houses), there was discussion among some of the participating farmers present that they were more interested now in observing what other farmers were doing based on new techniques learned in the project. This willingness to observe, discuss and learn appears to be something new for farmers in this area and has come about due to the project's efforts.

It should be pointed out that project's main objectives were to improve the production of participating farmers cropping patterns and not to develop a sustainable technology transfer service to farmers in the region. Nevertheless, the gains from the technology transfer component will be reinforced if the local institutions are able to continue working with the participating farmers in the area.

(For Lessons Learned and Recommendations see the SEEDS narrative document in next section)

SUPPORT FOR THE ECONOMIC EXPANSION AND DEVELOPMENT OF SMALL FARMS (SEEDS)

BACKGROUND

As a result of an amendment to the SC grant, five sub-grants were awarded for implementing an agricultural program to address some deficiencies in this sector.⁴³ One of the sub-grants was to focus on the fruit sub-sector through activities that would encourage the sustainable adoption of improved technologies by small farmers. This objective would be accomplished through the implementation of a 20-month project with USAID funding totaling \$ \$617,587. This sub-grant was awarded to IRC in January 2003.

As a result of the IRC's interventions at the small farm level, the quantity and quality of tree fruit, specifically apples, plums and pears, demanded by current and/or potential processors who were KBS/KBF clients would be met by at least 30% increases in pre-project production levels. This is a realistic estimate, based on assessments and outreach activities with small farm producers, taking into account their current yields and potential harvests with the projects technology transfer activities. In the proposal, SEEDS impact was to be connected to a contractual business relationship between PROGRES, a private processing plant and a KBS client. This relationship with PROGRES did not materialize and forced the project to initiate other innovate methods for resolving participating farmers marketing needs.

Nevertheless, the project got off to a satisfactory start and was able to make in-roads to the technology transfer aspect of the project. As a result, participating farmers enjoyed a full first year of activity in collaboration with the SEEDS project and its technicians.

STRATEGIC OBJECTIVE

To motivate the sustainable adoption of improved technologies by small farm producers in order to increase their production of high quality tree fruit by 30%, to meet the demands for tree fruit from current and/or potential KBS/KBF agribusinesses.

INTERMEDIATE RESULTS

I.R. 1: Increase, create and strengthen linkages in the fruit production-processing-marketing chain.

I.R. 2: Increase small farmers' utilization of appropriate inputs and technologies for fruit production.

PROJECT OBJECTIVES

P.O. 1: Establishment of sustainable and mutually beneficial relationships between and among small farm producers, individual farmers, cooperatives and current and/or potential KBS/KBF clients involved in the tree fruit sector.

⁴³ The five sub-sectors addressed in the SFS program include dairy, meat and feed; poultry – chickens and eggs – and feed; sheep; vegetables; and fruit orchards

P.O. 2: Institution of cost-effective, innovative, and best-practice behaviors and approaches among the tree fruit and nursery small farm producers.

The IRC sub-grant became operational just as the first years' growing season approached, enabling the project to initiate on-farm demonstration trials in the first year. The project worked with other donor projects, government offices, and existing Farmer Associations. There was considerable initial collaborative work with the PROGRES Processing Company and KBS, but as mentioned elsewhere, this relationship never really got off the ground. The project initiated a number of surveys in an effort to define the participating farmer population and identify optimal or appropriate sites for demonstration plots. The strategic use of volunteer expatriate consultants also enabled the project to initiate technology transfer activities quickly.

The project is being implemented with a staff of nine persons – a Program Coordinator (ex-pat), a Program Manager (Kosovar), and four field staff for 3 regions based in Pristina.

IMPLEMENTATION

1. Are activities properly targeted to achieve objectives?

The technological goals of the project appear to be achievable:

“Increase small farmers’ utilization of appropriate inputs and technologies for fruit production”. Rates of adoption of new technologies by participating farmers are quite high. Understanding of the knowledge being transferred through the project trainings is also quite high. These results are confirmed in a post-training evaluation survey conducted among 43 farmers out of a total of 123 that attended the trainings (see Grower Technology Adoption Evaluation, Exhibit 20). Among the reasons for not adapting some of the technologies are the high cost of inputs and a fear of the unknown.

Overall, the project has been working with 81 participating farmers’ families. Of these, 58 families are currently active as participating farmers. There are an additional number who benefit indirectly from trainings and observation at demonstration farms and number in the hundreds. About 100 hectares of orchards are involved in the project.

Increases in production and quality of fruit have been observed by project staff and various consultants, but the data from the participating farmers in 2003 has not yet been analyzed. There are also no reliable data from a baseline with which to compare results. The project intends to use the data from the 2003 demonstration trials as a baseline from which to measure production and yields from the 2004 activities. There are also no control group data within the project from non-participating farmers.

There is a good market for apples, the primary crop in this project, and farmers find a ready fresh market, even in the face of competition from the region. Although estimates are guesswork at best, probably in excess of 70% of the fresh fruit consumed in Kosovo is imported from around the region. The objectives of the project are to increase yields and improve quality among fruit growers. But even if the objectives are met, there is still a need for a sharp increase in the land under orchard production. This is unlikely to happen soon, given the high initial investment cost of starting new orchards and the issues surrounding the privatization of land.

2. *What are the main strengths and weaknesses of project?*

The strength of the project is that the technologies for improving production and quality are working and the necessary technical assistance is available through the project. Volunteer expatriate consultants have been used as needed. There have been 6 of these volunteers engaged by the project to date. They have worked in the areas of management, fertilizer use, pesticide use, pre and post harvest techniques, management records keeping and Integrated Pest Management (IPM).

The weakness is that the project is limited to working with demonstration trials and does not have funds for additional outreach or for other technologies such as storage and handling.

3. *Major constraints? Land tenure and land fragmentation, availability/cost of credit, modalities for technology transfer, input supplies, access to markets? How can constraints be ameliorated?*

The major constraints to progress in this project are time and money. The LOP is too short to effectively deal with technological changes in orchard fruit trees. The project budget, basically for demonstration plots and training, does not allow for much outreach from the demonstration plots, and no funding for upgrading of institutional labs for testing, for equipment to work on storage, packing and grading of produce demonstrations.

There is the long-term effort needed to change farmers' thinking about implementing new technologies and use of inputs. The project will initiate a beginning, but will not be able to follow through, due to the time constraint.

Marketing continues to be an issue. There is a good local market for fresh produce, especially if the quality can compete with imports. Participating farmers are beginning to understand the benefits of working together proactively, to seek out and better define markets. Visits have been made to local wholesale markets in Pristina, with some indications of future collaboration with buyers. These activities will continue and increase in the last months of the project.

Lack of storage at the farm or village level is an important constraint to receiving higher prices for produce. Many farmers have traditional storage facilities on the farm, but they are insufficient to take advantage of off-season markets. The project is attempting to address this issue in small ways through training, but their efforts will be minimal at best.

Handling of fresh produce at the farm and village level is another area where the project feels that progress can be made in preparing market-ready higher quality produce and receiving higher prices per kilo. The SEEDS project has insufficient funds to experiment in these areas and is probably missing some opportunities for additional technology transfers.

Farmer Associations are being encouraged to consider future activities in small scale processing at the village level. This is an area where farmers could add considerable value to their crops. As an association, investments in these small processing plants would be reasonable and profitable.

The lack of access to credit curtails expansion in the fruit tree orchard sub-sector. There is considerable interest in expanding existing orchard land and also in bringing new lands into production. However, it is costly to initiate new orchards given the high cost of high quality seedlings, fencing and irrigation. Therefore, expansion in this sub-sector will probably be slow and extended over a long period.

Another major constraint to fruit tree production is the issue of privatizing SOE lands that are particularly suited to orchard plantings so that farmers can increase their holdings. This issue is discussed elsewhere in the evaluation.

4. *Have activities been well coordinated with other donors and other USAID projects and focused on achieving mutually agreed objectives, economically and efficiently?*

The project's relationship with the Swiss funded NGO "InterCooperation" has been very beneficial to the SEEDS project's work with participating farmers. There have been ongoing exchanges of trainings and discussions of marketing issues. InterCooperation will continue operating at least until 2006, which will allow for the continuing dissemination of technologies. The SEEDS project might consider encouraging them to continue working with some of the participating farmers following the termination of the SEEDS project.

Collaboration with farmer associations, other projects and processors has been ongoing from the beginning of the project. The project is working with six Farmer Associations, three of which are newly formed and three of which are pre-existing organizations. One of the latter is actually a Farmer Association formed around a seedling nursery. During the first year of the project, about 25% of staff time was devoted to working with the Farmer Associations. In the final 8 months of the project, it is estimated that this will increase to about a third.

There are/were 80 orchard farmers participating in the project, with about 57 of them active at the time of the evaluation. There are another 123 farmers that are loosely connected with the project's activities. All of these farmers are members of the seven Farmer Associations that the project is working with at present. The total number of orchard farmers in the entire project area is not known but the percent of orchard farmers who are members of a Farmer Association is no doubt very high.

The project has been in regular contact with three micro-credit organizations, AFK, FINCA, and Pro-Credit, trying to encourage them to offer a loan program to qualified fruit orchard farmers. The project has attempted to serve as an intermediary for participating farmers that are interested in borrowing funds to increase their plantings. However, it is clear that these micro-finance institutions do not have lending programs to serve these small and medium sized orchard operations that need 3-5 years financing to establish new plantings. Nevertheless, the project will continue the dialog with these institutions and continue the information flow with the farmers.

5. *Have activities been coordinated effectively between KBS and SEEDS to take advantage of economic opportunities in farm production and value added processing?*

One of the most important efforts was to have been in collaboration with KBS and one or more processors of fruit products. The PROGRES Company was to have been a key player in this

effort. However, that company does not seem to be enjoying great success and as a result the tripartite relationship was never really initiated (see separate report on PROGRES in Exhibit 21). KBS's role was also reduced when their mandate shifted away from agribusiness and more toward urban business interests. There does not seem to be any efforts underway to revive this collaborative situation involving KBS and PROGRES. However, SEEDS continues to maintain a relationship with PROGRES, mainly consisting of discussions and exchanges of information. The project feels that there is still a possibility that PROGRES will someday be able to increase the produce it buys from the orchards of participating farmers.

IMPACT

1. Is the assistance provided achieving or helping to achieve the desired results as set out in USAID's Strategy for Kosovo for 2001-2003, SO 1.3 and IR 1.3.5, including objectives and benchmarks set forth in task orders and the cooperative agreement?

The project does not have a baseline for the participating farmers, given the difficulty of obtaining data from farmers about their historical yields. The project is anticipating using the data from the 2003 demonstration trials as a baseline for the anticipated 2004 results. The project is reporting that the targets for the Objective of Sustainable Adoption of Improved Technologies are being met (see Table 1 below and also the Indicator Matrix in Exhibit 22). These data are from the PROGRES Processing Company and are based on the amount of produce purchased the year before the project began. The increases reflect what was purchased last year, though not necessarily from participating farmers in the project. Since PROGRES is operating at much less than full capacity, there will probably not be great increases in produce purchased in the coming year.

The impact will be measured for one year only – the change in yields and the quantities sold to the processor – between the years 2003 and 2004. Since the project was unable to obtain historical baseline data, measurements for only a two-year period - 2003-04, will have questionable statistical validity. A continuing deterioration of the situation at PROGRES may also preclude the availability of meaningful data on procurement of fruit products from farmers in general and project participating farmers in particular. However, the project will be able to measure the quantities of products marketed by participating farmers at other market locations in the region. The best measure of impact may be the on-farm trials and the improvements in yields over the two-year period of the project.

For IR 1, the fact that the processing plant – PROGRES – was operating at a very low capacity and that the KBS project was no longer working with them precluded achieving much success in creating linkages in the production-processing-marketing chain. Nevertheless, the project did make some inroads with participating farmers in marketing, as noted elsewhere in this report.

For IR 2, there was a Grower Technology Adoption Evaluation conducted recently covering the results of the 2003 technology transfer activities. This survey indicated high rates of adoption among participating farmers for many of the technologies.

Based on this survey⁴⁴, participating farmers have indicated their intention to use inputs and technologies learned from the project and have expressed their satisfaction with the technology transfers from the project.

The Benchmarks for the project have mostly been met (see Exhibit 23). The Benchmarks that have not been met concern contracting with processors for participating farmers produce and participating farmers' inability to obtain credit.

2. *What are the greatest accomplishments from these activities?*

The project has made considerable progress in convincing participating farmers that the new technology transfers are workable and profitable. There are limits as to how quickly and widespread the new technologies will be adopted in such a short time span. But the groundwork is being prepared for future expansion of orchard production.

There has been considerable success in establishing a working group, consisting of growers, faculty of agriculture staff, MAFRD staff, Peja Agricultural College staff, processors (e.g., PROGRES), nursery cooperatives and the Swiss NGO "InterCooperation". The project has also established municipal level 'forums' in six municipalities, involving staff from the municipal agriculture office, the MAFRD branch offices, university faculty staff and MAFRD. Some of these groupings might survive the project. For most, it will be difficult to survive the early stages of development without the impetus that a project like SEEDS can initiate and maintain. Nevertheless, the Working Group presents a useful forum through which farmers and others in the "producer-marketing chain" can learn about the fruit production and the marketing sub-sector. This group has presented ideas to policy makers in the government and elsewhere and although not much if anything has been acted on, inroads are being made to influence thinking. Others that are occasionally invited to these Working Group meetings include the Ministry of Trade and Investment, Ministry of Economy and the Ministry of Finance.

There have been coordinating efforts with other projects and donors. They have served to provide an exchange of information and trainings. These contacts are ongoing and seem to play a useful role in convincing participating farmers that there are benefits to be derived from collaborating with ones' neighbors. This has longer-term importance for the establishment and success of current and future Farmer Associations and the Farmer Clubs.

⁴⁴ See the Grower Technology Adoption Evaluation in Exhibit 20.

TABLE 1

SEEDS M&E Plan – Indicators Matrix

Objective: Motivate the sustainable adoption of improved technologies	Indicator	Baseline	Actual as of December 2003
	Increase total inputs sourced locally by processor	470 mt	540.5 mt
	Increase utilization of processor capacity	40%	42.5%
	Increase percentage of inputs sourced locally by processor	47%	50.5%
IR 1	Strengthen		
Strengthen linkages in the fruit production-processing-marketing chain			The linkage with PROGRES was never satisfactorily completed as the company had continuing production problems.
IR 2			
Increase small farmers utilization of appropriate inputs and technologies			These successes are documented in the Grower Technology Adoption Evaluation contained in Exhibit 20.

3. *How have the activities contributed to income generation and job creation?*

In the current time frame of the project, there has been insufficient time to measure any contributions to income and job creation. Given that the demonstrations have indicated the potential for increases in yields, an assumption can be made that continued increases will lead to increasing incomes. However, much depends on the changes in cost of production that the new technologies entail and the results of efforts to develop more efficiency in the marketing system. Cost of production and project revenues for the various fruit crops indicate that incomes will increase with the adoption of the new technologies. However, the project has no historical data with which to compare these data. The participating farmers seem to feel that the revenues from these technologies are significant.

SUSTAINABILITY

1. Are institutional and legislative reforms being carried out to support agricultural and agribusiness development?

There are several reform issues that pervade most aspects of the agriculture sector, including import and export imbalances and the privatization of land and businesses. Since these are so pervasive, they are discussed in greater detail elsewhere in this evaluation.

The current work with the regional agriculture staff may encourage future collaboration and open avenues for the dissemination of technical information. These relationships from the Working Group could provide a certain sense of sustainability to project activities if they are able to continue. The project should seek to solidify these relationships in the final months of activity.

2. Is the assistance effective in building local capacity to carry on agricultural and SME development efforts after USAID funded technical assistance is ended?

As pointed out in several of the preceding sections, there are signs that local capacity is being developed, or at least inroads are being made, through the six participating associations, the working group, and the six municipal “forums”. The project doesn’t have enough time to do much solidifying, but the groundwork seems to have been prepared for future progress.

The project worked with three Farmer Associations through the process for registration as NGO’s. This will allow them to act with more authority on behalf of participating farmers and possibly enter into business arrangements.

LESSONS LEARNED (COMBINING IVP AND SEEDS)

1. What are the technical lessons?

The timeframe of the projects was certainly too short. Fortunately, the projects were quite focused, but this is also a limitation on how much can be learned from the technology transfer activities. Obviously, in the case of SEEDS, a fruit tree project needs longer than 20 months to achieve any meaningful objectives. Although the participating farmers exhibited a high learning curve in the trainings, there is still a general reluctance among some farmers to accept new technologies. Thus, more time should have been provided for these projects.

Any agricultural technology transfer program should have broader objectives to capture spin-offs from the improved technologies. The projects could have benefited from additional funds to engage participating farmers in more demonstration activities, such as on-farm or in-village storage techniques, small scale processing equipment, and handling and grading techniques. These areas were not a major focus of the projects, and would have been useful additions to begin moving participating farmers further up the technological ladder.

A stronger component within the projects focusing on seed/seedling multiplication should have been addressed in the projects. The development of increased domestic sources of seed/seedlings would benefit farmers by providing a ready supply at lower prices. This would

lower the startup cost for farmers wanting to enter the vegetable and fruit business or expand on existing businesses

The IVP project was fortunate to be able to team up with KDC as this provided an organizational structure as well as some staff. This kind of collaboration is an important consideration for any project start up. The SEEDS project, on the other hand, was pressed to hire staff for the technology transfer component and this led in some cases to hiring staff that were not yet prepared for this activity. Greater lead time is necessary to be able to obtain competent staff before the growing season begins.

2. *What are the project implementation lessons?*

Both projects were initiated with an unrealistic time frame. There were probably good internal USAID reasons for a decision to proceed. By keeping the focus of the projects narrowly focused, the chances for success were improved.

The objectives of both projects were too high for an activity that was starting late in the growing season. It would be difficult to expect that participating farmers would be producing surpluses in such a short time frame.

In hindsight, it might have been better to just focus on fewer projects, vegetable or fruit trees, and expand the objectives of the selected project.

3. *What are the developmental strategy lessons?*

Coordination between SEEDS and other projects should have been a part of the original project design. It appears actions were taken by other programs that caused them to lose their ability to collaborate. This refers specifically to the relationship that was supposed to develop between IVP and KBS in the area of marketing.

Since processing is critical to the long-term development of the vegetable and fruit sub-sectors, more pre-project preparation should have gone into the processing activity. As it turns out, the local processor (PROGRES) has been unable to purchase much of the produce from the participating farmers in the project.

Although narrowly defined projects were necessary in the context of a short LOP, this detracts from the broader reach necessary to affect many of the technologies necessary for successful farming. Farmer Associations received some attention in the projects but not as a priority. The technology transfer focus was fine, but in the short time frame, the gains might be lost if there is no follow-up. Farmer Associations could play a role in providing technology advisory services in a new project, but they will need more technical assistance.

RECOMMENDATIONS (COMBINING IVP AND SEEDS)

1. *For activities to stimulate on-farm production, increase incomes, increase employment*

The establishment of regional wholesale markets would benefit farmers, providing a ready outlet for their produce. Consideration could be given to Farmer Association ownership of these

markets. Bulk shipping to other markets might also bolster the prices farmers receive for their products. These wholesale markets could also serve as a venue for farmers to learn more about the packaging and preparation of vegetables and fruits for different types of consumers.

Small scale processing and storage at the village level, possibly in collaboration with the Farmer Associations, would benefit farmers through higher quality produce and higher prices.

Vegetable seeds and fruit tree seedlings are an important and expensive part of the production cycle. Vastly increased small-scale seed/seedling multiplication programs would greatly benefit farmers, reducing costs and ensuring quality of the seeds. Continuing USAID support to local private nursery development would pay large dividends to farmers for the expansion of vegetable farms and orchards or in starting up new ones.

Farmer Associations could consider purchasing of small-scale processing and handling equipment with revenues generated from farmer membership dues and fees for services. With their own funds, second-hand equipment could be bought at relatively low prices, even from the U.S. The farmer associations could then provide processing services to farmer members.

The issue of technology transfer could be addressed through the existing Farmer Associations. Advisory services could be incorporated into these participating Farmer Associations to work directly with members. Farmer Clubs are also possible candidates as conduits for these technology transfer services. Suppliers of inputs are also possible candidates for providing advisory services to farmers who might eventually become clients. Some grant funding would be necessary to initiate such a program. The farmers are generally knowledgeable and often ready to accept new technologies, but they need the assurance of demonstrations trials and discussion groups that could be provided through these advisory services.

2. *For activities to stimulate agribusiness growth and efficiency in processing, input supply, and product marketing that increase incomes, and employment*

Greater efforts are needed to encourage and facilitate the necessary collaboration with markets, exporting associations (Kosovo Exporters Association), business forums, etc. to be able to encourage farmers to play more of a role in the marketing process.

There are currently collaborative links between the existing farmer associations and the vegetable and fruit juice processor in the region of the projects. These relationships need to be reinforced and taken to new levels. The presence of a project in an area can greatly affect these relationships in a very positive way in the embryonic stages of farm development. Other contacts are being made in the marketing chain, such as with the Kosovo Exporters Association.

It was mentioned in one of the early quarterly reports that a “seal of quality” label program was being initiated for Kosovo fruit products. Although the project does not have the time or the resources to pursue such a program, it is something that should be looked into as a possible future intervention.

3. *For future strategies and coordination methods*

A new project should include a more directed approach to implementing a coordinating body at the national and regional levels in support of vegetable and fruit growers. There have been

several ad hoc committees convened over the years, but none has lasted very long and they usually did not include the associations.

USAID might consider working with the MAFRD through targeted consultancies. That ministry is attempting to become an influence in the agricultural sector of Kosovo. Being in the early stages of organizational development, there is an opportunity to influence the direction of development. This is particularly true with the ongoing formation of ministry extension services.

This collaboration extends to the Kosovo Institute of Agriculture in Peja. This institution is located in a very rich resource base region of Kosovo and has had considerable ongoing contact and collaboration with USAID funded agricultural projects. There are a decreasing number of donor funded agricultural projects in Kosovo, which presents a window of opportunity for USAID to have a larger voice in the direction of agriculture in Kosovo. USAID is a major player in the agricultural sector and CTO's for any future project could take the lead in coordinating periodic meetings among the donor community involved in agriculture. Local government and regional ministry offices and NGO's should also be involved.

Credit is a major impediment to development and expansion in the agricultural sector. It is nearly impossible for a small to medium size farmer to obtain credit for inputs or expansion. Some larger farmers can obtain credit since they generally have other sources of collateral. Without a subsidized program, credit will remain unavailable to the agricultural sector for many years to come. Thus, consideration needs to be given to some sort of guarantee fund or an endowment to create either a separate agricultural credit window in existing commercial banks or through Farmer Associations. The latter is not a good option since the organizational structures do not exist in Farmer Associations and it would take some time to develop. However, for existing banks, a new "loan window" could be developed alongside the existing commercial system to provide credit to agriculture. While this is a difficult structure to initiate, there are examples in the region from which to draw experiences. Input credits to small agribusinesses to finance the sale of supplies to producers might be another avenue to consider for support to the agricultural sector.

4. *For policy or legislative reforms*

The issues of import duties, VAT tax, lack of privatization, and low cost imports from the region are familiar topics of discussion. These issues are discussed at length elsewhere in this evaluation. Future projects should be designed and implemented on the assumption that these issues will be resolved within a reasonable period of time. If they are not resolved, then development of the agricultural sector will lag far into the future. There is a great opportunity for agriculture to serve as an engine of growth for Kosovo, including increases in employment and incomes. There are few natural resources that can be used to stimulate growth. Kosovo enjoyed some success in production, processing, marketing and export of agricultural products in the past. It may now be possible to recapture some of that success. Agriculture has the potential to be a leader of economic growth in direct proportion to the resolution of the various issues mentioned above.

Consideration should be given to strengthening the technology advisory services at the regional level. A policy dialogue could be initiated with the MAFRD that would attempt to encourage them to steer the recently funded extension service development in the direction of

decentralization and privatization. This could take the form of providing initial grant support to technology advisory services through some of the local Farmer Associations. Another avenue to explore would be encouraging private sector suppliers of agricultural inputs to provide technology advisory services to producers in conjunction with sales of their products. Both of these efforts could be supported largely through ministry and government programs. A USAID program might serve as the catalyst and innovator for such of program. This support might take the form of direct subsidies to the Farmer Associations, based on a declining scale leading toward the Farmer Associations eventually funding technology advisory services from their own budgets. For the private sector, these services might be funded with a combination of grants, subsidized training for their staff, and tax subsidies. These subsidy costs to the government and donor community might be essential in the early years of getting agricultural moving. Technology transfer by seed and fertilizer companies is very common and an accepted form of extension to farmers in many countries around the world. Demonstration plots and field days implemented by company agents and monitored by government extension agents is a widely used model.

SHEEP SECTOR AND TECHNICAL ASSISTANCE PROJECT (SS&TA)

BACKGROUND

As a result of an amendment to the SC grant, five sub-grants were prepared for implementing an agricultural program to address some deficiencies in this sector in Kosovo. One of the sub-grants was for a project to focus on the sheep sub-sector through activities that would improve the product quality, packaging, farmer cluster management skills, and market linkages. These objectives would be accomplished through the implementation of a 20-month project totaling \$500,000 in USAID grant funds. This sub-grant was awarded to LOL in March 2003.

STRATEGIC OBJECTIVE

The project's Strategic Objective is to increase the amount and quality of cheese and other sheep products sold by farmers to commercial wholesalers and retailers throughout Kosovo, and improve producer-market linkage.

INTERMEDIARY RESULTS

This SO will be achieved through the following Intermediary Results:

IR-1: Seventy-five percent of sheep cheese sold by client-farmers will enter non-traditional commercial markets by EOP.

IR-2: A significant improvement in sheep cheese quality sold to formal sector wholesalers and retail firms by client farms.

IR-3: Eighty-five percent of client farmers adopting improved management methods and technology by EOP.

IMPLEMENTATION

1. Have activities been properly targeted to achieve objectives?

The activities were properly targeted, but unfortunately, a late start and inadequate implementation planning by the implementing partner precluded achieving any of the targets.

2. What are the main strengths and weaknesses of the project?

This project was terminated after about 7-months of activity. The main weakness appeared to be the inability of the team on the ground to implement activities in the work plan and poor management in the design of trainings and field work.

3. What were the major constraints facing the assistance?

The main constraint facing this project was the inability of the management team to focus their efforts on the activities. Even though this project started late, there were additional delays on the part of the implementing partner in preparing and submitting Work Plans.

- 4. *Have activities been well-coordinated with other donor organizations and other USAID projects and focused on achieving mutually-agreed objectives economically and efficiently?***

There was little or no coordination with other donor communities.

- 5. *Have activities been coordinated effectively between KBS and LOL to take advantage of economic opportunities in farm production and value added processing?***

There was some coordination between the project and other implementing partners under the SFS program. SS&TA brought in 10 consultants to work on a wide variety of issues with each of the other 4 projects.

IMPACT

- 1. *Is the assistance achieving or helping to achieve the desired results as set out in USAID's Strategy for Kosovo for 2001-2003, SO 1.3 and IR 1.3.5, including objectives and benchmarks set forth in task orders and the cooperative agreement?***

The project did not meet any of the Intermediate Results targets spelled out in the grant proposal. The 5 Indicators for the project were: 1) 4 sheep groups to be formed; 2) lamb and cheese productivity will increase by 5%; 3) incomes will increase by 10%; 4) each participating farmer will adopt one improved management practice; and 5) investment in sheep operations will increase (no amount given). None of the significant benchmarks were met.

- 2. *What are the greatest accomplishments from these activities?***

Probably the greatest accomplishment from the project activities was the short-term consultants, even though it appears that some of these were not very effective in organizing the planned trainings.

- 3. *How have the activities contributed to income generation and job creation?***

The activities did not contribute to income generation and job creation.

SUSTAINABILITY

There were no activities that lent themselves to sustainability.

LESSONS LEARNED

- 1. *What are the technical lessons?***

Given the few activities that the project actually engaged in, there were no technical lessons learned.

2. *What are the project implementation lessons?*

Even though there were potential difficulties working with sheep raisers in Kosovo, due to the terrain, geographic disbursement, and the difficulty of making contact with farmers, the work plan was probably possible over the LOP. The main problem was the lack of project management focus on the details of the implementation plan. This was exacerbated by the inability of LOL to bring in the TA from Macedonia that was supposed to get the project started in Kosovo.

3. *What are the developmental strategy lessons?*

There were no real development lessons from this project. Possibly greater coordination and discussion with the LOL home office might have moved some of the planned TA into place.

RECOMMENDATIONS

There is probably a place for sheep in future agricultural strategies. This was once an important sub-sector in Kosovo. Given the terrain, there certainly seems to be room for a sheep industry. Domestic markets can probably absorb considerably more lamb. And there is always the possibility for exports in the future.

VOLUME II

EVALUATION OF THE USAID/KOSOVO SME AND AGRICULTURE/AGRIBUSINESS PROGRAMS

Submitted to:

U.S. Agency for International Development/Kosovo

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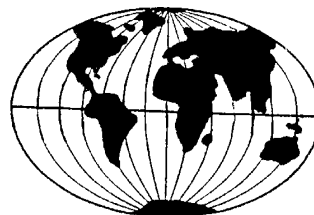
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EVALUATION OF THE USAID/KOSOVO SME AND AGRICULTURE/AGRIBUSINESS PROGRAMS

As agreed with the Mission, the background documents that comprise Volume II were delivered in hard copy to USAID/Kosovo by the Development Associates evaluation team before departing the country. The contents are not available in electronic form. Inquiries about Volume II should be made directly to the Mission.