EVALUATION

Performance Evaluation of the Small and Medium Enterprise Commercial Finance Fund (CFF) Project in Kosovo

[April 2014]

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PERFORMANCE EVALUATION OF THE SMALL AND MEDIUM ENTERPRISE COMMERCIAL FINANCE FUND (CFF) PROJECT IN KOSOVO

Final Report

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ACRONYMS

ADA	Austrian Development Agency
AMCHAM	American Chamber of Commerce
AMIK	Association of Microfinance Association sin Kosovo
CBK	Central Bank of Kosovo
CEO	Chief Executive Officer
CFF	Commercial Finance Fund
COP	Chief of Party
COR	Contracting Officer's Representative
DCED	Donor Committee for Enterprise Development
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EIB	European Investment Bank
EMN	European Microfinance Network
EU	European Union
FGD	Focus Group Discussion
FI	Financial Institution
GDP	Gross Domestic Product
GoK	Government of Kosovo
IFI	International Financial Institution
IFRS	International Financial Reporting Standards
KAS	Kosovo Agency of Statistics
KBRA	Kosovo Business Registration Agency
KEP	Kosovo Enterprise Program
KRK	Kreditimi Rural i Kosoves
M&E	Monitoring and Evaluation
ME&A	Mendez England & Associates
MFI	Micro Finance Institution
MAFRD	Ministry of Agriculture, Forestry and Rural Development
MTI	Ministry of Trade and Industry
NBFI	Non-Banking Financial Institutions
NGO	Non-Governmental Organization
NMFA	Norwegian Ministry of Foreign Affairs
NOA	New Opportunities for Agriculture Project
NORFUND	Norwegian Investment Funds for Developing Countries
NPL	Non-Performing Loan
NPL90	Non-Performing Loan 90 Days Past Due
PAR	Portfolio at Risk
PEA	Private Enforcement Agents
POF	Purchase Order Financing
SME	Small and Medium Enterprise
SOW	Scope of Work
ROAA	Return on Average Assets
UN	United Nations
USAID	United States Agency for International Development
USG	United States Government
VAT	Value-Added Tax
WB	World Bank

EXECUTIVE SUMMARY

EVALUATION PURPOSE AND EVALUATION QUESTIONS

This is a report on the mid-term performance evaluation of the Small and Medium Enterprise Commercial Finance Fund (CFF) project funded by the United States Agency for International Development (USAID) Mission in Kosovo and implemented by Crimson Capital. The project started in July 2008 and is due to end in December 2014.

The evaluation of CFF was conducted in March 2014 by a team assembled by Mendez England & Associates (ME&A), which consisted of two international experts with extensive experience in Kosovo and in the region. The primary purpose of the evaluation was to provide feedback to USAID/Kosovo on the management and performance of CFF's activities in line with the terms of its original Cooperative Agreement in 2008, as well as the subsequent modification to that agreement in 2010, which provided an additional $1.5 million to the initial $700,000 allocated to CFF for loan disbursement to underserved entrepreneurs and small businesses in Kosovo. The main thrust of the evaluation was to determine the extent to which CFF was successful in providing loan financing to targeted small and medium enterprises (SMEs) and farmers, particularly in rural areas.

An integral part of the evaluation mission was to answer a set of pre-determined questions in order to provide USAID/Kosovo with a greater understanding of the effect that CFF had on intended beneficiaries. In addition, the Evaluation Team was required to provide lessons learned for USAID/Kosovo regarding the implementation of CFF, as well as to offer recommendations with respect to the impact on USAID's development goals for Kosovo if funding were to be withdrawn or re-allocated for an alternative use at the end of CFF's current mandate in December 2014.

The evaluation questions, as defined in the Statement of Work (SOW) for the evaluation mission, were sub-divided by the Evaluation Team into four specific categories: 1) Monitoring and Reporting; 2) Efficiency and Effectiveness; 3) Impact and Relevance; and 4) Sustainability. The Evaluation Team's response to each of the questions within the above categories is addressed within the main body of this report, both in tabular format as well as text.

PROJECT BACKGROUND

CFF was specifically created to meet the needs of those members of the business community in Kosovo that were experiencing difficulty in accessing finance from traditional lenders, such as banks, to support their plans for development and growth. In particular, the project was designed to provide working capital for those entrepreneurs, farmers, women, and minorities who lacked the necessary fixed asset collateral requirements demanded by financial institutions (FIs) in support of loan applications. The rationale for such an initiative was that by filling this gap, businesses would be able to move forward and become more competitive. This, in turn, would help them to become "bankable," meaning that their future credit needs would be met by commercial banks and or micro-finance institutions (MFIs).

CFF is implemented by Crimson Capital through an initial award of $700,000 from USAID, which was later increased by an additional $1.5 million specifically aimed at supporting the agriculture sector. CFF is also supported by the Norwegian Ministry of Foreign Affairs (NMFA) through its Norwegian Investment Fund for Developing Countries (NORFUND), which provided start-up and lending capital in the amounts of $645,000 and $1.1million, respectively. The project received another $1.0 million in 2010 for loans and a $1.1 million grant in 2013 to support activities in northern Mitrovica. CFF offered working capital loans with 1-year payback, and lease funding repayable within 2 to 4 years. The ultimate goal of CFF was to become a sustainable institution within 48 months of the initiation of lending in Kosovo based on earning from fees and interest charges.

EVALUATION DESIGN, METHODS AND LIMITATIONS

The evaluation of CFF was conducted during March 2014 while the project is anticipated to end in December 2014. The Evaluation Team took the timing of the evaluation into account when preparing its evaluation design and methodology, as it was apparent that CFF's final year reports would not be available for review during the course of the evaluation. Accordingly, reported results highlighted in Annex E: Overall Monitoring and Evaluation Matrix and Annex F: Annual Performance Matrix, reflect performance only from statistical data and information gathered during the evaluation mission up until and including the end of December 2013. However, where results were anticipated by the end of the project (by CFF), the Evaluation Team has commented on them in the report where relevant. In 2010, CFF was subject to one significant revision of its initial SOW, which extended it a further 29 months and provided an additional $1.5 million to expand its lending to the agricultural sector. In agreement with USAID/Kosovo, this revision was also taken into consideration with respect to the actual work the Evaluation Team was tasked to carry out.

To gather the required information and data for this evaluation, the Evaluation Team used a methodology focused on conducting face-to-face interviews with selected stakeholders with first-hand knowledge of CFF and its activities, as well as with other key informants within Kosovo's business community, including CFF clients (past and present) in Pristina and various locations around the country. Interviewees were selected following discussions between the Evaluation Team, USAID staff and CFF's Chairman and Senior Loan Officers. In addition to interviews, the Evaluation Team conducted four countrywide focus group discussions (FGDs), which formed an integral part of its investigations.

The Evaluation Team reviewed CFF-related documents and materials, such as Annual Work Plans, Annual and Quarterly reports, and other sources of reference provided by third parties[1] that helped validate its findings and conclusions. After a desk review of materials, the Evaluation Team concluded that both in-depth analysis of statistical data (in support of quantitative assessment) and feedback obtained from direct interviews and FGDs (in support of qualitative assessment) would be required in equal measure, i.e. the Evaluation Team would conduct its inquiries with both quantitative and qualitative issues in mind without particular emphasis on one or the other.

The Evaluation Team encountered few limitations during its fieldwork in Kosovo. Some of the more relevant are listed below:

1. **Recall Bias:** As CFF project activities were launched in July 2008, some respondents were unable to accurately recall events that occurred several years previously and were therefore unable to offer meaningful comment from a comparative point of view with more recent events, particularly in the field of finance.
2. **Halo Bias:** The extent to which respondents were prepared to reveal their true opinions varied for some questions that called upon the respondents to assess the performance of their colleagues or people on whom they depend upon for the provision of services *(halo bias)*. To mitigate this limitation, the Evaluation Team endeavored at all times to confirm confidentiality and anonymity with respect to interviewee responses in order to increase the probability of unbiased comments. In addition, FGDs were conducted among peer groups to encourage expression and the development of ideas that might not otherwise be accepted outside of subgroups.
3. **Period that was Evaluated:** Although this is a mid-term evaluation, in reality, CFF's mandate ends in December 2014. Therefore, with only 9 months left from the time of the evaluation, it would be unlikely for any recommendations impacting CFF's implementation to take effect within the remaining time period. Therefore, recommendations made in this report refer mainly to a post-CFF project, taking account of the fact that it may or may not continue for a further 5 years, an option on the table currently being considered by USAID/Kosovo.

[1] Intervied organisations occasionally provided hard copy materials including their own annual reports or promotional literature

In summary, while important, the above limitations did not prevent the Evaluation Team from gathering sufficient information and data needed to draw conclusions and make recommendations in response to the specific questions it was tasked with answering. Below is a brief summary of the main findings, conclusions, and recommendations within each of the four main categories. Further elaboration can be found in the relevant sections in the main body of the report.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Monitoring and Reporting

Findings

1. Based on review of available reporting documentation, there is no evidence of any significant gaps in CFF's efforts to provide critical and missing financing to Kosovar entrepreneurs, farmers, and SMEs.
2. In terms of the stated program objective in the USAID/Crimson Capital 2010 Modification to the original Cooperative Agreement, CFF has generally succeeded in meeting the needs of the 'underserved'.
3. Analysis of planned indicators (sales, jobs, loans to women/minorities) vs. actual results to date indicates that quantitative objectives have been met or exceeded. The analysis was based on cumulative data reported in annual reports.

Conclusions

1. CFF has had a positive impact with regard to serving its targeted borrowers (SMEs and farmers) as based on evidence gathered and client conversions to becoming 'bankable' or preventing potentially closing down or not growing in the absence of CFF's financial support**.**
2. CFF is fulfilling its mandate to reach the 'underserved' in Kosovo in terms of access to finance. Therefore, the project is satisfactorily meeting a real need, especially for working capital for 'un-bankable' clients.
3. CFF is meeting its targets – original, revised, and additional $1.5m – yearly and cumulatively and, therefore, is fulfilling the targets defined in its Annual Work Plans and recorded in its Quarterly and Annual Reports.

Recommendations

1. No further action needed in terms of achieving its purpose.
2. No specific action required by CFF to achieve objectives as all pre-determined targets are likely to be met.
3. The methodology employed by CFF to gather and report data on the performance of clients regarding sales and job creation is satisfactory and therefore no specific recommendation is needed.

Efficiency and Effectiveness of CFF

Findings

1. Targets for the number of loans disbursed to women and minority groups have been exceeded. A significant proportion of loans have been to the agriculture sector – made from second account loan of $1.5m dedicated to agribusiness.
2. Based on client meetings and FGDs, at some point in their business cycle, all companies face varying degrees of problems in accessing finance for working capital or capital investment purposes.
3. Client feedback indicated that 63% are more than capable of doing business with banks, although some expressed a reluctance to do so as they perceive banks as less adaptable for their specific needs.
4. Based on efficiency calculations, CFF's efficiency ratio results compare favorably with benchmarks for the commercial banking and micro-lending sectors, although it should be noted that CFF provides larger loans than the latter and cannot be directly compared to it.
5. There is no formal way of pro-rating expenses between USAID and NORFUND. Incomes are pooled together and the costs of running the operation comes from pooled income.
6. Compared to other FIs, the Evaluatin Team found that CFF's ratio of non-performing loans (NPLs) 90 days past due (NPL90) is around 6.1%. For commercial banks, the expert opinion is that a small business NPL90 ratio is in excess of 15%. Thus, CFF compares favorably to commercial banks.

7. MFIs charge interest rates between 15%-25%, banks nominally charge rates of less than 15% to SMEs they are prepared to lend to, and CFF charges around 15%. However, CFF is more flexible and has less stringent collateral requirements than commercial banks.
8. CFF has pioneered financial leasing of industrial equipment and machinery. However, its future development is dependent on overcoming many challenges, including improvements in enforcement of claims, development of a secondary market, and education of potential clients. Interviewed clients expressed an interest in leasing.

Conclusions

1. Loan recipients are consistent with stated target groups per the Cooperative Agreement.
2. CFF has been highly successful in reaching businesses that would have been unable to source funds from MFIs (due to the large size of loans) or from commercial banks**.**
3. CFF is certainly helping make borrowers bankable.
4. Data and a comparison with MFI benchmarks indicate that CFF is operating efficiently and has met its cost-share commitments.
5. The structure of CFF's operations is not designed to separate out the operating costs of USAID and Norwegian funds.
6. CFF's loan portfolio compares favorably with that of commercial banks and is better than that of most MFIs in Kosovo**.**
7. CFF's interest rates are competitive given its flexibility in matching repayments to borrowers cash flow. CFF has less onerous collateral requirements and, in the majority of cases, has been able to lend money without fixed asset backing.
8. Financial leasing of industrial equipment is in its early stages of development and its future is dependent on tackling a number of challenges, including enforcing claims, developing second-hand markets, and educating prospective users.

Recommendations

1. No specific recommendation required.
2. Kosovar SMEs will need continued support in accessing finance in the range provided by CFF and thus, this non-banking financial institution (NBFI) should continue to be supported through access to funding for on-lending.
3. CFF needs to establish clear criteria for graduating their clients to banks.
4. No specific recommendation required.
5. There is no real need for separating operating expenses for a lending operation of CFF's size since it is an unnecessary complication. The 2 donor components reinforce one another and, consequently, both USAID and the Norwegian Government should take full credit for the success of CFF.
6. No specific recommendation required.
7. No specific recommendation required.
8. CFF should further develop leasing through providing education and examples to FIs and the business community on how this can be done successfully.

Impact and Relevance of CFF

Findings

1. Central Bank of Kosovo (CBK), Norwegian Government, and senior bankers believe that CFF is innovative and acts as a catalyst for access to finance. CFF is not a competitor to MFIs as it lends at much lower loan range.
2. The Norwegian Ambassador advised that there are no decisions or plans regarding existing funding, although he acknowledged that this should be done and did not rule out continued or increased funding. However, any decision would be made in light of USAID's decision. If USAID withdraws its funds, then NORFUND will take this into consideration before any future steps.

3. Discussions with borrowers indicated that they will continue to need the type of working capital financing that is provided by CFF until it is widely adopted by commercial banks. Furthermore, borrowers indicated the need for longer tenor financing, particularly for capital investment purposes.
4. Discussions with stakeholders on alternative uses of USAID investments focused on applying funds for financial instruments, i.e. credit guarantee funds, or spending on technical assistance projects to assist access to finance. Key informants felt that there is no better way than revolving the funds for lending to underserved borrowers, especially given the innovative nature of the lending.
5. Stakeholders remarked that accessibility to finance has generally improved over the past 5 years; however, there has been a deterioration in last 2 years due to ill-liquidity in the enterprise sector and increase in non-performance of loan portfolios.

Conclusions
1. CFF has made a highly positive impact on the development of the SME financing market and is positioned in a niche market between MFIs and commercial banks.
2. No decision has been made by the Norwegian Government regarding continuation of CFF funding.
3. Maintaining United States Government (USG) funding for another 5 years would enable continuation of short- to medium-term lending funded from this source and the number of loans made would increase in accordance with CFF's current plans. If factoring of invoices to customers were enabled, it would expand the possible utilization of the USG investment.
4. CFF has effectively utilized funds that are re-used for the benefit of SMEs and employment growth. There is no project involving consumption of the investment that would yield comparable results. Use of funds for on-lending is the best application, especially as it contributes to a lower cost funding base.
5. Although access to finance has evolved positively over the past years, the current situation still does not make it easy for small businesses to borrow unless they have good track-records and sufficient collateral to meet lender requirements. Thus, there continues to be a large number of unbankable businesses that are unattractive to commercial banks due to their intrinsic weaknesses.

Recommendations
1. CFF should be supported in its catalytic and innovative approach to pioneering new ways of SME financing in Kosovo.
2. USAID should coordinate future support to CFF in continued development of its financial services with the Norwegian Government to ensure future synergies result from the combination of both sources of loan funding.
3. Rather than allowing USG to keep investments for another 5 years, consideration should be given to granting the funds in perpetuity. If this is done, CFF will have access to long-term funds, which could be used judiciously for longer term lending.

4/5. USG funds should continue to be applied for on-lending.

Sustainability of CFF
Findings
1. Detailed examination of CFF's financial statements indicates that year-on-year (with the exception of Year1) CFF has covered its costs and made a profit (based on receipt of USAID funds).
2. Feedback from interviewees suggested that, assuming the original term loan repayment period remained the same, CFF would not experience major problems in terms of defaults. This view, however, might need to be amended depending on how the withdrawal of USAID funds is ultimately perceived by existing clients.
3. Although access to finance is vital for entrepreneurs and SMEs (farmers, women, minorities), there is some evidence to suggest that finance alone may not be enough for some businesses to survive or grow (some clients are unable to manage their finances in line with clear business objectives).

Conclusions
1. If USAID withdraws its funding ($2.2m), it is difficult to perceive how CFF could continue operating or even survive unless those funds are replenished by another investment source.

2. A degree of caution would need to be exercised in the way USAID explained its withdrawal from CFF, if it decides to do so, in order to ensure that clients continued to comply with repayment terms.
3. While underserved enterprises should continue to be supported by CFF, the risk of some of those businesses being unable to service loans could become an issue in the absence of basic financial management skills.

Recommendations

1. It is arguably essential that USAID continue to financially support CFF if it is to carry on operating efficiently and also satisfy its mandate to serve its intended target audience (underserved clients).
2. In light of the above findings and conclusions, the Evaluation Team has no specific recommendations to make regarding the recovery of potentially outstanding loans or leases due to their maturation beyond the end date of the project. This is primarily due to the fact that there are too many unknown factors that could influence the behaviour of clients if USAID's funds to CFF were withdrawn.
3. Consider introducing the requirement for entrepreneurs or SMEs to receive basic training in running a business, including preparing basic plans and cash flows before being approved for loans.

LESSONS LEARNED

When replicating funding operations that have been proven in another country, such as Macedonia, USAID should consider the advantages of providing either grants in perpetuity or longer term loans that would also allow the opportunity for lending at a longer term than is possible with a 5-year program.

1.0 EVALUATION PURPOSE & EVALUATION QUESTIONS

1.1 EVALUATION PURPOSE

This is a report on the mid-term performance evaluation of the implementation of the Small and Medium Enterprise (SME) Commercial Finance Fund (CFF) project funded by the United States Agency for International Development (USAID) Mission in Kosovo. The project, implemented by Crimson Capital, started in July 2008 and is due to end in December 2014.

The evaluation of CFF was commissioned by USAID/Kosovo and conducted by a team assembled by Mendez England & Associates (ME&A), with headquarters in Bethesda, MD. The team consisted of two international experts: Mr. Colin Maclean (Team Leader), and Mr. Andrzej Schafernaker (Private Sector Analyst).

According to the Statement of Work (SOW) for this assignment (see Annex A), the main purpose of the evaluation was to provide USAID/Kosovo with an objective external assessment of the management and performance of CFF's activities from July 2008 to the present.

1.2 EVALUATION OBJECTIVES

General objective:

1. Comment on the extent to which CFF has been able to assist SMEs and farmers in obtaining finance and growing their businesses. Suggest recommendations about the impact and contribution to USAID/Kosovo's development goals if the United States Government (USG) investment were to remain with CFF and compare that potential impact and contribution to an alternate use of the funds.

Specific objectives:

1. Provide an assessment of the impact of CFF to date in relation to the project purpose and expected results.
2. Recommend possible ways, if any, in which the project might increase the impact and performance of its services over the project's remaining life.
3. Provide USAID with lessons learned that can be used to guide future programming in the private sector.

1.3 EVALUATION QUESTIONS

For ease of understanding, the evaluation questions as highlighted in the SOW have been grouped into 4 main headings as outlined below:

A. Monitoring and Reporting

1. Is the purpose of the project, as set out in the Cooperative Agreement with Crimson Capital, being achieved?
2. Is the project on-track to achieve its objectives by the end of the project?
3. Have the targets in the annual work plans been achieved? What are the major factors influencing the achievement or non-achievement of the targets?

B. Efficiency and Effectiveness of CFF

1. Are the recipients of loans from CFF consistent with stated target groups as per the agreement with Crimson Capital? How successful has the project been in reaching the underserved, i.e. those having difficulty obtaining finance from traditional financing institutions? Has CFF helped make borrowers 'bankable'?
2. Is CFF operating efficiently? Has the cost-share committed by CFF been met? What is the cost-income ratio?
3. Have the operating expenses been pro-rated between USAID and Norwegian funds?

4. How does the financial performance (non-performing loans (NPLs), losses etc.) of CFF compare to that of other comparable financial institutions (FIs) in Kosovo? How do the interest rates charged and collateral requirements to secure loans by CFF compare with those of the FIs of Kosovo?
5. What have been the challenges of providing financial leases and would it be beneficial for the SMEs and farmers that this financial product continues to be provided?

C. Impact and Relevance of CFF

1. What are the perceptions of the stakeholders - banks, micro-finance institutions (MFIs), Central Bank of Kosovo (CBK), Norwegian Government, and the European Bank for Reconstruction and Development (EBRD) - of the CFF project?
2. What are the plans of the Norwegian Government and the Norwegian Investment Fund for Developing Countries (NORFUND) in terms of continuation of CFF funding?
3. If CFF were allowed to keep the USG investments to continue with program goals for 5 years after the project end date, what additional impact would likely be realized?
4. In the view of stakeholders, what alternative investments could USAID make in a similar project that would have a greater impact or would be more likely to achieve "improved access to credit"? Since CFF began operations, has Kosovo's financial sector changed sufficiently enough so that reaching the underserved could now be better accomplished by other, more efficient means than an independent institution like CFF?

D. Sustainability of CFF

1. Will CFF be able to continue serving the clients and, at the same time, be sustainable (be able to operate and cover its operational expenses) if USAID decides to withdraw its funds at the end of the project?
2. Some of the issued loans and leases will mature beyond the end date of the project. If USAID decides to get its funding back, what would be some of the options for addressing the outstanding loans and leases?
3. What recommendations could be made about future programs in this sector?

2.0 PROJECT BACKGROUND

The CFF project was effectively designed to support the financial sector in Kosovo with a view to addressing the country's short-term working capital financing gap. The Kosovo SME Commercial Finance Fund [registered locally as a non-banking financial institution (NBFI), Crimson Finance Fund], was specifically created to address the needs of riskier, but still viable, borrowers such as entrepreneurs, farmers, processors, women, and minorities that may have less experience or fixed asset collateral and, as such, are not currently served by traditional financing institutions. The underlying rationale for such an initiative was that by filling this gap, businesses would be able to grow and become more competitive. In turn, this would help many of them to become 'bankable' meaning future credit needs would, for example, be met by commercial banks and/or MFIs with a view to taking more profitable clients to the next stage of growth and development. CFF is implemented by Crimson Capital and is financed by USAID and the Norwegian Ministry of Foreign Affairs (NMFA), which supported start-up operations, as well as NORFUND, which provided lending capital. The ultimate goal of CFF was to become a sustainable institution within 48 months of the initiation of lending in Kosovo.

In its recent "Doing Business in Kosovo," 2014 Report, the World Bank (WB) ranked Kosovo 86th out of 185 countries with regard to ease of doing business in the country, a 10% improvement over the previous year. However, in terms of obtaining credit, Kosovo dropped from 24th to 28th over the same period, with the report citing two negative legislative issues as the reason behind this reduction[2] in response to

[2] Does the law allow businesses to grant a non-possessory security right in substantially all of its assets, without requiring a specific description of collateral?
Are secured creditors either not subject to an automatic stay on enforcement when a debtor enters a court-supervised reorganization procedure, or does the law provide secured creditors with grounds for relief from an automatic stay or/and sets a time limit to it?

questions posed. While these rankings do not necessarily reflect ongoing initiatives aimed at improving access to finance in Kosovo, they do indicate the extent to which the international community (especially potential foreign investors) perceive progress (or otherwise) in business-related matters. In overall economic terms, Kosovo still remains the poorest country in the region, with high levels of unemployment (estimated somewhere between 30%-40%, compared with 20% in Serbia and 17% in Albania[3]), an over-dependence on imports, and a relatively small export sector. Although WB and the Kosovo Agency of Statistics (KAS) project an economic growth rate averaging around 4.5% for 2014 and 2015, it is not anticipated that this will have a notable impact on reducing poverty or unemployment levels. Gross Domestic Product (GDP) per capita is also expected to remain low compared to other countries in Southeast Europe – $2,908 recorded in 2012, compared with $11,700 in Montenegro, $10,500 in Serbia, $8,300 in Bosnia & Herzegovina, and $8,000 in Albania.

In many respects, Kosovo is lagging behind its neighbors in terms of private sector development within a competitive, free market economy. While improvement in the regulatory environment will improve the playing field for businesses in Kosovo, sustainable growth can only occur in an economy where entrepreneurs and small businesses can thrive and prosper. Today, nearly all businesses in Kosovo are family-owned, micro or SMEs, with little emphasis on value-added activities. It is therefore self-evident that for the economy to grow, job creation can only transpire through significant improvement in small business activity and performance. However, restrictions to such growth remain, including the ability of businesses to obtain finance for investment and working capital, particularly for women and young people (Kosovo has the youngest population in Europe adding annually to the labor pool).

Against this background, and given that much still remains to be done on the road to creating a healthy, fully-functioning SME sector in Kosovo, the original decision by USAID to support the creation of CFF in 2008 with a view to improving access to finance for underserved members of the community was arguably justified and necessary. Today, most enterprises in Kosovo have fewer than 9 employees and only less than 2,000 have more than 10 employees. They face similar constraints as they experienced in 2008, including the high cost of financing, weak courts and contract enforcement, intermittent electricity supply, low quality standards, and lack of financial management skills, among others.

With regard to availability of finance, little appears to have changed since CFF commenced operations, in the sense that demand for working capital funding remains high, with few FIs still unwilling to provide such finance. In short, CFF dealt with a gap in the financial sector that needed to be addressed and is still being addressed today (March 2014, at the time of the evaluation mission).

3.0 EVALUATION METHODS & LIMITATIONS

3.1 EVALUATION METHODOLOGY

To design the methodology for this evaluation, the Evaluation Team took into account a number of key factors, including quantitative and qualitative aspects of the mission, which could have influenced or placed intended/unintended limitations on its strategy for answering the pre-determined evaluation questions. The more important of these factors are outlined below:

1. **Key Factor:** CFF was tasked with meeting a number of indicators and quantitative targets as highlighted in Attachment 2 of the original Cooperative Agreement.
   Issue: As CFF was in its final year of implementation (due to end December 2014), the Evaluation Team concluded that the project's results to date, as defined in CFF's various quarterly and annual reports, as well as officially audited external financial accounts, had thus far been approved by USAID/Kosovo. Therefore, there was no need for the Evaluation Team to verify such data as reported,

[3] Source: 'Trading Economics' – 2013

and in any event there were no means available to the Team to conduct such an exercise.

Outcome: As a result, the only requirement incumbent on the Evaluation Team was to report on CFF's data gathering and reporting methodology in order to determine its efficiency and relevance from an operational point of view and thus, the extent to which it contributed to the effectiveness of the project's internal monitoring and evaluation (M&E) system. It is also important to note that all CFF's reporting documents are submitted for official review by CBK on an-going basis.

2. **Key Factor:** A number of questions posed by USAID/Kosovo concerned the issue of *sustainability* of CFF's operations in the event that USAID decided to withdraw its funding at the end of the project's current mandate.

   Issue: The prospect of this option being acted upon raised 2 important issues that needed to be addressed during the Evaluation Team's investigations: 1) what would be the immediate impact of such a decision on CFF and its clients;[4] and 2) what impact would this have on CFF's co-funders, namely, the Norwegian Government through its NORFUND vehicle.

   Outcome: It was apparent that CFF's sustainability without USAID funding was an issue of fundamental importance since without such funds available, CFF would not be able to continue operating solely with NORFUND's contribution ($3.2m in loans and grant to northern Mitrovica). The Evaluation Team could therefore only consider CFF's sustainability either with USAID's continued funding or an alternative source of funding being found. This is explored in more detail in Section 4.4 below.

3. **Key Factor:** Several USAID questions concern the *impact* that a specific event or action may have, given one hypothetical situation or another.

   Issue: It was important for the Evaluation Team to establish a definition for the meaning of impact within the context of this evaluation and this was discussed with USAID on several occasions before and during the in-country mission.

   Outcome: It was subsequently agreed that in the absence of a pre-determined definition, impact would effectively refer to the 'bigger picture' in a given scenario, i.e. providing a view on a hypothesis based less on the achievement or otherwise of specific indicators and more on the overall effect of such results, i.e. in economic, cultural, or geographic terms. Where the Evaluation Team deemed relevant, examples of impact were included within those sections which raised impact-related questions.

3.1.1 Quantitative Research and Analysis

The Evaluation Team reviewed a wide range of project-related materials from various sources, including USAID/Kosovo and CFF. These documents included Annual Work Plans, Quarterly and Annual Reports, and independently prepared International Financial Reporting Standards (IFRS) Audit Reports (2008-2012). These reports constituted the main reference point for financial and other relevant statistical data from CFF's origins in July 2008 through December 2013.[5] From this materials, the Team was able to track CFF's performance over time with respect to the various pre-determined indicator targets established at the start of the project as well as those defined following the additional $1.5m awarded to CFF in 2010 for lending to the agricultural sector (see Annex E: Overall M&E Matrix and Annex F: Annual Performance Matrix for a breakdown of CFF's quantitative targets and results). The verification of statistical results actually achieved by CFF at the time of the evaluation, however, did not fall within the remit of this evaluation.

The nature and extent of CFF's activities on its targeted client base was reviewed by cross-referencing achievements (or otherwise) against the Evaluation Team's findings with evidence gathered from its qualitative research approach. This included findings from interviews with pre-identified respondents with direct knowledge of CFF, as well as from feedback gained from focus group discussions (FGDs) around the

[4] If USAID withdrew its funding then *de facto* CFF would be unable to continue operating at its current level of lending or indeed continue at all unless USAID's $2.2m contribution was taken over by another source of funding.

[5] IFRS Audited Accounts only available till December 2012

country[6] attended by clients (past and present) as well as representatives from women's groups, minorities, and farmers. In summary, the Evaluation Team was able to accumulate sufficient data and information from existing sources and field investigations, to be able to provide satisfactory and meaningful answers to USAID's pre-determined questions outlined in the SOW. Furthermore, a number of interviewees representing several important and relevant stakeholders in connection with CFF's operations, provided the Evaluation Team with additional material, including in-house publications and other papers and documents which, in turn, provided useful insight into project-related activities.

3.1.2 Qualitative Research and Analysis

In terms of conducting qualitative research and analysis, the Evaluation Team's approach was to elicit feedback and commentary from as representative a body as possible with direct or indirect knowledge and/or experience of the CFF project throughout its lifetime. A list of potential interviewees was subsequently drawn up from a cross-section of key stakeholders and a plan of action was prepared to conduct face-to-face interviews, as well as site visits to 4 locations around Kosovo where FGDs were held (Pristina, Peja, Rahovec and Gjilan). The focus of these interviews and meetings was on acquiring an in-depth understanding of how CFF's involvement contributed to the activities of a particular enterprise (past or present), as well as what impact such involvement had (if any) on a wider scale, i.e. a local community, the financial sector in Kosovo, and the effect on women's and minority groups, among others. For a complete list of interviewees, see Annex C. Below is a brief summary of targeted respondents that the Evaluation Team had the opportunity of meeting as part of its data gathering investigations:

1. **Rural and Agricultural Communities:** Actual and/or potential recipients of CFF loans/lease funds - farmers and local entrepreneurs, including women and minority groups - constitute an important market for the project. It was anticipated that this audience would provide valuable information and feedback on how CFF was perceived in those communities and the extent to which its activities had been effective in reaching the financially underserved. Here, FGDs were employed as the most effective means of eliciting important and relevant feedback from direct and indirect beneficiaries of CFF's interventions.
2. **CFF Co-Partners – Norwegian Government and NORFUND:** The Evaluation Team met with the Norwegian Ambassador who provided an insight into how the Norwegian Government and its international funding operate NORFUND.
3. **Financial Institutions:** Due to their involvement in disbursing funds through various aspects of the project (grants and investments), the views of CBK and commercial banks added value to the Evaluation Team's understanding of the business performance of CFF's beneficiaries and general lay of the land regarding financial products available to entrepreneurs and SMEs. These meetings proved to be invaluable as a source of information on Kosovo's financial sector.
4. **Industry, Business and Farming Associations:** Interviews were held with several such bodies in order to provide the Evaluation Team with feedback on how their respective members perceived the whole issue of access to finance or their direct experience of borrowing either from CFF or other FIs in Kosovo, including MFIs.
5. **International Community:** Most of the key international players in Kosovo [WB, United Nations (UN), European Commission (EC), European Bank for Reconstruction and Development (EBRD), etc.] have direct or indirect knowledge or experience of CFF's activities. Therefore, their views enriched the Evaluation Team's understanding of how CFF is perceived today from an international perspective.

While this approach had to rely on subjective opinion and comment from interviewees, it did not diminish the quality of the Evaluation Team's findings, since responses to questions were subject to verification through triangulation methods.

3.2 EVALUATION LIMITATIONS

The Evaluation Team encountered few limitations during its fieldwork in Kosovo. Some of the more relevant are listed below:

[6] FGDs took place in Pristina, Peja, Rahovec and Gjilan

1. **Recall Bias:** Since CFF project activities were launched in July 2008, *recall* bias could not be excluded. Some respondents had difficulty accurately recalling events that occurred several years previously and were therefore unable to offer meaningful comment from a comparative point of view with more recent events, particularly in the field of finance.
2. **Halo Bias:** The extent to which respondents were prepared to reveal their true opinions varied for some questions that called upon the respondents to assess the performance of their colleagues or people on whom they depend upon for the provision of services.
3. **Period that will be Evaluated:** Although this is a mid-term evaluation, in reality, CFF's mandate ends in December 2014. Therefore, with only 9 months left from the time of the evaluation, it is unlikely that any recommendations regarding CFF's implementation will take effect within the remaining time period. Accordingly, recommendations made in this report refer mainly to a post-CFF project, taking account of the fact that may or may not continue for a further 5 years, an option currently being considered by USAID/ Kosovo.

To mitigate the above limitations, the Evaluation Team gathered data using various data collection methods and used triangulation to cross-validate results and findings. In addition, the Team endeavored at all times to confirm confidentiality and anonymity with respect to interviewee responses in order to increase the probability of unbiased comments. Moreover, FGDs were conducted among peer groups to encourage expression and the development of ideas that might not otherwise be accepted outside of subgroups.

In summary, while important, the above limitations did not prevent the Evaluation Team from gathering sufficient information and data needed to draw conclusions and make recommendations in response to the specific questions it was tasked with answering. Below are the main findings, conclusions and recommendations within each of the four main categories.

4.0 FINDINGS, CONCLUSIONS & RECOMMENDATIONS

4.1 GROUP A - MONITORING AND REPORTING

4.1.1 Question 1: Is the purpose of the project as set out in the Cooperative Agreement with Crimson Capital being achieved?

SUMMARY OF EVALUATION DESIGN AND METHODS				
Evaluation Question 1	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
1. *Is the purpose of the project as set out in the Cooperative Agreement with Crimson Capital being achieved?*	Description – based on content analysis of expert opinions and review of relevant documentation	Key informant interviews with CFF project personnel CFF Project Partners CFF Project Reports	Interviewees identified by Evaluation Team, USAID and CFF.	Possibility of opinion bias, limited recall and open-ended / semi-structured interviews

Findings

1. The overall purpose of the CFF project, as defined in the Cooperative Agreement between USAID/Kosovo and Crimson Capital, was to provide critical and missing finance to Kosovar entrepreneurs, farmers, SMEs, women, and minorities who were experiencing difficulties in obtaining funds for growth from traditional FIs.

   To determine whether CFF has achieved its purpose, the Evaluation Team reviewed all relevant documentation provided to it, including Annual Work Plans and Annual and Quarterly Reports. In addition, the Team had the opportunity to review externally prepared independent audit reports on CFF activities and operating performance. Furthermore, CFF provided the Team with an Excel Client Database Sheet, which highlighted data and information regarding loans and leases provided to clients over time, including the amount, purpose, and date of the loan. Detailed information was also provided on the level of sales increases following receipt of loans and extent of jobs created. The result of analyzing this statistical evidence clearly indicated that CFF's mandate with regard to disbursement of loan funding is fulfilled and presented no gaps in the implementation of such loan disbursement.

In addition to reviewing documented material provided by CFF, the Evaluation Team interviewed the Norwegian Ambassador who represented the views of the Norwegian Government and NORFUND as co-funders of CFF. Although the Embassy does not have a hands-on role in the implementation of CFF, it receives all CFF reporting documents and is kept up-to-date on the project's developments. The Embassy's position is that CFF has delivered its objectives and it should continue after its current mandate ends in December 2014. In the event that this does not happen and USAID withdraws its funds, the Norwegian Government/NORFUND would need to consider its options (Note: Norwegian funds are committed until 2016 following which they could be renewed or converted into equity and/or loans). In addition, the Norwegians envisage CFF or similar organizations as the most effective means of reaching the underserved in terms of accessing finance.

In summary, there is no evidence of any significant or critical gaps in the CFF project's implementation program, based on a review of available reporting documentation and comments from CFF's co-partner, the Norwegian Government.

Conclusion

1. CFF is fulfilling its mandate to reach the 'underserved' in Kosovo in terms of access to finance. Therefore, the project is satisfactorily meeting a real need, especially for working capital for 'un-bankable' clients.

Recommendation

1. The Evaluation Team has no specific recommendations to make since the project seems to have achieved the purpose defined in the Cooperative Agreement mentioned above.

4.1.2 Question 2: Is the project on-track to achieve its objectives by the end of the project?

SUMMARY OF EVALUATION DESIGN AND METHODS				
Evaluation Question 1	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
2. *Is the project on-track to achieve its objectives by the end of the project?*	Description – based on content analysis of expert opinions and review of relevant documentation	Key informant interviews with CFF project personnel CFF Project Reports Interviews with clients (past & present)	Interviewees identified by Evaluation Team, USAID, and CFF.	None encountered

Findings

1. The primary objective of CFF meeting the needs of SMEs and farmers in terms of providing finance and facilitating growth has largely been met throughout the project's lifetime. An identified gap in access to finance for entrepreneurs and small business, including women and minority groups, was adequately addressed in terms of loan provision, in particular, for working capital and required investments usually associated with production. At the same time, feedback from CFF clients (existing and past) appears to suggest that it is unlikely that CFF funds could have the same impact on the intended target audience if they are deployed for an alternative purpose. In the *USAID/Kosovo Country Development Cooperation Strategy 2014-2018, Development Objective DO2: Increased Investment and Private Sector Employment,* focus is on "encouraging a more diversified economy leading to private sector growth." As SMEs are to all intents and purpose the main driving force of any economy, it can be argued that CFF is making a significant contribution to USAID's longer term goals for Kosovo.

   In order to assess whether or not CFF's other objectives were on track to be achieved by the end of its mandate in December 2014, the Evaluation Team examined performance with respect to the objectives related to two separate awards made by USG: 1) the original award in 2008 of $700,000 for loan disbursements with annual and cumulative quantitative targets that had to be achieved;[7] and 2) a further award of $1.5m that USAID provided to CFF in 2010 to expand its SOW to include loans specifically for Kosovo's agricultural sector. This additional funding included specific targets that had to be met annually and cumulatively through the end of the project. Half of this additional funding was to be used for the provision of working capital credit through Purchase Order Financing (POF), while the other half was to be utilized for financing agricultural equipment through financial leasing, although this 50:50 split would be flexible to take account of prevailing market conditions.

These annual and cumulative quantitative targets included total loans disbursed, sales created, number of jobs created, and loans to minorities and women (see Annex F: Annual Performance Matrix for a breakdown of planned vs. actual results).

To determine the extent to which CFF has achieved its objectives, the Evaluation Team reviewed CFF's recent Excel loan portfolio database[8] which contains client information, including date, purpose, and amount of loans (some clients had multiple loans), as well as data on sales increases acknowledged by enterprises following receipt of CFF funds. However, the database does not contain any information on jobs created as a result of CFF's financial support.

In reviewing the reported quantitative data, the Evaluation Team found that cumulatively, by the end of December 2013, CFF had already exceeded its ultimate target of $6.44m for loan disbursements, taking into consideration its original funding and subsequent additional award. In terms of sales created, CFF records indicate that, in the same period, it had cumulatively achieved 90% of its target. Based on this past performance, the evidence suggests that CFF is on track to achieve this particular target by the end of the project. Jobs created present a similar scenario, although verifying information regarding the indicator is problematic given that recording jobs created has largely been based on verbal comment by individual enterprises rather than on official employment records.[9] Loans to women target have already been reached.

Overall, available recorded evidence shows that most indicator targets have either already been met or are on-track to be met by the end of 2014.

From a qualitative point of view, the Evaluation Team was interested to learn whether discussions with individual clients around the country confirmed the hypothesis that loans from CFF had supported their financial needs in terms of contributing towards much needed working capital or essential investments associated with production. Therefore, the Team visited 24 clients in Pristina, Gjilan, Rahovec and Peja, and conducted FGDs with local representatives from the business community, including potential clients that are still underserved. Consideration was also given on the extent to which interviewed clients had become 'bankable'.[10] Based on the above interviews and FGDs, the Team made the following observations:

1. Fifteen of the 24 enterprises either consider themselves to be 'bankable' or are considered by CFF to be 'bankable.' Independently, the Evaluation Team's findings confirmed these views.
2. Fifteen of the 24 enterprises obtained multiple loans over the years (some in the same year).
3. Loans ranged from 4,100 EUR to 149,000 EUR. The average loan was 62,450 EUR.
4. 60% of loans were used to purchase raw materials and 28% to purchase fixed assets such as production lines and extension of premises. The remaining12% was for sundry purposes, including payments on behalf of clients to sub-contractors or collection centers.

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7 CFF voluntarily upgraded some of those targets in 2011

8 Contains details of 293 businesses

9 It is worth noting that not all businesses within CFF's portfolio are registered

10 Basically included those clients who had progressed to loans from commercial banks, were in a financial positiont to borrow from a bank but preferred to remain with CFF or envisaged borrowing from a bank (in the event that CFF did not continue).

The Evaluation Team found that in nearly all cases, enterprises were unable to borrow from banks, which would have restricted and delayed plans for growth, or stopped them altogether. CFF, however, was able to offer loans to clients with the amounts required and within a timeframe that met their needs (usually working capital). This flexibility was cited consistently by most clients interviewed, together with CFF's less stringent collateral requirements compared with commercial banks.

When asked by the Evaluation Team during FGDs and individual meetings, borrowers confirmed increases in employment. Although it was not practical to cross-reference detailed numbers, all interviewed borrowers provided examples of their need to employ additional staff due to investments in production capacity or working materials. Agribusinesses emphasized that in addition to direct employment increases within their own enterprises, they worked with supply chains involving farmers who benefited through sales and created employment within their own families and from outside.

Conclusions

1. From the evidence gathered, and based on client conversions to becoming 'bankable' or preventing potential closure or lack of growth in the absence of CFF's financial support, it is clear that CFF has had a positive impact with regard to serving its targeted borrowers and has met all its objectives.

Recommendations

1. No specific actions are recommended for CFF to achieve its objectives because all pre-determined targets are on-track to be accomplished by the project's end in December 2014.

4.1.3 Question 3: Have the targets set in the annual work plans been achieved?

SUMMARY OF EVALUATION DESIGN AND METHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
3a. Have the targets set in the annual work plans been achieved? *3b. What are the major factors influencing the achievement or non-achievement of the targets?*	Description – based on content analysis of project documentation. Description – based on content analysis of expert opinions	Review of work plans, quarterly and annual reports and independent financial audits Feedback from KIIs and project team	All available documents Selection of key stakeholders from public and private sector – to be identified by Evaluation Team	None Reliance on anecdotal evidence in support of comments Lack of verifiable supportive evidence especially regarding leasing

Findings

1. As both questions are interconnected, they can be answered in one section below.

1a. CFF developed a set of procedures to gather relevant and necessary information on sales and jobs from clients based on periodic on-site visits to their premises. Such visits focused on observing operating activities and reviewing documentation, including financial statements. However, it should be noted that client data and information does not necessarily present a true reflection of business performance since many have more than one set of accounts, which falsely present historic and current actual sales and jobs created.[11] Thus, CFF relies on observations and information provided by borrowers for a realistic view of development. Nevertheless, it is clear from CFF's annual statistical reports that almost all indicators and targets have been met or exceeded. In terms of loan disbursements, the cumulative target of $6.44m has already been surpassed, sales and jobs created are on-track to be achieved by the end of the project, and loans to women have also been reached to date (see Annex F: Annual Performance Matrix for a breakdown of indicators and targets including plan versus actual results).

[11] However, both CFF and commercial banks often have access to more than one set of accounts which can contribute towards loan decisions.

In 2012, CFF decided to voluntarily increase some of the targets that were established under the original $700,000 funding award from USAID. According to CFF's Chief Executive Officer (CEO), the decision was taken because, "at that time, we had achieved higher amounts of some of the targets than originally projected…so, we unilaterally increased our own targets to challenge ourselves to achieve the most that we could." The additional funding of $1.5m, particularly for agriculture, contributed significantly towards further jobs being created since 2011.

1b. Based on feedback from direct beneficiaries and key stakeholders, the Evaluation Team had the following observations to make regarding some of the issues that contributed towards targets being met:

Positive Attributes

CFF has:

- A strong, dedicated, and proactive team.
- Willingness to get to know client businesses and the owners/managers extremely well.
- Willingness to know the supply/value chain extremely well, including competitors, suppliers and customers. This helped CFF to source clients, undertake better due diligence, and help clients solve problems.
- Ability to work with clients to help them succeed and overcome problems, including helping them find suppliers, customers, improve financial literacy, etc.
- A flexible lending approach tailored to the client's needs.
- A thorough understanding of the business and financial sectors in Kosovo.
- A strong working knowledge and expertise in key sectors such as agriculture, construction materials, manufacturing, and trade.

Obstacles and Impediments

- Lack of liquidity in the business sector. People are receiving late payments or not at all, resulting in them paying late or not at all. NPLs continue to increase. For businesses, NPLs are currently over 11% and rising, and for small businesses over 15%. The period from 2008 to the present has been difficult and progressively worsening for businesses in Kosovo. The global and European financial crises hit Kosovar businesses hard. As a result, the NPLs of the commercial banks more than doubled during that period. Even the larger supermarket chains are paying suppliers 20% - 100% later than the credit terms in their contracts. The Government of Kosovo (GoK) is also paying later on tenders and contracts and is often extremely late on value-added tax (VAT) reimbursement. CFF's clients are also impacted by this and, on average, are taking longer to pay CFF, which means it takes longer for CFF to be reimbursed, which in turn results in their taking longer to lend out again.

- CFF's clients, on average, need loans with longer tenors than originally projected. This is demonstrated by the fact that over 66% of bank loans have a tenor of over 2 years. CFF has had to increase its average tenor to meet the needs of its clients as well as reflect the condition of the economy as cited in the bullet above. Further, while the banks lend less than 4% to agriculture, CFF lends over 28% and agriculture has a longer cycle. With the average tenor longer, CFF cannot turn over the loan funds as quickly. For CFF, only 28% of its loans have a tenor of over 2 years, so CFF continues to support short-term working capital finance in addition to medium-term investment; however, its average tenor for the overall portfolio has had to increase by over 50% to meet the needs of the clients and the realities of the market.

- The courts and enforcement agents simply do not work for enforcing loan agreements and for collecting against collateral. Evidence suggests that the problem is even worse than anticipated. CFF started lending in late 2008. It is now over 5 years later and the system still does not function as it should. CFF has filed cases in the execution court that by law should have gone immediately to enforcement against the collateral, but either nothing has happened or the court has called CFF's clients and told them not to worry that the court will delay the case at least 3 to 5 years. In cases where the execution court approved enforcement, there has been no enforcement of the enforcement. It is common that collections against collateral, if they ever happen at all, can take over 5 years.

Thus, CFF has to take reserves against the late loans and is repaid much more slowly, which means that it cannot turn over the money for new loans as quickly. The new Private Enforcement Agents (PEAs) were supposed to be in place and active by now, but the Minister of Justice has not signed the administrative instruction establishing the fee schedule for PEAs, and so none can actually start operations. Even if the Minister signs the fee schedule, it will take some time for the PEAs to get up to speed (they have training but no experience). Further, there are only 14 PEAs trained and certified so far for the entire country, when at least 100 - 150 will be needed.

Conclusions

1a. CFF is meeting its targets – original, revised, and additional $1.5m – yearly and cumulatively and therefore is fulfilling the targets defined in its Annual Work Plans and recorded in its Quarterly and Annual Reports. However, as many businesses in Kosovo under-report operating results, it is possible to conclude that there will always be some degree of uncertainty with respect to how some of them are actually performing.

1b. Although CFF appears to have been operating within a number of constraints out its control, as highlighted in the above findings, the project has not been adversely affected to the extent that it has been unable to meet it targets.

Recommendations

1a. For a more robust way to confirm improved performance, particularly with respect to employment, CFF should require beneficiaries to sign a confidential statement, to be held in CFF's records, confirming employment numbers during the period under consideration.

1b. With respect to the above analysis, the only recommendation that can be made which would fall within the remit of CFF is for the project to continue operating on its current *modus operandi* with a view to capitalizing on its positive attributes.

4.2 GROUP B – EFFICIENCY AND EFFECTIVENESS OF CFF

Question 4.2.1: Are the recipients of loans from CFF consistent with stated target groups as per the agreement with Crimson Capital?

SUMMARY OF EVALUATION DESIGN AND METHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
1a. Are the recipients of loans from CFF consistent with stated target groups as the agreement with Crimson Capital? *1b. How successful has the project been in reaching the underserved? i.e. those having difficulty obtaining finance from traditional financing institutions?* *1c. Has CFF helped to make borrowers "bankable"?*	Description – based on content analysis of expert opinions and review of relevant documentation	Focus group sessions with direct beneficiaries i.e. entrepreneurs and SMEs including gender organizations / female workers in selected regions (where possible) Interviews with other donors/projects working with similar target groups Interviews with MFIs	To be organized by Evaluation Team in sample regions – target = 8-12 per focus group session including representatives from all categories of participants	Limited availability of sex disaggregated data; Unavailability of participants Reliance on anecdotal evidence Lack of baseline information on loans to SMEs since 2008 i.e. number of businesses seeking loans, number successful and number refused. Lack of reliable data to make comparative analysis of then and now.

Findings

1a. Women and minority group target sectors, referred to in the Cooperative Agreement between USAID and CFF, have been exceeded. A significant proportion of loans have been to agriculture sector – made from the second account loan of $1.5m. The Cooperative Agreement of July 2008 states that funding should be provided to rural businesses, entrepreneurs, farmers, women and minorities who cannot obtain all of the financing they need from traditional financing institutions. The Agreement provides specific recipient targets, stating that at least 20 loans must be for companies owned or managed by women and minorities, though it does not specify quantitative or qualitative targets regarding sectors or locations. The Modification of Assistance signed in September 2010 committed further funding to be provided to agriculture.

In addition to the targets set in the above-mentioned agreements, CFF set its own targets – in terms of annual loan amounts disbursed – in its annual work plans and reported them in its quarterly and annual reports. The targets were ambitious and exceeded those required by USAID in the Cooperative Agreement.

Data reported by CFF (e.g. December, 2013) show that 29% of all loans have been made to agriculture (including the loans made from the dedicated USAID disbursement for agriculture) and that by June 2013, 52 loans had been made to businesses owned or managed by women and minorities. Thus, the target of 20 loans to women and minorities has been significantly exceeded. The loan portfolio covers a wide spectrum of small businesses located around the country that are involved in trade and services, as well as manufacturing including, construction materials. The following table provides a breakdown of the loan percentages per geographical area in terms of loan numbers and values (based on information obtained from CFF in March 2014).

Region	Total number loans %	Total size of loans%
Pristina/Fushe Kosovoa/Lipjan, Gracanica	46.02	41.98
Peja/Istog/Klina/Gjakova	26.31	29.93
Prizren/Rahovec/Malisheva/Suhareka	6.57	7.95
Ferizaj/Gjilan/Kacanik/Hani I Elezit	12.80	17.94
Mitrovica/NorthMitrovica/Zubin Potok/Leposavic/Zvecan	8.30	2.20
TOTAL	100%	100%

1b. Based on client meetings and FGDs, the Evaluation Team found that all companies face varying degrees of problems accessing finance for working capital or investment at some point in their business cycle**.**

The Section II of the Executive Summary in Attachment 2 of the Cooperative Agreement states that "*The Fund will be uniquely positioned in the marketplace, addressing the needs of entrepreneurs and businesses that are not being adequately served by any other institutions. Although the MFIs and banks are increasing their lending…large segments of the population will continue to be underserved for the foreseeable future…The Fund will target its lending primarily to entrepreneurs, farmers, rural businesses, SMEs, and women and minority owned businesses that are unable to obtain all the financing they need from the existing institutions for reasons described later in the Program Description.*" Section B of the Overview of the SME sector lists these reasons, including:

- Are too new or do not have an adequate track record
- Have little or no credit history
- Do not have adequate financial statements or business plans
- Have unreported or unofficial sales
- Do not have adequate real estate collateral and guarantors
- Have been disadvantaged due to ownership (women, minorities), location, or sector
- Are at their borrowing limits
- Are considered too risky or too costly to lend to
- Are unregistered

Unregistered businesses, with no access to commercial bank finance, account for a huge number of enterprises with difficulties in accessing financing. Furthemore, even when registered, banks dislike conducting business with companies with less than a 3-year track record.

There are various estimates of Kosovo's informal sector but typically it is thought to be of the order of 50% of total businesses (World Bank). Recent business registration figures (Kosovo Business Register) show that there were 126,277 micro-enterprises registered in 2013, constituting 98.4% of the total number of businesses and accounting for 66% of employees. Interviewed MFIs admitted that the majority of their borrowers were unregistered businesses. Even if it is assumed that only a small proportion of the micro-enterprises and small businesses would meet CFF's criteria of being viable, requiring loans that exceed 50,000 EUR, and being capable of generating sales and cash-flow to repay, the above figures show that the potential market for loan finance of the type offered by CFF is significantly greater than the number being serviced by the Fund, given the latter's limited funding and loan administration capacities.

FGDs and individual interviews with key informants indicated that all clients borrowed from CFF because they had faced difficulties or had been unable to access finance from commercial banks for one or more of the above reasons. CFF data shows that approximately 30% of total clients were registered as a result of doing business with CFF because this is a condition for taking a loan from the Fund. As unregistered businesses, they would have been unable to borrow from any source other than MFIs, which provide significantly smaller loans than those available from CFF. The Fund's client database shows that 11% of clients had to register with the Kosovo Business Registration Agency (KBRA) to do business with the Fund whereas about 47% had less than 3 years of experience post-registration and, therefore, would have found it almost impossible to borrow money from the commercial banks.

By June 2013, 23% of loans were made to minority and women's enterprises, which had previously been underserved in Kosovo. FGDs and interviews with entrepreneurs confirmed the difficulties faced by minority and women-owned business (5 of the entrepreneurs visited were from this group). The following 2 examples (see next page) illustrate the obstacles faced and the support provided by the Fund.

Although this evaluation did not focused on the lending funded by the Norwegian Government to Serbian borrowers in North Mitrovica and Northern Kosovo municipalities, it should be noted that, apart from some MFIs, CFF is the only micro-enterprise and small business lender currently lending to these regions, as commercial banks are currently withholding lending. The importance of CFF's role in supporting North Kosovo was specifically mentioned by the COP of the New Opportunities for Agriculture (NOA) project who described CFF as "creative and very supportive" in reaching out to underserved groups of borrowers.

1c. To respond to the question regarding whether CFF has helped make clients bankable, it is helpful to first define a 'bankable' client as one that is able to obtain services from a commercial bank. Thus the issue considered is whether CFF has helped to make borrowers more attractive to commercial banks.

The Evaluation Team asked CFF to indicate clients who had been assisted in graduating to commercial banking services. A database of 179 clients shows that 27% graduated to banks and are no loger in need of CFF's services and 19% commenced working with banks as a direct result of improvements achieved through working with CFF. About a third of clients have taken out more than one loan because commercial banks have been unable to respond to their needs, whereas CFF acted faster and provided types of financing that the banks could not provide on time. According to CFF's CEO, CFF is currently discussing arrangements with a medium-sized cooperating bank for referring borrowers that have achieved a stage in development at which they would benefit from a commercial bank's services.

It should be noted that achieving 'bankability' is not straighforward. Some of CFF's clients were using banks before reaching out to the Fund for support whereas others continue to seek recourse to CFF funding even though they have commenced relationships with and borrowed from commercial banks.

Penelope is a Pristina based women-owned and managed enterprise specialized in retail of women's jewellery and accessories. Its owner started the business with her personal funds to open a store. Now, in its 4th year of business, Penelope has 6 local retail stores. To date, the company has taken 2 loans from CFF. The owner described the difficulties encountered when she approached banks for a loan to expand her business, including complex procedures that required many difficult-to-provide documents, high collateral, lengthy time to receive a decision, and unwillingness to provide working capital finance for the purchase of valuable stock. She approached CFF after a friend's recommendation and subsequently obtained working capital financing secured by the stock purchased and her own vehicle. She attributes the growth of her business and her sales-force of 15 to the support provided by CFF. She is delighted with the attention the Fund's staff paid to her business, its flexibility, willingness to take purchased stock as security, and fast decision time. The owner acknowledges that she is now a more interesting client for banks than she was 4 years ago but doubts their ability to react quickly to her needs. She says that "at this moment, I would not substitute" CFF for another finance provider but would consider it "if there were a more attractive competitor."

Kosnatura is a fruit and vegetable processing enterprise located near Gracanica that was established by a Serbian entrepreneur over 2 years ago. The company processes products collected from local farmers and supplies Kosovo hypermarkets. Its 12-person permanent workforce is employed on maintenance tasks outside of the production season. To date, the company has taken 3 loans to purchase processing equipment and raw materials, including lease finance. The owner established the company with his own funds when he felt the climate had improved for minority-owned businesses. Prior to the businesses establishment, there were almost no Serb-owned businesses and those that existed were reliant on payments from Serbia. It was almost impossible to get financing from banks. He considered microfinance (since his wife was using such assistance for a gym business) but the loans were too small so he approached CFF. He was impressed with the Fund's flexibility and willingness to secure his borrowings with a pledge on the equipment purchase and purchase production inputs through POF. Kosnatura is a small company that is dealing with hypermarkets notorious for abusing agreed credit terms. Thus, the owner has faced problems with delays in being paid and the Fund has been very helpful in rescheduling repayments to when the hypermarkets pay. The owner does not think he would manage at this stage of development without CFF's continued support because he does not believe the banks would be willing to show the flexibility needed in such circumstances. He is currently running his processing plant in rented premises and his next big project will be to

Many formal businesseses in Kosovo face problems with obtaining finance from banks even though they are experienced, growing, and have collateral. Such businesses include those that have borrowed from banks but were temporarily 'unbankable' because they:

- Could be over-leveraged with the bank(s)
- Have suffered repayment problems in the past thus putting them into a high risk category
- Are facing cash-flow difficulties due to business cycle characteristics (as is often the case with agribusiness) or to delayed payments from customers, which is a common problem currently faced by the Kosovar enterprise sector
- Need cash faster than the banks are able to react after applying their standard procecesses
- Have a combination of the above

With regards to overleveraging, it should be noted that Kosovar banks tend to secure loans by requiring high degrees of asset coverage, usually property, typically 3 times or more. Thus, previously bankable clients may be unable to borrow more due to having insufficient asset coverage. The effect of overleveraging is that many of CFF's clients take out several loans since the Fund responds quickly and is less restrictive about collateral requirements due to its cash-flow based lending approach. As a result, about 32% of clients have taken out more than 1 loan.

CFF's CEO discussed one of its clients, Agroprodukt Syne from Istog, who received Fund support. The company employs a large workforce and supports 40 collection centers around Kosovo that, in turn, support several thousand collectors of wild herbs, berries, and other goods. In addition, the company contracts with many farmers for cultivation. Currently, over 90% of its production is exported to Western Europe. However, even though Agroprodukt Syne has a loan with ProCredit Bank, a credit track record, and several millions of Euros of contracts with German, Austrian, and Swiss companies, their bank refused to increase financing at a critical time after 3 months of encouraging signs. This is a typical situation faced by CFF's clients, even those who have developed and are deemed bankable. CFF considers that by re-lending to Agroprodukt Syne, they are fulfilling virtually every possible development objective and goal. They believe that the alternative would be to let a good exporting company lose opportunities and momentum in its development. The Evaluation Team found that in the case of situations like the one described above, CFF is playing a crucial role in filling the gap in SME financing through relending. The repeat loans do not maintain status-quo but enable rapid growth, exports, local production, employment, agriculture, quality standards (that need to be met for export), small farmers, rural employment, women, minorities (all of which are involved in rural enterprise), etc.

FGDs and individual visits to entreprenuers provided examples of situations in which enterprises had already conducted business with banks but CFF remained their only recourse because commercial banks were unable to help with the size of financing required. This is best illustrated with examples below.

Etlinger is a renowned vegetable and fruit processing company based in Shtimje with a relatively long history following its registration in 2004. Its owner gained extensive experience in Austria and acquired the rights to an Austrian brand. He currently produces and exports most of the company's products to Austria and other countries. The company has taken 4 loans from CFF since 2009 for payments to farmers for inputs and purchase of raw materials. More recently, it invested a significant amount in a pasteurizer. Although the company enjoys more timely payments from its foreign customers than it would from domestic ones, it is nevertheless restricted in how much business it can do with banks because the owner's property is currently provided as security for the bank loan. The owner has his production facility on municipal land and is unable to obtain any further finance from commercial banks. If Etlinger were to need future working-capital financing, it would likely have to turn again to CFF unless it finds a bank willing to finance supplies applying cash-flow based financing such as purchase order finance.

Magistraljia is a Gjilan-based road construction company, which has a single loan from CFF for purchasing construction equipment and raw materials. The company is the descendant of a company with the same name that was privatized in 2006. Five years ago, Magistraljia borrowed from a commercial bank to purchase land and the loan wing was secured by the owner's property. The owner is still repaying the loan although the value of the collateral is now estimated to be 10 times the outstanding capital. Magistralija borrowed from CFF because it won a construction contract and had to make the acquisitions with little delay. The company is delighted with CFF's support and wants to do business with the Fund for "as long as CFF exists" and "does not want to work with any bank." Arguably, this company is bankable since it could repay its outstanding capital to free its assets for new bank borrowings, or even seek a bank willing to accept second degree collateral. Nevertheless, there is no question that CFF was able to provide a fast reaction by lending in a situation in which management would have found it difficult, if not impossible, to deal with banks.

An analysis of the group of enterprises interviewed during the individual visits shows that 63% (out of a total of 24) had taken more than one loan. 65% were judged to be bankable by the Evaluation Team, i.e. capable of obtaining loan finance from commercial banks. Of the enterprises judged to be bankable, 53% have obtained more than one loan. Note: the Evaluation Team's judgement is based on limited information obtained during interviews and not an assessment of the enterprise's financial statement.

The Evaluation Team discussed with CFF's CEO the approach to client graduation in light of some clients' apparent 'dependency' on CFF funding and reluctance to look elsewhere. The CEO stated that the Fund would be reviewing its approach to graduating clients in favor of new clients who had not yet benefited from CFF's products. It should be noted (see Question 4.b) that CFF's interest rates are generally higher than those of commercial banks, and that there is no logical reason for CFF's clients to continue to borrow from the Fund if they are able to source similar financing from commercial banks. Due to funding limitations, CFF does not advertise its services, whereas commercial banks compete and, thus, promote and market their services, and prospective borrowers have access to information on products and prices of services.

The Evaluation Team also discussed CFF's role in facing un-bankable businesses with representatives of CBK and commercial banks. CBK representatives believe that the Fund is filling a gap between MFIs and commercial banks by financing businesses that are either underserved or un-bankable for the type and size of financing needed. CBK acknowledges CFF's "innovative" and "catalytic" role in introducing purchase order finance and pioneering financial leasing of industrial equipment. According to CBK and commercial bankers, there are already signs that some of the medium sized banks are adopting a more flexible approach to small businesses and are offering cash-flow based supplier financing even though this is tempered by caution resulting from the growth of NPLs in the small business sector during the past years. Though the banks do not see CFF as a competitor but rather as a niche operator, they acknowledge that the Fund appears to be dealing with clients in a way that most other banks would shy away from. In doing so, CFF is helping borrowers access finance.

Conclusions

1a. Loan recipients are consistent with the stated target groups in the Cooperative Agreement.
1b. The project has been highly successful in reaching businesses that would have been unable to source funds from MFIs (due to the large size of loans) or from commercial banks.
1c. CFF is helping make borrowers bankable, although there is a need for continuous support to bankable enteprises to whose immediate needs commercial banks are still unable to respond quickly enough**.**

Recommendations

1a. No specific recommendation is necessary.
1b. Kosovo SMEs will need continued support in accessing finance in the range provided by CFF and, thus, this NBFI should continue to be supported through access to funding for on-lending**.**
1c. CFF needs to establish clear criteria for graduating their clients to banks**.**

4.2.2 Question 2. Is CFF operating efficiently? Has the cost-share committed by CFF been met? What is the cost to income ratio?

SUMMARY OF EVALUATION DESIGN AND METHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
2. Is CFF operating efficiently? Has the cost-share by CFF been met? What is the cost to income ratio?	Description – based on content analysis of expert opinions and review of relevant project-related documentation	Review and analysis of CFF financial statements as independently audited	CFF Project Team	Cost-sharing arrangements need to be clarified

Findings

1. An assessment of CFF's operating efficiency would require comparison with a similar lender. CFF is registered at CBK as a NBFI which provides specialized services to clients such as loans and mortgages. There are currently 6 NBFIs registered in Kosovo, including 3 lenders, 2 financial leasing companies (including Raiffeisen-leasing owned by Raiffeisen Bank), and the Post Office of Kosovo. Only 2 of the lenders, CFF and Lesna Sha. Financial Institution, are involved in business lending, although the latter's portfolio includes consumer loans and mortgage lending.

   The 2 other segments of the financial sector involved in business lending are commercial banks and MFIs. Currently, there are 9 banks and 14 MFIs in Kosovo.

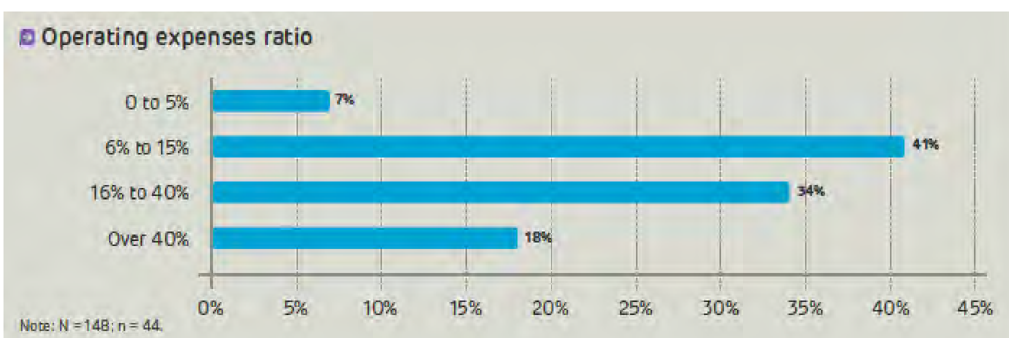
CFF is neither an MFI nor a bank. It is a specialized SME lender which aims to provide working capital, capital investment loans, and financial leasing of industrial equipment to the SME sector. It further aims to loan amounts from around 40,000 to 150,000 EUR (although it has also made smaller loans) whereas micro-lenders work with consumer and business borrowers and lend from 500 to 25,000 EUR (the upper limit being set by the Micro-Finance Law). CFF's cash-flow based approach to lending requires it to develop a deep understanding of a client's needs and to look for ways of enabling financing despite obstacles such as relatively short trading history, weak collateral etc. In this way, CFF differs considerably from many banks, which apply strict criteria and tend to conduct asset-based lending, thus denying many small businesses the benefit of SME financing.

The income and cost structures of commercial banks and MFIs in Kosovo differ significantly, and CFF's differs from the latter. MFIs have relatively large numbers of staff compared with the size of their portfolios because they make many small loans to a large number of borrowers. Their income is comprised of interest and fees from micro-lending whereas banks provide a wide range of income generating services which MFIs do not have. CFF is a very lean operation, working from a Pristina head office with a branch office in North Mitrovica to provide service to borrowers using the Norwegian funding dedicated to this area. Thus it is difficult to make comparisons.

The CBK reports cost-income ratios for the commercial banking sector as 89.9% (mid-2012) after 2 years of declining figures (81.2% in mid-2010). CFF has a cost to income ratio of 95% as of 2012. The 2011 audited accounts show a figure of 70%, and the unaudited 2013 accounts indicate a value of 77%.

It would have been useful to compare CFF's performance with the details of other NBFIs but these are not available on CBK's website and the Evaluation Team was unable to obtain them before completing the mission. However, CFF's Managing Director informed that the Return on Average Assets for NBFIs as a whole was -0.23% compared with 3.2% for CFF, indicating the Fund's superior performance.

Whereas banks use ratios including Cost to Income from Fees and Interest Ratio, MFIs tend to use Operating Expenses Ratio, defined as the ratio of gross operating costs to outstanding average loan portfolio. For example, for a leading MFI, Kosovo Enterprise Program (KEP), the operating expense ratio is 29% (based on year-end portfolio figures), which is in the range of 16-40% achieved by a third of European MFIs [according to data from the 2010-11 European Microfinance Network (EMN) survey].



Although MFI ratios are available (on the basis of Kosovo MFI financial reports as well as European Microfinance overviews), the MFI figures are not a direct comparator either. CFF does not have an equivalent for comparative purposes in Kosovo since it operates in a niche that is served neither by MFIs (whose upper limit is 25,000 EUR) nor by commercial banks (for example, mainly women's and minority enterprises, formal enterprises with less than 3 years post-registration record, and enterprises with weak collateral) although in dealing with SME finance rather than micro-loans CFF is closer to banks. For example, while the operating expense ratio for KEP was 29% for 2012, the average ratio for European MFIs was 25% according to the European Survey of Microfinance Institiutions (2010-11) published by EMN. Although it cannot be compared directly, the Operating Expense Ratio for CFF (2011) is around 12%, which is to be expected given that the NBFI makes larger loans to fewer companies compared with MFIs. Note: CFF has a staff of 11 handling a loan portfolio of around 5 million EUR compared with KEP handling a loan portfolio 4 times higher but with 220 staff.

Cost-Share committed by CFF

Data presented to the Evaluation Team shows that CFF's committed cost-share, as stated in the Modification of Assistance, should be no less than $551,000. This has been discussed with CFF who showed a cost breakdown, including CFF equity (232,829 EUR) plus inputs of expatriate staff and experts, which have not been charged to CFF (see table below). According to CFF's senior management, the cost-share commited had been almost fully met by December 2013.

Cost Share		2008	2009	2010	2011	2012	2013	Total
Equity Contribution		$232,829						$232,829
Senior Management and Experts		62,255	18,929	57,378	57,230	53,198	63,815	$312,805
Total		$295,084	$18,929	$57,378	$57,230	$53,198	$63,815	$545,634
Committed Cost Share Amount Through December 2014 (exceeded by February 2014)								*$551,000*

Conclusions

1. Although there are no direct comparators in Kosovo for an NBFI carrying out lending to SMEs, the commercial bank cost-income ratios, and NBFI return on average assets (ROAA) ratios (provided by CFF) indicate that CFF is operating efficiently and has met its cost-share commitments.

Recommendations

1. No specific recommendations are necessary.

4.2.3 Question 3. Have the operating expenses been pro-rated (between USAID and Norwegian funds)?

SUMMARY OF EVALUATION DESIGN AND METHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
3. *Have the operating expenses been pro-rated (between USAID and Norwegian funds?)*	Description – based on content analysis of expert opinions and review of relevant project-related documentation	Review and analysis of CFF financial statements as independently audited Review of Work Plans, annual and quarterly reports	CFF Project Team	Review and analysis of CFF financial statements as independently audited Review of Work Plans, annual and quarterly reports

Findings

1. There is no formal way of pro-rating expenses. Incomes are combined and the costs of running the operation comes from the pooled income.

   CFF does not have a cost-center based system for managing its operating expenditure. It has a very small team and covers the entire country from one office. Senior management and loan officers must be able to work on all loans, in all regions, from one office, and must be able to cover for each-other based on changing workloads, vacations, etc. The management, loan officers, support staff, security guards, utilities, telecommunications, etc., cover all CFF activities (for example, there is only one security guard at a time and CFF could not assign the guard's salary to one fund or the other). The costs of the operation are funded entirely from the lending income and fees from the USG and Norwegian funds, which are approximately 40% and 60% of the total, respectively.

Conclusions

1. CFF does not separate operating costs between USAID and Norwegian funds. The small size of the operation makes it impractical to operate the 2 donor lending operations as separate cost centers

given that front and back office staff supports the entire operation without discriminating between the 2 donor funds.

Recommendations

1. There is no real need for separating operating expenses for a lending operation of CFF's size since it is an unnecessary complication. The 2 donor components reinforce one another and, consequently, both USAID and Norwegian Government should take full credit for the success of CFF.

4.2.4 Question 4: How does the financial performance (non-performing loans, losses etc) of CFF compare to that of other comparable financial institutions in Kosovo?

SUMMARY OF EVALUATION DESIGN AND MEHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
4a. How does the financial performance (NPLs, losses etc.) compare to that of other comparable FIs in Kosovo? *4b. How do the interest rates and collateral requirements to secure loans by CFF compare with those of the FIs in Kosovo?*	Description – based on content analysis of expert opinions and relevant documentation	Key informant interviews with key personnel especially in the financial sector including Central Bank, MFIs and other financial institutions	Organizations and individuals to be interviewed discussed with Project Team and Evaluation Team	None encountered

Findings

1a. NPLs are reported to CBK, which carries out checks of FIs records. CFF has a NPL90 of 6.1% (as of December 2013). Data on NPLs of commercial banks available from CBK indicate that current NPL90s are 11.2% (Dec. 2013). However, this is for loan portfolios for small and corporate lending. Corporate borrowers [in Kosovo this refers to what are generally considered medium and large companies by the European Union (EU) definition] have low NPL percentages, thus NPL90 of 11.2% indicates that the small business NPLs for commercial banks are much higher, most likely over 20%. Indeed, as indicated in discussions with senior commercial bankers, the deteriorating NPLs of small businesses have reined in lending to these enterprises.

An appropriate comparison of CFF's performance would be with a similar financing institution providing business loans. The only NBFI providing business loans (in addition to consumer lending) is Lesna, which is facing a challenge in tackling NPLs and reported figures in excess of 30%-40% for loans 30 days past due date (in 2012).

In the MFI sector, NPLs are usually meaured by Portfolio at Risk (PAR) 30 days past due date. This ranges from less than 1% to over 30%, based on information obtained from the Association of Microfinance Associations in Kosovo (AMIK).

Information gathered by ANMIK about PAR 30 days past due of MFIs indicates that they are in the range of 0% to 40%, depending on the institution. However, it should be noted that MFIs are different types of lenders than commercial banks and successful MFIs have low NPL percentages. For example, the micro-lender Kreditimi Rural i Kosoves (KRK) reported a PAR 30 days past due below 1% (at the time of the interview), and relies on effective and highly intensive client relationship management to manage the risk of applying very flexible methods in which they adapt loans to clients' specific needs, provide grace periods, and are relatively easier on collateral requirements. Note: KRK's low NPL is confirmed by the data published by AMIK. As a result of action taken to collect overdue loans, the PAR values are expected to fall and thus PAR 90 would be lower.

The problem of tackling NPLs is exacerbated by the problems of claims enforcement, which is close to impossible in Kosovo. Thus, banks write off huge amounts of loans each year and collect on some loans only after 4-8 years. The introduction of PEAs should help once they are in place and functioning, but it will take some time until there are enough PEAs (there are currently 14 trained but it is estimated that Kosovo will need over 100). Even then, it will not be easy for PEAs since they will need to seize business property and then sell it. A lot of the real estate will be hard to sell due to cultural/neighborhood issues, and there is no after-market for equipment and minimal valuation expertise. Notwithstanding, CFF is achieving solid results and its NPL for business lending is lower than that of commercial banks.

1b. MFIs charge interest rates in the range of 15%-25%, banks normally charge rates of less than 15% to SMEs they are prepared to lend to, and CFF charges around 15%. However, CFF is more flexible and maintains lower collateral requirements than commercial banks**.**

According to information provided by CBK, interest rates have been reduced over the past years. The 2012 CBK Report on the Financial Sector reports the following for the banking sector: "investment loans with maturity over 5 years recorded the lowest average interest rate (11.1%), whereas loans with maturity up to 1 year recorded the highest average interest rate (15.6%). Loans to enterprises for other purposes recorded the highest average interest rate of 17.7% for loans with maturity of up to 1 year, and 14.4% for loans with maturity over 5 years." There is a high degree of liquidity in the banking sector at present and the opposite in the enterprise sector. Thus, enterprises meeting banks conservative lending criteria are able to borrow on lower terms than from non-banking institutions.

CFF charges interest rates (14-15%) that are comparable with the low end of those charged by MFIs (15-30%), and somewhat higher than those charged by commercial banks (less than 14%). CFF does not charge penalty rates for rescheduled or late payments, unlike commercial banks, which charge several penalties. Whereas MFIs publish their interest rates (e.g. KEP's business loan annual interest rate is 20.5%, 15-25,000 EUR, 6-48 months tenor), commercial banks are reluctant to quote rates and say that it depends on the client, sector, track-record, collateral etc. However, in meetings with banks, the Evaluation Team was able to confirm that commercial banks are generally able to offer better terms than CFF's to small business clients meeting their requirements.

CFF adjusts the repayment schedule to match the borrower's cash-flow. In doing so, it ensures that the borrower has sufficient funds to meet capital and interest payments. If required, it also provides grace periods and reschedules payments, which has not been the practice with other Kosovo lending institutions (though some are now beginning to do this in response to market demand).

CFF's focus is on cash-flow based lending rather than asset-backed lending. It rarely requires collateral for POF of working-capital needs and usually takes a pledge on capital goods financed with its investment loans. CFF also provides equipment under financial leases and, therefore, retains title to the property. In cases where CFF takes fixed assets, e.g. property as collateral, it aims for around 150-200% times coverage of the loan compared with coverage of 300-500% typically expected by banks, which usually insist on mortgages when lending to small business.

MFIs requires no collateral for very small loans, e.g. less than 5,000 EUR. However, moveable or fixed asset backing is required on higher loans. The coverage is much lower than for banks but the maximum loans provided are well below the range of CFF's minimum.

CFF is renowned for its relatively quick response to applications for loans, which are measured in days, compared with banks, which are reportedly weeks. This has been mentioned consistently during FGDs and interviews with enterprises, which like doing business with CFF because of its flexibility, low reliance on collateral, as well as deep knowledge of borrowers' business sectors. During the interviews, there was less agreement on prices, with some borrowers believing that CFF's interest rates were lower than those of banks, especially when taking into account additional fees and the imposition of penalties resulting from delayed repayments, which are not applied by CFF.

Conclusions

1a. CFF's loan portfolio compares favorably with that of commercial banks and better than that of most MFIs in Kosovo**.**

1b. CFF's interest rates are competitive given its flexibility in matching repayments to borrowers cash flow, has less onerous collateral requirements, and in the majority of cases, was able to lend money without fixed asset backing.

Recommendations

1a. No specific recommendation required.
1b. No specific recommendation required.

4.2.5 Question 5: What have been the challenges of providing financial leases and would it be beneficial for the SMEs and farmers that this financial product continues to be provided?

SUMMARY OF EVALUATION DESIGN AND MEHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
5. What have been the challenges of providing leases and would it be beneficial for the SMEs	Description – based on content analysis of expert opinions and relevant documentation	Focus group sessions with direct beneficiaries i.e. entrepreneurs and SMEs including gender organizations / female workers in selected regions (where possible) Interviews with MFIs	To be organized by Evaluation Team in sample regions – target = 8-12 per focus group session including representatives from all categories of participants	Limited availability of sex disaggregated data; Reliance on anecdotal evidence Lack of baseline information on leases to SMEs since 2008 i.e. number of businesses seeking leases etc.

Findings

1. CFF pioneered financial leasing of industrial equipment and machinery in Kosovo. However, the future development of financial leasing is dependent on overcoming many challenges, including improvements in enforcing claims, developing a secondary market, and educating potential clients. Interviewed clients expressed an interest in leasing.

   Leasing industrial equipment, machinery and vehicles (tractors, combines, etc.) is a successful SME lending technique in many European countries and many commercial banks, including those operating in Kosovo, have established specialized leasing companies to do this. However, leasing (except for personal motor-vehicle leasing offered by commercial banks) is still undeveloped in Kosovo due to significant challenges. Currently, commercial banks do not provide financial leasing of equipment to SMEs and, when questioned about industrial leasing, mentioned that they were watching market developments but had no immediate plans for expanding their operations into this segment due to the many challenges (discussed below). Further, MFIs do not offer financial leases.

   CFF is a market leader in providing leasing of equipment and machinery to small businesses and farmers. CFF's Managing Director provided significant insight and know-how for the development of leasing legislation. Although its current leasing portfolio is still small by comparison with the loans for capital investment, the Fund believes that this will improve in line with developments in Kosovo's marketplace.

   The challenge of leasing may be looked at from a supplier and user standpoint. From the point of suppliers, poor claims enforcement and the lack of a developed secondary market for repossessed industrial equipment create high risk for commercial banks. Furthermore, there are administrative problems connected with the value added tax (VAT). From the viewpoint of potential lessees, small businesses have little knowledge and understanding about leasing and even an initial resistance to accepting that one can work with equipment while the title remains with the lessor.

   Recent changes regarding the introduction of private enforcement of legal claims are expected to improve the environment for lending, although there is also debate as to how easy it would be to sell repossessed equipment to communities in which defaulting lessees and prospective buyers of goods know one another. From discussions with focus groups and individual businesses, there is a wide belief that leasing would be beneficial to the development of SMEs and farmers.

CFF's leasing portfolio is still small but the project believes strongly in the future of leasing and gave an example to illustrate this. The ATI Kosovo LLC company is planning to create modern apple and sweet cherry orchards with the cooperation of local farmers. Kosovo used to have over 20,000 hectares of apples but currently only has 500 hectares. ATI will help farmers plant at least 5 hectares each with more mature seedlings that will enable harvesting within one year. This would double the hectares of land under cultivation and create jobs. Moreover, the farmers will need new equipment and leasing as well as financing for seedlings. CFF believes that leasing would be a perfect solution for this.

The Evaluation Team discussed the benefits and development of financial leasing for modernization of farming in a meeting with an EU Adviser to the Ministry of Agriculture, Forestry and Rural Development. According to the information received, most farmers investing in farming machinery buy second-hand. There are cases of those that buy new machinery with grants from the Ministry who subsequently sell their equipment for profit from the subsidy provided. The EU Adviser informed that future EU subsidy programs would enable leasing (though strict rules need to be applied that regulate the financial benefit to the lessor compared with the benefits to the lessee). However, unless current plans are changed, these rules are unlikely to be applied earlier than in the 2020 agricultural support program. Given the difficulties of leasing (as discussed above), the high degree of fragmentation of farming, and the problems with actually establishing contact and communicating with lessor farmers, the Adviser is sceptical about the near- to medium-term prospects for leasing as applied to agriculture.

During FGDs and visits to individual entrepreneurs, the Evaluation Team asked about views on leasing. Although some interviewed clients expressed an interest, the majority appeared to be unfamiliar with the concept. One entrepreneur commented that he felt uncomfortable with paying for something that he did not hold title to and with the prospect of paying at the end of the lease to acquire title. This confirmed the need for considerable education.

Conclusions

1. Leasing needs to be developed in Kosovo as a way of financing access to equipment and machinery.

Recommendations

1. CFF should further develop leasing through education and example to FIs and the business community on how this can be done successfully.

4.3 GROUP C – IMPACT AND RELEVANCE OF CFF

4.3.1 Question 1: What are the perceptions of the stakeholders such as banks, MFIs, Central Bank of Kosovo, Norwegian Government and EBRD of CFF?

SUMMARY OF EVALUATION DESIGN AND MEHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
1. What are the perceptions of the stakeholders such as banks, MFIs, CBK, Norwegian Government and EBRD of CFF?	Description – based on content analysis of expert opinions	Key informant interviews with key personnel in identified organizations and institutions especially business associations	Potential interviewees identified by CFF Project Team, Evaluation team and USAID. Important to include relevant government ministries in Kosovo especially Ministry of Agriculture	Opinion bias of interviewees as regards what is perceived as a 'result' versus 'impact' Need for clarification of definition of 'impact' i.e. increase in employment of assisted SMEs, increase in sales etc.?

Findings

1. CBK, the Norwegian Government, and senior bankers believe that CFF is innovative and acts as a catalyst for financial access. CBK highly regards CFF's operations and "catalytic" approach to introducing new types of financing to Kosovo SMEs, believing more approaches like this are required in Kosovo. Similarily, the Norwegian Government (Ambassador) stated that NORFUND is happy with CFF's results, including the dedicated minority group financing operation in North Kosovo.

   Senior bankers respect CFF and its CEO, believing they meet the needs of a niche market of small businesses requiring access to finance that is less dependent on available collateral as required by banks. Given the scale of CFF operations, senior bankers do not consider it a competition, stating "it is not on their radar." Leading banks are more concerned with the activities of smaller competitors in the banking sector such as TEB, which is beginning to adopt some of CFF's practices, e.g. flexibility in adjusting repayment schedules, and faster response to applications.

   As mentioned earlier, CFF is not currently seen as a competitor for MFIs because they lend within a much lower range (500-25,000 EUR). However, some MFIs, such as FINCA and KRK, are beginning to develop or adapt a similar approach to CFF's, i.e. cash-flow based lending based on intensive client relationship management, supplies purchase financing, flexibility of approach, etc.

   The Evaluation Team met with the representatives of EBRD and WB to discuss the difficulties facing commercial banks in lending to micro-enteprises and small businesses. For example, EBRD was involved in providing loan finance to micro-lender KRK, to assist access to micro-finance. Representatives from both banks acknowledged that innovative approaches such as those being adopted by CFF were necessary for improving access to finance and for capitalizing firms (for example, future use of mezzanine finance and equity to bolster growing SMEs).

Conclusion

1. CFF has made a highly positive impact on the development of the SME financing market and is positioned in a niche market between the MFIs and the commercial banks.

Recommendation

1. CFF should be supported in its catalytic and innovative approach to pioneer new ways of SME financing in Kosovo.

4.3.2 Question 2: What are the plans of the Norwegian Government and NORFUND in terms of the continuation of CFF funding?

SUMMARY OF EVALUATION DESIGN AND MEHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
2. What are the plans of the Norwegian Government and NORFUND in terms of continuing CFF funding?	Description – based on content analysis of expert opinions	Key informant interviews with key personnel in both Norwegian Government and NORFUND	Interviewees identified by CFF Project Team, Evaluation Team and USAID	None encountered

Findings

1. During the meeting with the Evaluation Team, the Norwegian Ambassador advised that there are no decisions or plans regarding existing funding, although he acknowledged this will need to be done soon. The Ambassador did not rule out continued funding or even increasing it. However, this decision would be made in light of USAID's decision. If USAID withdraws its funds, NORFUND will need to take this into consideration before any next steps. The Evaluation Team has been informed by CFF's Managing Director that the loan from NORFUND is valid until 2016, and in 2015 the Norwegian Government will decide whether to extend the loan for 5 additional years, convert the loan to equity or quasi-equity, or a combination thereof. The recent grant for lending in Northern Kosovo was

granted to CFF in perpetuity and will be classified under equity using the capital approach toward the treatment of grants.

Conclusion

1. No decision has been made by the Norwegian Government regarding continuation of CFF funding.

Recommendation

1. USAID should coordinate future support to CFF in continued development of its financial services with the Norwegian Government to ensure future synergies resulting from the combination of both sources of loan funding.

4.3.3 Question 3: If the CFF were allowed to keep the USG investments to continue with program goals for 5 years after the project end date, what additional impact would likely be realised?

SUMMARY OF EVALUATION DESIGN AND MEHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
3. If the CFF were allowed to keep the USG investments to continue with program goals for 5 years after the project end date, what additional impact would likely be realized?	Description – based on content analysis of expert opinions	Key informant interviews with key personnel in relevant government ministries, partners and farmers	Interviewees identified by CFF Project Team, Evaluation Team and USAID Focus group sessions with farmers	Need for clarification of definition of 'impact' i.e. increase in employment of assisted SMEs, increase in sales etc. or a 'bigger picture' to be considered?

Findings

1. Discussions with borrowers indicate that they will continue to need the type of working capital financing that is provided by CFF until it is widely adopted by commercial banks. Furthermore, borrowers indicated need for longer tenor financing, particularly for capital investment purposes**.** Given the current state of economic development and challenges faced, it is certain that small businesses will continue to struggle with access to financing and that CFF is able to fulfill its mission in the coming 5 years. The additional impact of an extension will depend on how the funding is applied, namely types of products provided, loan size and tenor, as well as on the capital fund available to CFF, since the latter will determine the number of loans made. With regards to new products, CFF is interested in further innovation to respond to market needs and the legal environment. For example, factoring could ease liquidity problems but there is currently no Factoring Law. Furthermore, according to CFF's Managing Director, additional funding that would support hiring 3 more loan officers would allow the Fund to double lending with the same senior management and back-office support.

   The Evaluation Team and CFF management discussed the expansion of CFF's lending to a larger number of clients. Since it commenced operations in December 2008, CFF has had to increase its average loan tenor to meet the specific economic circumstances in Kosovo and the needs of the clients. The liquidity in the business sector has worsened since businesses are not getting paid or are getting paid late. At the same time, NPLs have increased dramatically. The result is that businesses need money longer and, even then, they pay their loans late. CFF initially projected loan tenors with averages of 9-12 months; however, the average tenor is currently 19.5 months, close to twice what was projected. This is still shorter than the tenors of bank loans. According to the latest CBK Monthly Statistical Bulletin information about bank maturities, over 65% of banks loans are over 24 months and over 25% of bank loans are over 60 months. Furthermore, borrowers often pay later and these delays are growing. CFF currently has 25 loans that are over 90 days late and some are extremely late, at least on some payments. This compounds the need for longer tenors, meaning CFF can only lend at a slow rate with present funding. Thus, lending to more clients would require a shortening of tenors as well as a reduction of loan sizes. This is something that CFF will have to do as the current agreement regarding USG funding nears its end unless the funding maturities are extended or are transferred to CFF in perpetuity. In these circumstances, the Fund can develop a portfolio, including shorter working-capital funding, as well as longer-term investment capital funding, including lease financing.

With regard to the target market, although graduating existing clients will result in the acquisition of new ones, CFF states that it will continue to provide services to growing companies in continued need of finance, experiencing temporary problems in accessing loans.

The impact expected from this lending is being achieved to date. This impact includes increased exports, employment, graduation to commercial banks as well improved cash-flow and financial management of companies; increased production and productive capacity; improved quality; markets acquisition; and reduction of the informal sector resulting from the compulsory registration of companies before they become CFF's clients. This impact could be further enhanced by continued close collaboration with ongoing business support projects as well as future collaboration with new projects.

The question of allowing USG investments was discussed with the USAID/NOA project, whose COP described CFF as their "in house ally," which has catalyzed access to finance. In doing so, it has had to carry out a difficult balancing act of meeting developmental needs by providing increasing numbers of underserved clients with finance while continuing to support those whose accelerated growth it has enabled. Such companies, as well as new ones, will continue to need support until the banking sector develops to meet their needs.

Conclusion

1. Maintaining USG funding for another 5 years would enable continuation of the provision of short- to medium-term lending funded from this source, and continued support to growing companies, thus enhancing the impact on the development of the enterprise sector.

Recommendation

1. Rather than allowing USG to keep investments for another 5 years, consideration should be given to granting the funds in perpetuity. If this is done, CFF will have access to long-term funds, which could be used judiciously for longer term lending.

4.3.4 Question 4: In the view of stakeholders, what alternative investments could USAID make in a similar project that would have a greater impact or would be more likely to achieve "improved access to credit"?

SUMMARY OF EVALUATION DESIGN AND MEHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
4a In the view of stakeholders, what alternative investments could USAID make in a similar project that would have a greater impact or would be more likely to achieve "improved access to credit"? *4b Since CFF began operations, has Kosovo's financial sector changed sufficiently enough so that reaching the underserved could now be better accomplished by other, more efficient means than an independent institution like CFF?*	Description – based on content analysis of expert opinions	Key informant interviews with key personnel in relevant government ministries, organization as and institutions	Interviewees identified by CFF Project Team, Evaluation Team and USAID Central Bank, commercial banks, MFIs main target for interviews regarding status of financial sector in Kosovo	Opinion bias of interviewees as regards what is perceived 'result' versus 'impact'. Need for clarification of definition of 'impact' i.e. increase in employment of assisted SMEs, increase in sales etc.?

Findings

1a. Discussions with stakeholders on alternative investments revolved around the application of financial instruments, e.g. credit guarantee funds or spending on technical assistance projects. All believed that there is no better way of using funds especially since credit guarantees have been available or are currently being set up. The public funding made available to CFF is low cost, providing access to lower cost funding for borrowers than if funds were from private investors. Discussions with private and public sector stakeholders considered the alternative between applying the funds for lending, which means they revolve and are re-used, and its use for technical assistance projects in which they are consumed.

One possibility connected to access to finance, which was discussed, is contribution towards a credit guarantee fund. However, USAID and the Austrian Development Agency (ADA) are already involved in the design of a credit guarantee fund for SMEs, which aims to attract funds from the private sector. Technical assistance that would improve access to credit was also discussed. Over the past years, there have been a number of technical assistance projects to support SME entrepreneurs and new ones planned. However, entrepreneurs continue to be challenged in introducing good management practices, as it was also apparent from meetings with individual entrepreneurs. Therefore, the use of this funding for technical assistance would have a much lesser impact than its current application, which has provided underserved groups of small buusinesses with access to finance and helped companies become bankable. So far, this is the one and only lending program in Kosovo that addressed the problems of underserved and unbankable SMEs in such an effective way.

There is a need for introducing laws that would enable new products such as factoring. (Note: a company recently started providing non-recourse factoring services, which is not proper factoring since the ultimate risk in non-payment by the customer is carried by the supplier). There is also a need for mezzanine and equity finance, although this will be a major challenge with the apparent current reluctance of entrepreneurs to share ownerhsip. Factoring is something that CFF has expressed interest in as a supplement to its existing range of services and not an alternative use of funds as such. Balance stakeholders such as CBK, WB, and EBRD felt that the use of revolving low-cost funds for lending is a very effective application of funding, providing low-cost capital for on-lending to SMEs. This question was also tentatively raised with some entrepreneurs and they concurred that CFF was delivering an excellent service that significantly improved their access to credit and they could not think of an alternative.

1b. Stakeholders remarked that accessibility to finance has generally improved over the past 5 years but that there has been a deterioration in the last 2 years due to ill-liquidity in the enterprise sector and increase in non-performance of loan portfolios. CBK has improved its supervision of the banking sector during the past years and this is reflected in more prudent lending practices in banks. Reporting requirements provide commercial banks with monthly updates on borrowers' credit history.

With respect to banks, there is general agreement between all stakeholders that there has been improvement in access to finance during the past 4-5 years, although banks have recently reined in lending due to deteriorating NPLs, resulting in high liquidity in the financial sector and low liquidity in the SME sector. Interest rates are lower today than they were several years ago due to liquidity in the banking system. However, although funding is cheaper, banks' collateral requirements, the need for a track record, and successful credit history put these funds beyond the reach of a large proportion of small businesses.

A few banks, for example TEB bank, are considered at the vanguard of banks adopting new approaches to small businesses through greater flexibility, allowing grace periods and reducing collateral coverage (which is 150% in the case of this bank). TEB has even developed a special agro-card (in collaboration with the NOA project) to provide farmers with credit for purchases of agricultural supplies and fuel. Two of the commercial banks that met with the Evaluation Team remarked that they considered the small business sector very important because it provided them with the opportunity for greater margins and a diversified portfolio compared with corporates (meaning medium sized and larger companies) who squeeze margins and result in greater exposure to individual borrowers. One of the banks that made this comment is one of two whose assets constitute about two thirds of total assets in the banking sector.

With regards to MFIs, there are currently 19 in Kosovo (an increase of 2 compared with the previous year). According to CBK, compared with the previous years when 3 MFIs dominated the structure of assets in the micro-finance industry, this has changed and other MFIs now constitute the largest share. Some of the MFIs, e.g. KRK, have benefited from EBRD loans and have expanded their lending. Although there are differences between the share of consumer-to-business lending between them, most focus on business lending. According to information received from KEP, only 10% of their lending is to consumers and 25% of business lending is to agribusiness. FINCA's business portfolio also constitutes the largest share and it too has a focus on agribusiness. KRK, registered as a LLC, is entirely focused on business lending. While the loan products are less novel than those of CFF, they are also tending towards greater flexibility and transation financing. Thus, microfinance is evolving to serve business needs although the MFIs are limited by the size of loans they can provide. The MFIs are awaiting the introduction of a new microfinance law that would enable the transformation of MFIs [the majority of which operate as non-governmental organizations (NGOs)] into legal entitities that will ttract new capital and have owners who will exercise governance, assure good management, and act to develop new products in response to market needs. Some of the MFIs interviewed expressed interest in the possibility of working with credit guarantee schemes - currently unavailable to them - to reduce the lending risk to larger projects.

CFF has pioneered purchase order finance lending and leasing and its cash-flow lending based approach to loan sizes unavailable from MFIs puts it in a unique position to address liquidity problems currently faced by SMEs, which seriously affect the transfer of payments between enterprises linked in sector value chains. As described earlier in this section, although there are signs that some banks are beginning to consider the approaches adopted by CFF, the Fund is still in the lead position in reaching underserved clients needing larger loans than those available from the MFIs. A proportion of CFF's clients are also working with banks but still use CFF's services because they are not always able to get commercial bank lending due to the latter's slower response time and being over-leveraged. As mentioned, MFIs' lending limitations put them below the loan ranges provided by CFF even though they have less collateral restrictions.

Conclusions

1a. CFF has made effective utilization of funds that are re-used for the benefit of SME business and employment growth. There is no project involving consumption of the investment that would yield comparable results. Use of funds for on-lending is the best application, especially as it contributes to a lower cost funding base.

1b. Though access to finance has evolved positively over the past years, the current situation does not make it any easier for a small business to borrow other than those with good track-records and sufficient collateral to meet lender requirements. Thus, there continues to be a large number of un-bankable businesses unattractive to commercial banks due to their intrinsic weaknesses.

Recommendations

1a, 1b. USG funds should continue to be applied for on-lending.

4.4 GROUP D – SUSTAINABILITY OF CFF

4.4.1 Question 1: Will the CFF be able to continue serving the clients and at the same time be sustainable (be able to operate and cover its operational expenses) if USAID decides to withdraw its funds at the end of the project?

SUMMARY OF EVALUATION DESIGN AND MEHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**

SUMMARY OF EVALUATION DESIGN AND MEHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
1. Will the CFF be able to continue serving the clients and at the same time be sustainable (be able to operate and cover its operational expenses) if USAID decides to withdraw its funds at the end of the project?	Description – based on content analysis of expert opinions and in-depth review and analysis of relevant documentation	Key informant interviews with key personnel in CFF Work plans, annual and quarterly reports and independent audits	Interviewees identified by Evaluation Team but mainly CFF Project Team	None encountered

Findings

1. A number of factors influence the market and financial sustainability of CFF, the main ones being:

   - Demand for financial products from its target market
   - Generation of income from interest and fees that covers operating expenses
   - Ability to raise new funding to compensate for withdrawal of USG funds, and meeting demand from its target markets
   - Compliance with the requirements of the financial sector regulator, namely CBK

   The Evaluation Team found that there continues to be a demand for CFF's services. Even though banks, such as TEB, are taking a serious interest in providing services to micro-enterprises and small businesses, and notwithstanding the anticipated future development of the MFI sector after the introduction of the new law, there should be sufficient demand for the Fund's services, particularly since the Fund is considering development of new products in response to market needs, such as innovation financing and factoring. Moreover, as pointed out in Section B, its potential market is several times larger than it can currently serve with the funds at its disposal.

   An analysis of CFF's financial reporting data clearly shows that the Fund is generating income from interest and fees that covers operating expenses. Not only are costs being covered on an on-going basis but modest profits are also being made year-on-year (which are subsequently re-invested in the business as per balance sheet items). Based on information provided by CFF, the total income from USAID funding obtained by end of 2013 from interest and fees amounted to around $784,000 compared with a total amount of loans of $1,830,000 (accounted for on a cash basis), which corresponds to around 42% of income. This shows the vital part played by USG funding enabling a sustainable and successful operation in partnership with the Norwegian Government. (Note: without going into detailed calculations of time value of funding and currency conversions, USAID funds constitute around 40% of total funding).

   If USG funding is withdrawn, CFF would need to replace it with other sources in order to carry on operations on the same scale. Maintaining nationwide coverage requires a minimum sized workforce of loan officers and, undoubtedly, there are economies of scale that can be achieved when operating throughout the entire country since loan officers have the possibility to visit more than one client. Operations with a lower funding base would be less cost-efficient. Another aspect that needs to be considered is the possible negative impact on borrower's perceptions if it became known that USG was withdrawing funds. To maintain credibility and its current scale of operations, the Fund would need to source new funding.

   Although the Evaluation Team did not address the question of sourcing new funding in detail, it can be reasonably said that the successful nature of the Fund's operations would put it into a good position to attract donor and international financial institution (IFI) interest. For example, the Norwegian Ambassador suggested that such an amount could potentially be covered by NORFUND although this would depend on a number of factors, including an understanding of the reasons for a USG withdrawal of funding. Furthermore, discussions with several of the major foreign-owned banks in Pristina also indicated potential interest. However, these deliberations remain nothing more than speculation and would only become relevant if and when USAID made the decision to actually withdraw those funds and such knowledge entered the public domain. A replacement of USG funding would need sufficient time to take place without impairing CFF's performance.

One other factor that is important in considering withdrawal of USG funding is the question of whether CFF would be able to replace the funds with low-cost international FIs (IFIs), e.g. EBRD or other donor funding, to provide a low-cost fund for on-lending. If funds for on-lending were loaned on commercial terms or from a private equity injection, then this would likely result in a higher cost of funds that would be reflected in the interest rate to borrowers. Although it is CFF's flexibility and type of financing that attracts borrowers to a greater degree than the cost of the loan, the cheaper the loan, the more attractive it is for small business borrowers. Low cost loans are particularly important for agribusiness, where margins tend to be low, as well as to encourage investment in capital equipment. It is notable that IFIs, such as the European Investment Bank (EIB), have been active in EU countries in providing low-cost funding to intermediary FIs for on-lending to small business clients with the provision that the benefit of low-cost funding is transferred to beneficiaries on agreed terms. Thus retention of low-cost donor funds in CFF is important from this point of view. CFF is essentially transferring benefit to the small business community through ploughing back profits into its loan funds to build up the capital for lending.

Based on financial statements, as well as discussions with CBK, there is no question that CFF is fully compliant with the regulator's requirements. Indeed, its portfolio quality is good based on comparisons with the majority of MFIs and also taking into account commercial bank lending to small business.

Conclusions

1. If USAID withdraws its funding (total of $2.2m), it is difficult to see how CFF could continue operating, or survive for that matter, without those funds being replenished from an alternative source. However, given CFF's current trading position and status in the financial sector in Kosovo, it is more than likely that a potential investor could be found.

Recommendations

1. The evidence strongly suggests that USAID should continue to financially support CFF if the Fund is to carry on operating efficiently and also satisfy its mandate to serve its intended target audience (underserved clients). Such a decision should also be announced sooner than later given that there is now some public awareness about a possibility that USAID may withdraw funding to CFF. This state of affairs could potentially impact public and client perceptions of CFF if it became the prevailing view that sometime in the near future CFF may no longer continue to operate. Furthermore, it raises the issue of how outstanding loan repayments would be recovered – (see 4.4.2 below for additional comment).

4.4.2 Question 2: Some of the issued loans and leases will mature beyond the end date of the project. If USAID decides to get its funding back, what would be some of the options for addressing the outstanding loans and leases?

SUMMARY OF EVALUATION DESIGN AND MEHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
2. *Some of the issued loans and leases will mature beyond the end date of the project. If USAID decides to get its money back, what would be some of the options for addressing*	Description – based on content analysis of expert opinions	Key informant interviews with key personnel in CFF Project Team	Interviewees identified by Evaluation Team Question to be raised at focus group sessions for responses from direct beneficiaries esp. SMEs / entrepreneurs in farming communities (i.e. likely impact on	Calls for speculation and not based on verifiable evidence as future unpredictable

SUMMARY OF EVALUATION DESIGN AND MEHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
the outstanding loans and leases?			them)	

Findings

1. Feedback from interviewees suggested that, assuming the original term loan repayment period remained the same, CFF would not experience major problems in terms of defaults. However, this view might need amending depending on how the withdrawal of USAID funds will be ultimately perceived by existing clients[12]. One of the main issues arising from the Evaluation Team's investigations concerned the matter of perception regarding CFF's activities rather than a deep understanding of its actual operating activities. A significant number of respondents to the question of CFF's possible withdrawal felt unable to comment one way or the other regarding loans and lease repayments beyond the project end date due to a lack of knowledge regarding the loan terms and/or other contractual arrangements between CFF and clients. However, it should be noted that some interviewees voiced some concern that if clients took the view that CFF might no longer have access to USAID funds post-December 2014, then the possibility existed that defaults may increase (over and above present levels), which could be compounded in the absence of a more robust legal infrastructure for debt collection in Kosovo.

   In the event of increased default, few commentators were prepared to offer meaningful comment or suggestion on the matter of outstanding loans or leases, citing a lack of detailed knowledge of CFF's client contractual arrangements. In discussions with CFF, it was clear that if USAID decided to withdraw its funding, this would impose a significant administrative burden on its operations and further pose the question: "How would these outstanding loans or leases be recovered if, say, CFF could no longer continue?" - (assuming the $2.2m was not taken up by other investors). Clearly, the administrative cost of recovering the money would potentially outweigh any perceived benefits to withdrawing it in the first place. In short, there appear to be no immediately obvious solutions to recovering loans and leases from clients either from an administrative point of view or practically.

Conclusions

1. In the event that USAID decided to withdraw its $2.2m from CFF, considerable caution would need to be exercised in the way this will be explained in order to avoid the possibility of clients considering defaulting, as sanctions would be unlikely to deter some due to the lack of existing legal enforcement options in Kosovo. It is also possible to conclude from remarks made by some of the FIs that not much would change in their attitude toward lending to CFF's target audience, leading to less funds being available to those currently underserved. While some MFIs interviewed expressed an interest in entering this market, they would be unable to do so as their legal limit for loans is currently 25,000 EUR while CFF has an average loan well above that figure.

   Some of the commercial banks also suggested they might become more involved in this sector but again the impression gained from interviews was that greater profits could be made elsewhere and potentially with less administrative burden. The overall conclusion here is that this issue is inextricably linked to the previous question regarding a potential USAID withdrawal of funds, in that without those funds CFF would no longer be sustainable unless replaced by equity investors or lenders. The consequence of this in terms of loan or lease recovery remains speculative in the absence of USAID's longer term strategic thinking regarding support to smaller businesses in Kosovo, financially or otherwise. In short, such a scenario would effectively be a leap into the unknown although negative aspects appear to circumvent positive ones.

[12] The Evaluation Team was mindful of the need for discretion when questionning existing clients during site visits not to give the impression that USAID was actually considering pulling its funds from CFF at the end of the year to avoid any misunderstanding that loan repayments may be required to be made sooner than the tenor stipulated in their contract.

Recommendations

1. In light of the above findings and conclusions, the Evaluation Team has no specific recommendations to make regarding the recovery of potentially outstanding loans or leases due to their maturation beyond the end date of the project. This is primarily due to the fact that there are too many unknown factors that could influence the behavior of clients were USAID's funds to CFF to be withdrawn. The best case scenario would be for USAID to continue supporting CFF with funding (possibly in perpetuity), as this would effectively ensure not only sustainability but also a sense of stability in the financial sector regarding loans to the underserved, as outlined above. The issue of recovery would therefore simply not arise, thus alleviating possible client anxiety on the technicalities of repaying outstanding monies.

4.4.3 Question 3: What recommendations could be made about future programs in this sector?

SUMMARY OF EVALUATION DESIGN AND MEHODS				
Evaluation Question	**Type of Analysis Conducted**	**Data Sources and Methods Used**	**Data Collection Method and Sample Size**	**Limitations**
3. What recommendations could be made about future programs in the sector?	Description – based on content analysis of expert opinions	Key informant interviews with key personnel in CFF Project Team and above-mentioned key stakeholders	Interviewees identified by Evaluation Team Question to be raised at focus group sessions for responses from direct beneficiaries esp. SMEs / entrepreneurs in farming communities (i.e. likely impact on them)	Need to clarify sector – agriculture exclusively in line with 2010 Cooperative Agreement Amendment

Findings

1. During the course of the evaluation mission, the Team had the opportunity to visit a number of CFF clients (past and present) on their own premises – Peja, Pristina, Gjilan and Rahovec. This allowed for direct observation of operating activities and, in several cases, enabled the Team to see first hand items of equipment and machinery purchased through CFF loans. However, it was also apparent from discussions with some clients that they had little knowledge of how to actually manage a business effectively and lacked understanding of the need for financial projections to be prepared in order to manage money in and out of the business. Requests for funds are often not based on anticipated levels of demand or the state of the market place in which they operate.

   By their own admission, many loans are requested (from CFF) because of the likelihood of them being available. When pressed, some clients admitted that they really needed technical assistance alongside funds to improve productivity and streamline production processes. It is also possible that by offering clients multiple year-on-year working capital/investment loans, CFF is not necessarily advancing the cause of some of those enterprises which simply view the availability of loans as a need that satisfies short-term requirements. In some cases, clients expected to be able to borrow from CFF indefinitely, although when pressed, some said that they had not identified a specific need but were certain that one would be found sometime in the future. However, in terms of CFF's existing clients, those taking multiple loans accounted for 30% of the total, which is considerably less than the sample of 24 enterprises visited where 63% had multiple loans.

Conclusions

1. There is some evidence to suggest from the above findings that while CFF provides a valuable source of funding for underserved enterprises, in some cases, such funding may not assist the business develop as anticipated if basic financial management and other operating skills are not evident.

Recommendations

1. Consider introducing the requirement for entrepreneurs or SMEs to receive basic training in actually running a business, including preparing basic plans and cash flows before being approved for loans. This should begin addressing the issue of businesses requesting multiple working capital loans which are not

necessarily linked to longer term plans. Such an approach would also discipline project teams to ensure that loans or leases adhere to strict criteria before being disbursed and also reduce the prospect of client dependency on loans to run their businesses. Furthermore, by reducing multiple loans to single clients who could already be 'bankable' could free up funds to serve additional clients.

5.0 LESSONS LEARNED

1. When replicating funding operations that have been proven in another country, such as Macedonia, USAID should consider the advantages of providing either grants in perpetuity or longer term loans that would also allow the opportunity for lending at a longer term than is possible with a 5-year program.

ANNEXES

ANNEX A:

STATEMENT OF WORK

SECTION C – DESCRIPTION / SPECIFICATIONS/STATEMENT OF WORK

C.1 INTRODUCTION

Name of Activity to be Evaluated: Kosovo Small and Medium Enterprise Commercial Finance Fund (Crimson Finance Fund - CFF)
Implementer: Crimson Capital Corporation
Award Number: 167-A-00-03-00101-00
Agreement Value: $2,200,000
Life of Program: July 2008 – December 10, 2014
Period to be Evaluated: July 2008 - present

C.2 BACKGROUND

Commercial Finance Fund is registered at the Central Bank of Kosovo as a non-banking financial institution named Crimson Finance Fund LLC (from here on referred to as CFF). The project has been under implementation since July 2008 and will end on December 10, 2014. The goal of CFF is to increase access to affordable credit for small and medium-sized enterprises (SMEs) and the agricultural sector. The project's activities involve: providing access to short term working capital, such as purchase order financing; demonstrating innovation in new financial products targeted to SMEs and the agriculture sector; and financing equipment leasing for agricultural producers.

In 2008, USAID provided CFF with $700,000 to provide critical missing financing to SMEs, farmers, and women and minorities of all the sectors of economy. The purpose was to provide financing to those that have difficulties with obtaining financing from the traditional financing institutions. The funding provided by USAID was exclusively for lending.

When establishing CFF in 2008, the Norwegian Government and NORFUND also provided grant funding to CFF in the amount of around $644,960 for start-up and initial operational costs, and a $1.1 million low interest loan for lending. Since then the Norwegian Government provided CFF with 2 additional capital injections: 1) $1.0 million low- interest loan during 2010 for additional lending, and 2) a further $1.1 million in 2013 for lending to businesses in the North of Kosovo.

In September of 2010, USAID amended the agreement with Crimson Capital by adding $1.5 million in additional funding to serve specifically the agriculture sector with both purchase order financing and financial leasing for agriculture equipment. Approximately $100,000 out of $1.5 million was to be set aside to cover environmental and pollution prevention assessments for projects/loans that were determined to have a potential for detrimental impact on the environment and thus could require further analysis and/or mitigating measures.

Both products (purchase order financing and leasing) offered by CFF provide ongoing reflows of principal for re-lending. Repayment of working capital loans are within one year while equipment leases are to be repaid over a 2 to 4 year period, depending on the specific type of equipment and lease tenor. Both products derive interest and fee income to support CFF operations and sustainability.

The funding from USAID and the Norwegian Government is kept in separate banking accounts. CFF is subject to external annual audits. In addition, CFF is required to report daily, monthly, and quarterly and annually to the Central Bank of Kosovo.

C.3 CFF PROGRAM OBJECTIVES

The objective is to provide financing to small and medium sized enterprises in Kosovo, including rural businesses, entrepreneurs, farmers, women, and minorities in enclaves that are unable to obtain the financing they need from existing institutions.

C.4 PURPOSE

The main purpose of this performance evaluation is to provide USAID/Kosovo with an objective external assessment of the management and performance of CFF's activities from July 2008 to the present.

C.5 OBJECTIVE

USAID Kosovo is interested to learn how much CFF has been able to assist SMEs and farmers in obtaining finance and growing their businesses. The evaluation should also make specific recommendations about the potential impact and contribution to USAID Kosovo's development goals if the USG investment were to remain with CFF and compare that potential impact and contribution to an alternate use of the funds.

This evaluation will document what has happened as a result of the CFF project (positive, negative, directly, indirectly, intended or unintended). The objectives of this evaluation are: (a) to provide an assessment of the impact of the CFF project to date in relation to the project purpose and expected results, (b) to recommend possible ways, if any, in which the project might increase the impact and performance of its services over its remaining life of the project, and (c) to provide USAID with lessons learned that can be used to guide future programming in the private sector.

C.6 TARGETED STAKEHOLDERS

The primary target stakeholders for this assessment include USAID/Kosovo, especially the Director's Office, the Office of Economic Growth, and the Program Office. Stakeholders also include the Kosovo Ministry of Agriculture, Norwegian Government, Norfund, banks, MFIs, small and medium sized enterprises that cannot obtain all the financing they need from traditional financial institutions, including rural businesses, entrepreneurs, farmers, women and minorities in enclaves.

C.7 SCOPE OF WORK

The Contractor will provide a 2 person team to conduct the CFF Performance Evaluation. The team will develop and adopt an approach that elicits and analyzes information, and provides key findings; conclusions, recommendations and lessons learned and provide recommendations.

The Contractor will design and execute the evaluation to generate detailed knowledge about the performance of the CFF project, to measure accountability, project outcomes and benefits, as well as recommendations for continued USAID involvement.

The Contractor will develop an evaluation plan, including a draft Work Plan, that is most appropriate and feasible to accomplish the objectives set forth. The Plan will include the description of methods and procedures that will be used in gathering and analyzing both qualitative and quantitative data.

The Contractor will reach, and collect data and information from, the widest possible stakeholder group, including project participants, current employees, implementing partners, direct beneficiaries, and other donors. After contract award, at the request of the Contractor, USAID/Kosovo will provide an initial list of the stakeholders and their contact information.

The Contractor will disaggregate collected data by sex to the greatest extent possible in order to ascertain how the project impacted men and women; how the activities affected the status and roles of women and men within the areas of intervention (for example roles in decision-making and different access to and control over resources and services); how results of the work affected men and women differently; and what specific benefits of the program can be uniquely and specifically attributed to targeting women.

USAID/Kosovo will provide the Contractor with key documents and background material relevant to Kosovo's financial sector and the applicable USAID design and project documentation, as well as any available documents deemed necessary to the Contractor to be familiar with the CFF activities. Key documents include: Quarterly Reports, Annual Reports, Work plans, and Audited Financial Statements.

C.8 EVALUATION QUESTIONS

The Contractor must address the following **key questions** and may include others as necessary to meet the objectives of this evaluation. In addressing all evaluation questions the Contractor will do so in a manner and order that it determines to be most effective, efficient, and encompassing of all relevant stakeholders.

- ☐ Is the purpose of the project as set in the Cooperative Agreement with Crimson Capital being achieved?
- ☐ Is the project on-track to achieve its objectives by the end of the project ?
- ☐ Are the recipients of loans from CFF consistent with stated target group as per the agreement with Crimson Capital? In considering this question, how successful has the project been in reaching the underserved i.e. those who have difficulties obtaining financing from traditional financing institutions? Has CFF helped to make borrowers "bankable" as stated in the agreement?
- ☐ Have the targets set in the annual work plans been achieved? What are the major factors influencing the achievement or non-achievement of the targets?
- ☐ Is CFF operating efficiently? Has the cost-share committed by CFF been met? What is the cost to income ratio?
- ☐ Have the operating expenses been pro-rated (between USAID and Norwegian funds)?
- ☐ How does the financial performance (non-performing loans, losses, etc.) of CFF compare to that of other comparable financial institutions in Kosovo? When considering this question, how do the interest rates charged and collateral requirements to secure loans by CFF compare with those of the financial institutions in Kosovo?
- ☐ What have been the challenges of providing financial leases and would it be beneficial for the SMEs and farmers that this financial product continues to be provided?
- ☐ What are the perceptions of the stakeholders such as banks, MFIs, Central Bank of Kosovo (CBK), Norwegian Government and EBRD of the CFF project?
- ☐ What are the plans of the Norwegian Government and Norfund in terms of the continuation of CFF funding?
- ☐ If CFF were allowed to keep the USG investments to continue with program goals for five years after the project end date, what additional impact would likely be realized?
- ☐ Will the CFF be able to continue serving the clients and at the same time be sustainable (be able to operate and cover its operational expenses) if USAID decides to withdraw its funds at the end of the project?
- ☐ Some of the issued loans and leases will mature beyond the end date of the project. If USAID decides to get its funding back, what would be some of the options for addressing the outstanding loans and leases?
- ☐ In the view of stakeholders, what alternative investments could USAID make in a similar project that would have a greater impact or would be more likely to achieve "improved access to credit?" Since CFF began operations, has Kosovo's financial sector changed sufficiently enough so that reaching the underserved could now be better accomplished by other, more efficient means than an independent institution like CFF?
- ☐ What recommendations could be made about future programs in this sector?

C.9 METHODOLOGY

This performance evaluation will rely on a mix of methods, including documentation review, small surveys, financial analysis and in-person or telephone interviews with key informants in the U.S. and in-person interviews in Kosovo. The Contractor will review all the documents made available by USAID Kosovo prior to departure. Upon review of the documentation, the Contractor will develop an evaluation framework that is most appropriate and financially feasible to accomplish the goals outlined in the SOW. In considering the evaluation design, the Contractor will strive to incorporate diverse information gathering approaches in order to balance viewpoints.

In preparing a data-gathering approach, questions should be tailored to reflect, as appropriate, the specific roles of the stakeholders. The data analysis plan will include how interview and/or focus group interviews will be transcribed and analyzed; what procedures will be used to analyze quantitative data from surveys and qualitative data from key informant and other stakeholder interviews; any methodological limitations; and how the evaluation will weigh and integrate qualitative data with any quantitative data. All data will be disaggregated by sex, sector and locality as appropriate.

C. 10 TIMELINE

The evaluation will take place in March 2014 in Pristina and other parts of Kosovo. Total level of effort (LOE) will be for 2 expatriate advisors for 30 work-days each, while the total period of performance of Task Order should not exceed 60 days.

Proposed Timeline:

Tasks	**Time (work days)**
Preparation and Research (prior to arrival in country, includes draft of an initial work plan and evaluation design)	4 days
Round trip travel (US-Kosovo-US)	3 days
Meet with USAID/Washington's Bureau for Europe and Eurasia (E&E), Office of Economic Growth and Trade (EGAT) and other relevant stakeholders.	1 day
On-site research and data collection in Kosovo. Meeting with USAID/Kosovo Mission's M&E Specialist and with EGO Office; project stakeholders; Preliminary Draft Report and Out-brief to USAID/Kosovo Mission	14 days
Final Draft Report	5 days
Final Report due	3 days
Total LOE (per advisor)	**30 days**

C. 11 RELATIONSHIPS & RESPONSIBILITIES

In accordance with USAID Evaluation Policy, this task order will be managed by the USAID/Kosovo Program and Project Office. Primary point of contact is Amy Southworth, Program and Project Office, asouthworht@usaid.gov. Secondary point of contact is Aferdita Nimani, Program and Project Office, animani@usaid.gov.

The Mission's Monitoring and Evaluation (M&E) Specialist, or his/her designee, will be the designated Contracting Officer's Representative (COR) for this award. Upon arrival in Kosovo, the Contractor shall meet with the M&E Specialist and representatives from the USAID/Kosovo Economic Growth Office prior to starting any work.

All logistical and administrative support will be the responsibility of the contractor. The Contractor will be solely responsible for obtaining transport and translation services.

C. 12 ADDITIONAL REQUIREMENTS

An acceptable report will meet the following requirements as per USAID rules and procedures (please see: http://transition.usaid.gov/evaluation/HowtoNote-PreparingEvaluationReports.pdf. The following considerations should also be included:

- ☐ The evaluation report should represent a thoughtful, well-researched and well-organized effort to objectively evaluate what program activities were most successful in achieving the desired results, what did not work and why.
- ☐ The evaluation report should address all evaluation questions included in the scope of work.
- ☐ The evaluation report should include the scope of work as an Annex. All modifications to the scope of work, whether in technical requirements, evaluation questions, evaluation team composition, methodology or timeline shall be agreed upon in writing by the USAID Mission M&E Specialist.
- ☐ Evaluation methodology shall be explained in detail and all tools used in conducting the evaluation such as questionnaires, checklists and discussion guides will be included in an Annex to the final report.
- ☐ Evaluation findings will assess outcomes and impacts using sex disaggregated data.
- ☐ Limitations to the evaluation shall be disclosed in the report, with particular attention to the limitations associated with the evaluation methodology (selection bias, recall bias, unobservable differences between comparative groups, etc.).
- ☐ Evaluation findings should be presented as analyzed facts, evidence and data and not based on anecdotes, hearsay or the compilation of people's opinions.
- ☐ Findings should be specific, concise and supported by strong quantitative or qualitative evidence.
- ☐ Sources of information need to be properly identified and listed in an Annex, including a list of all individuals interviewed.
- ☐ Recommendations need to be supported by a specific set of findings.
- ☐ Recommendations should be action-oriented, practical and specific, with defined responsibility for the action.

All quantitative data collected by the ET must be provided to the COR in an electronic file in easily readable format agreed upon with the COR. The data should be organized and fully documented for the use by those not fully familiar with the project or the evaluation. USAID will retain ownership of the survey and all datasets developed.

ANNEX B:
EVALUATION DESIGN MATRIX

EVALUATION DESIGN MATRIX

For ease of understanding, the 15 evaluation questions as highlighted in the RFTOP/SOW for the CFF Performance Evaluation have been categorized into four (4) main groups:

1. Group A - Monitoring and Reporting
2. Group B - Efficiency and Effectiveness of CFF
3. Group C - Impact and Relevance
4. Group D - Sustainability of CFF

The rationale for this approach is that it allows the ET to concentrate on specific aspects of CFF's operations so that its investigations can focus on gathering the data and information it needs from which it can subsequently draw meaningful conclusions. It also helps clarify the type of questions that need to be asked of the different stakeholder groups (see Annex 4 for the various interviewee questionnaires). Furthermore it draws attention to possible limitations or obstacles to sourcing the information the ET needs, which can therefore be discussed and commented upon prior to planned meetings taking place. This can best be done at the in-brief following the arrival of the international team. Below is a chart depicting a summary of the Evaluation Design and Methods for each evaluation question which will appear in the body of the final report.

GROUP A – MONITORING AND REPORTING

	Evaluation Question	Type of Analysis	Data Sources & Methods	Data Collection Method & Sample Size	Limitations
1	***Is the purpose of the project as set out in the Cooperative Agreement with Crimson Capital being achieved?***	Description – based on content analysis of expert opinions & review of relevant documentation	Key informant interviews with CFF Project personnel; CFF Project partners; CFF Project reports	Interviewees identified by Evaluation Team and USAID	Opinion bias; open ended & semi-unstructured interviews
2	***Is the project on-track to achieve its objectives by the end of the project?***	Description – based on content analysis of expert opinions & review of relevant documentation	Key informant interviews with CFF Project personnel; CFF Project reports	Interviewees identified by Evaluation Team and USAID.	None envisaged
3	***Have the targets set in the annual work plans been achieved?*** ***What are the major factors influencing the achievement or non-achievement of the targets?***	Description – based on content analysis of project documentation. Description – based on content analysis of expert opinions	Review of work plans, quarterly and annual reports and independent financial audits Feedback from key informant interviewees and project team	All available documents – no exclusions Selection of key stakeholders from public and private sector – to be identified by Evaluation Team including existing loan recipients	None envisaged Reliance on anecdotal evidence in support of comments Lack of verifiable supportive evidence especially regarding leasing

GROUP B – EFFICIENCY AND EFFECTIVENESS OF CFF

4	***Are the recipients of loans from CFF consistent with stated target group as per the agreement with Crimson Capital?*** ***How successful has the project been in reaching the underserved? i.e. those having difficulty obtaining finance from traditional financing institutions*** ***Has CFF helped to make borrowers "bankable"?***	Description – based on content analysis of expert opinions and review of relevant documentation	Focus group sessions with direct beneficiaries i.e. entrepreneurs and SMEs including gender organizations / female workers in selected regions (where possible) Interviews with other donors/projects working with similar target groups Interviews with MFIs	To be organized by Evaluation Team in sample regions – target = 8-12 per focus group session including representatives from all categories of participants	Limited availability of sex disaggregated data; Unavailability of participants Reliance on anecdotal evidence Lack of baseline information on loans to SMEs since 2008 i.e. number of businesses seeking loans, number successful and number refused. Lack of reliable data to make comparative analysis of then and now
5	***Is CFF operating efficiently? Has the cost-share committed by CFF been met? What is the cost to income ratio?***	Description – based on content analysis of expert opinions and review of relevant project-related documentation	Review and analysis of CFF financial statements as independently audited	CFF Project Team	Cost-sharing arrangements need to be clarified

6	***Have the operating expenses been pro-rated (between USAID and Norwegian funds?)***	Description – based on content analysis of expert opinions and review of relevant project-related documentation	Review and analysis of CFF financial statements as independently audited Review of Work Plans, annual and quarterly reports	CFF Project Team	Cost-sharing arrangements need to be clarified
7	***How does the financial performance (non-performing loans, losses etc.) of CFF compare to that of other comparable financial institutions in Kosovo?*** ***How do the interest rates charged and collateral requirements to secure loans by CFF compare with those of the financial institutions in Kosovo?***	Description – based on content analysis of expert opinions and relevant documentation	Key informant interviews with key personnel especially in the financial sector including Central Bank, MFIs and other financial institutions	Organizations and individuals to be interviewed discussed with Project Team and Evaluation Team.	None envisaged
8	***What have been the challenges of providing financial leases and would it be beneficial for the SMEs and farmers that this financial product continues to be provided?***	Description – based on content analysis of expert opinions and relevant documentation	Focus group sessions with direct beneficiaries i.e. entrepreneurs and SMEs including gender organizations / female workers in selected regions (where possible) Interviews with MFIs	To be organized by Evaluation Team in sample regions – target = 8-12 per focus group session including representatives from all categories of participants	Limited availability of sex disaggregated data; Reliance on anecdotal evidence Lack of baseline information on leases to SMEs since 2008 i.e number of businesses seeking leases etc.

GROUP C – IMPACT AND RELEVANCE OF CFF

9	***What are the perceptions of the stakeholders such as banks, MFIs, Central Bank of Kosovo, Norwegian Government and EBRD of the CFF project?***	Description – based on content analysis of expert opinions	Key informant interviews with key personnel in identified organizations and institutions especially business associations	Potential interviewees identified by CFF Project Team, Evaluation team and USAID. Important to include relevant government ministries in Kosovo especially Ministry of Agriculture	Opinion bias of interviewees as regards what is perceived as a 'result' versus 'impact' Need for clarification of definition of 'impact' i.e. increase in employment of assisted SMEs, increase in sales etc.?
10	***What are the plans of the Norwegian Government and Norfund in terms of the continuation of CFF funding?***	Description – based on content analysis of expert opinions	Key informant interviews with key personnel in both Norwegian Government and Norfund	Interviewees identified by CFF Project Team, Evaluation Team and USAID	None envisaged.
11	***If the CFF were allowed to keep the USG investments to continue with program goals for 5 years after the project end date, what additional impact would likely be realized.***	Description – based on content analysis of expert opinions	Key informant interviews with key personnel in relevant government ministries, partners and farmers	Interviewees identified by CFF Project Team, Evaluation Team and USAID Focus group sessions with farmers	Need for clarification of definition of 'impact' i.e. increase in employment of assisted SMEs, increase in sales etc. or a 'bigger picture' to be considered?
12	***In the view of stakeholders, what alternative investments could USAID make in a similar project that would***	Description – based on content analysis of expert opinions	Key informant interviews with key personnel in relevant	Interviewees identified by CFF Project Team, Evaluation Team and	Opinion bias of interviewees as regards what is perceived

	have a greater impact or would be more likely to achieve "improved access to credit"? ***Since CFF began operations, has Kosovo's financial sector changed sufficiently enough so that reaching the underserved could now be better accomplished by other, more efficient means than an independent institution like CFF?***		government ministries, organizations and institutions	USAID Central Bank, commercial banks, MFIs main target for interviews regarding status of financial sector in Kosovo	'result' versus 'impact'. Need for clarification of definition of 'impact' i.e. increase in employment of assisted SMEs, increase in sales etc.?

GROUP D – SUSTAINABILITY OF CFF

13	***Will the CFF be able to continue serving the clients and at the same time be sustainable (be able to operate and cover its operational expenses) if USAID decides to withdraw its funds at the end of the project?***	Description – based on content analysis of expert opinions and in-depth review and analysis of relevant documentation	Key informant interviews with key personnel in CFF Work plans, annual and quarterly reports and independent audits	Interviewees identified by Evaluation Team but mainly CFF Project Team	None envisaged
14	***Some of the issued loans and leases will mature beyond the end date of the project. If USAID decides to get its funding back, what would be some of the options for addressing the outstanding loans and leases?***	Description – based on content analysis of expert opinions	Key informant interviews with key personnel in CFF Project Team	Interviewees identified by Evaluation Team Question to be raised at focus group sessions for responses from direct beneficiaries esp. SMEs / entrepreneurs in farming communities (i.e. likely impact on	Calls for speculation and not based on verifiable evidence as future unpredictable

				them)	
15	***What recommendations could be made about future programs in this sector?***	Description – based on content analysis of expert opinions	Key informant interviews with key personnel in CFF Project Team and above-mentioned key stakeholders	Interviewees identified by Evaluation Team Question to be raised at focus group sessions for responses from direct beneficiaries esp. SMEs / entrepreneurs in farming communities (i.e. likely impact on them)	Need to clarify sector – agriculture exclusively in line with 2010 Cooperative Agreement Amendment?

ANNEX C:

LIST OF INTERVIEWEES

Evaluation of the USAID – CFF project
List of Meetings

	CONTACT PERSON	POSITION	ORGANISATION	LOCATION	DATE	TIME
1	Melita Cacaj (+)	Monitoring and Evaluation Specialist	USAID	US Office	10.03.2014	08:30
2	Michael Gold	CEO	CFF	CFF Office	10.03.2014	10:00
3	Peonare Caka Adil Behramaj Ramadan Gagica (?)	Political Advisor Spokesperson Chief of the Minister' Cabinet	Ministry of Agriculture, Forestry and Rural Development	MAFRD	11.03.2014	08:15
4	Jan Braathu	Ambassador	Norwegian Embassy + NORFUND	Embassy	11.03.2014	09:30
5	David Greer	COP	USAID Kosovo Contract Law Enfrocement Program (CLE)	Central Room Bar	11.03.2014	11:15
6	Milazim Morina	CEO	Lesna Financial Institution (NBFI)	Lesna HQ Office	11.03.2014	13:00
7	Mirsad Haliti	Head of Credit Risk Management	ProCredit Bank	ProCredit HQ	11.03.2014	15:00
8	Arsim Aziri	Program Officer, Head of administration	Austrian Development Agency	ADA Office	11.03.2014	16:30
9	Arian Zeka	Executive Director	American Chamber of Commerce of Kosovo	ACCK Office	12.03.2014	08:00
10	Shkendije Himaj Suzan Dervari	Advisor to Executive Board. Director of Licensing of Financial Institutions.	Central Bank of Kosovo	CBK Office	12.03.2014	9:30
11	Robert Wright	CEO	Raiffeisen Bank	Raiffeisen Bank HQ	12.03.2014	11:00
12	Agim Demukaj	Country Economist	World Bank Kosovo	WBK Office	12.03.2014	13:00
13	Arjeta Vula	Executive Director	Wood Processors' Asociation	Hotel	12.03.2014	16:30

ISTOG Client Visit Interviews						
14	Dekor Plast	Muharem Nekaj, Owner	Manufacturing/Production (not including food processing and construction/building materials)	Istog/Peje	13.03.2014	
15	Bujku BB	Hajrije Bujupi, Owner	Agriculture/Food Processing (including input suppliers)	Istog/Peje	13.03.2014	
16	Agroprodukt Syne	Halit Avdija, Manager	Agriculture/Food Processing (including input suppliers)	Syne/Istog/Peje	13.03.2014	
17	Abacus	Naim Shatri, Owner	Agriculture/Food Processing (including input suppliers)	Dubrav/Istog/Peje	13.03.2014	
PRISHTINA Focus Group						
18	DDD n.sh.p (Public Service Enterprise)	Shaip Berisha	Veterinary Services	Podujeva	13.03.2014	
19	KIT Kosova Information Technology	Luftar Braha	ICT (incl. internet, telecommications, hardware, software, sales, consulting, repair, etc.)	Prishtina	13.03.2014	
20	MPR & Consulting	Agim Zuzaku	Services (not including ICT and construction. Including tourism, hospitality, restaurants, consulting, professional services, etc.)	Prishtina	13.03.2014	
21	ESG	Ekrem sadiku	Services (not including ICT and construction. Including tourism, hospitality, restaurants, consulting, professional services, etc.)	Prishtina	13.03.2014	
22	CONEX Group l.l.c	Vigan Syla – Manager	Construction, Construction Services, and Building Materials	Prishtina	13.03.2014	
23	Sinani ING	Haradin Krasniqi	Construction, Construction Services, and Building Materials	Prishtina	13.03.2014	
24	Kosnatura l.l.c	Dejan Cosic	Agriculture/Food Processing (including input suppliers)	Gracanica	13.03.2014	
25	Rikotta NGO	Erda Bullaku		Prishtina	13.03.2014	
26	Lepina	Slobodan Nicic	Cattle/Calves (for millking/slaughter)	Gracanica/ Lepinje	13.03.2014	Client Visit

27	Dingi Farm	Ivan Joksimovic	Cattle/Calves (for slaughter)	Gracanica	13.03.2014	Client Visit
28	Ferma Iliri	Isuf Brajshori	Cattle/Calves (for milking)	Sharban	13.03.2014	Client Visit
PEJA Focus Group						
29	Artan Gashi	Director of Economy	Municipality of Peja, Department of Economy	Peja	14.03.2014	
30	Mehdi Mulaj	Director of Agriculture	Municipality of Peja, Department of Agriculture	Peja	14.03.2014	
31	Venera	Miradije Gashi	Women NGO	Peja	14.03.2014	
32	Agro Veselaj	Muhamet Veselaj	Agriculture/Food Processing (including input suppliers)	Peja/Istog/ Gurrakoc	14.03.2014	
33	Agroservis IP	Ismet Podimaj	Agriculture/Food Processing (including input suppliers)	Peja/Istog	14.03.2014	
34	Besi Impex	Esat Fetahi	Agriculture/Food Processing (including input suppliers)	Istog/ Kovrag	14.03.2014	
35	Devolli Company		Agriculture/Food Processing (including input suppliers)	Peja Istog	14.03.2014	
36	Dekor Drilon	Besnik Loshi	Construction, Construction Services, and Building Materials	Peja/Istog /Padalisht	14.03.2014	
37	Dekor Plast	Muharem Nekaj	Manufacturing/Production (not including food processing and construction/building materials)	Peja/Istog	14.03.2014	
38	H-Fetahaj	Haki Fetahaj	Trade/Import/Export/Distribution/Wholesale	Peja/Istog	14.03.2014	
39	Memoris	Zoje Zeqiraj	Trade/Import/Export/Distribution/Wholesale	Peja /Istog	14.03.2014	
40	DPT "Spahija"	Sylejman Spahija	Trade/Import/Export/Distribution/Wholesale	Peja	14.03.2014	
41	LE-Color	Luan Lipa	Services (not including ICT and construction. Including tourism, hospitality, restaurants, consulting, professional services, etc.)	Peja	14.03.2014	

42	Palatini	Avdyl Demiraj	Construction, Construction Services, and Building Materials	Peja Istog	14.03.2014	
43	BUJANI SHOP	Ahmet Muhagjeri	Manufacturing/Production (not including food processing and construction/building materials)	Peja	14.03.2014	Client Visit
44	Menti	Islam Shoshi	Construction, Construction Services, and Building Materials	Peja/Banja	14.03.2014	Client Visit
PRISHTINA Client Visit Interviews						
45	EUROTERM	Halil Krusha	Heating appliances Wholesale	Prishtina	14.03.2014	
46	Albioni Comerce	Fatmir Haxhiu	Perambulators & Children's Accessories/ Wholesale & Retails	Prishtina	14.03.2014	
47	Penelope	Lendita Rexhepi	Women's jewellery & accessories/Retail	Prishtina	14.03.2014	
48	Kosnatura	Dejan Cosic	Processing of Fruit & Vegetables	Gracanica	14.03.2014	
MALISHEVA/SUHAREKA Client Visit Interviews						
49	Lima Plast	Bujar Shala	Construction, Construction Services, and Building Materials	MALISHEVA	17.03.2014	
50	Xhela	Avni Shala	Construction, Construction Services, and Building Materials	MALISHEVA	17.03.2014	
51	Standart Plus Plast/Wood	Dashamir Limaj	Construction, Construction Services, and Building Materials	MALISHEVA	17.03.2014	
52	Ermali Quarry	Remzi Jakupi	Construction, Construction Services, and Building Materials	SUHAREKA	17.03.2014	
53	Kosova Eruptive	Avdi Jakupi	Construction, Construction Services, and Building Materials	SUHAREKA	17.03.2014	
GJILAN Focus Group						
54	Ostergllava n.t.p	Agim Ostergllava		Pozherami	17.03.2014	

55	El-Bau l.l.c	Suad Pireva		Gjilan	17.03.2014	
56	Dritoni d.p.z	Jeton Mehmeti		Str. Murat Kryeziu 48.	17.03.2014	
57	Magjistrala l.l.c	Fatlum Pireva	Road construction	Str. Qeika Nato	17.03.2014	
58	Behatchi d.z	Abedin Bunjaku		Str. Bujanovci	17.03.2014	
59	Riza-Trans n.t.t	Riza Avdyli		Livoq i Ulet – Gjilan	17.03.2014	
60	MOEA l.l.c	Armend Malazogu		Gjilan	17.03.2014	
61	Etlinger	Tahir Kokollani	Vegetable & Fruit Processing	Shtimje	17.03.2014	Client Visit
62	ASK Foods	Aton Namoni	Agriculture/Vegetable & Fruit Processing	Gjilan	17.03.2014	Client Visit
RAHOVEC Focus Group						
63	Women's Association Fjolla	Nurije Gashi	Food Processing and Wholesale	Bellacerke, Rahovec	18.03.2014	
64	Individual (non business/association)	Feride Shehu	Honey Production and Agriculture	Krushe e Vogel, Rahovec	18.03.2014	
65	OSA Termosistem	Selami Osa	Production of cooling/heating device	Bernjak, Rahovec	18.03.2014	
66	Stonecastle	Ismet Hulaj	Vineyards and Wine Production	Rahovec	18.03.2014	
67	Bodrumi i Vjeter	Halim Haxhi Jaha	Wine Production	Rahovec	18.03.2014	
Gjilan Client Visit Interviews						
68	MOEA	Isuf Brajshori	Cattle/Calves (for milking)	Gjilan	18.03.2014	
69	Magjistrala	Adil Pireva	Road construction	Gjilan	18.03.2014	

70	USAID	USAID	USAID	USAID Office	19.03.2014	08:30
71	Xhemajl Syla	Head of Division	Business Support Development Division, SME Support Agency, Ministry of Trade and Industry	MTI Office	19.03.2014	10:30
72	Mark Woods	Chief of Party	New Opportunities for Agriculture	NOA Office	19.03.2014	13:00
73	Arianit Blakaj	Senior Analyst	EBRD Kosovo	EBRD Office	19.03.2014	14:30
74	Hashim Sejdiu	CCO Member of Management Board	KEP Trust, MFI	KEP office	19.03.2014	16:00
75	Fatmir Imami	Head	AFK Kosovo Finance Agency, MFI	Restaurant Pishat	20.03.2014	09:30
76	Ardian Kastrati	Chief Operating Officer	FINCA	FINCA Offices	21.03.2014	08:45
77	Lulzim Sadiku	CEO	KRK	KRK Offices	21.03.2014	10:00
78	Adnan Ibrahimi Milot Kadria	Chief of SME Department Supervisor of SME Loans	TEB	TEB	25.03.2014	14:00
79	Vehbi Zeqiri	Executive Director	START MFI	START MFI	25.03.2014	15:30

ANNEX D:

LIST OF DOCUMENTS REVIEWED

CFF Documentation

Work Plans	
Name of Document	**Date**
CFF Year 1 Annual Work Plan	July 2008 – June 2009
CFF Year 2 Annual Work Plan	July 2009 – June 2010
CFF Year 3 Annual Work Plan	July 2010 – June 2011
CFF Year 4 Annual Work Plan	July 2011 – June 2012
CFF Year 5 Annual Work Plan	July 2012 – June 2103
CFF Year 5 Annual Work Plan	July 2013 – June 2014

Annual Reports	
Name of Document	**Date**
CFF Annual Report	July 2008 – June 2009
CFF Annual Report	July 2009 – June 2010
CFF Annual Report	July 2011 – June 2012
CFF Annual Report	July 2012 – June 2013

Quarterly Reports	
Name of Document	**Date**
CFF Quarterly Report	July – Sept 2013
CFF Quarterly Report	Jan – March 2009
CFF Quarterly Report	Jan – March 2010
CFF Quarterly Report	Jan – March 2011
CFF Quarterly Report	Jan – March 2012
CFF Quarterly Report	Jan – March 2103
CFF Quarterly Report	July – Sept 2008
CFF Quarterly Report	July – Sept 2009
	July – Sept 2010
CFF Quarterly Report	July – Sept 2011
CFF Quarterly Report	July – Sept 2012
CFF Quarterly Report	Oct – Dec 2008
CFF Quarterly Report	Oct – Dec 2009
CFF Quarterly Report	Oct – Dec 2010
CFF Quarterly Report	Oct – Dec 2011
CFF Quarterly Report	Oct – Dec 2012

Project Papers	
Name of Document	**Date**
IFRS Audits	2008 -2012
CFF Financial Statement	Jan – Dec 2013
USAID Modification of Assistance	2010
USAID / Crimson Cooperative Agreement	2008
CFF Credit Policy & Procedures Manual	2011
Crimson SME Finance Fund	Deccember 2013

Other documents

Name of Document	Date
Kosovo Microfinmance Report – Triados Fecet	2012
American Chamber of Commerce Annual Report	2013
Ministry of Agriculture, Forestry & Rural Development Green Report	December 2103
American Chamber of Commerce – Facilitating Business in Kosovo	Bi-Annual Magazine

ANNEX E:

OVERALL MONITORING & EVALUATION MATRIX

ANNEX E

	Indicators	Target	Plan [i] (000's)	Actual[ii] (ooo's)	Source(s) of Verification	Comments/ Reasons for Deviation (if any)
CFF Overall Monitoring and Evaluation Matrix Period of Performance: July 2008 – December 2014 (original $700,000) Period of Performance: November 2010 – December 2014 (extra $1.5m)						
1	Total Loans Disbursed	Original target to fund $0.7m	3,340	3,513	CFF Work Plans, Quarterly & Annual Reports + External Audited Accounts	In terms of loans disbursed including upwardly revised targets initiated by CFF, total target already exceeded by December 2013.
		Revised targets to fund $0.7m	--	--		
		Additional $1.5m	3,100	2,969		
		Total	6,400	6,483		
2	Sales Created	Original target to fund $0.7m	32,000	30,657	CFF Work Plans, Quarterly & Annual Reports + External Audited Accounts	On a cumulative basis and based on year-on-year results, these figures suggest that CFF is on-track to achieve or exceed original & upwardly revised targets.
		Revised targets to fund $0.7m	--	--		
		Additional $1.5m	12,000	9,663		
		Total	44,000	40,320		
3	No. of Jobs Created	Original target to fund $0.7m	225	234	CFF Work Plans, Quarterly & Annual Reports + External Audited Accounts	On a cumulative basis and based on yea-on-year results, these figures suggest that CFF is on-track to achieve or exceed original & upwardly revised targets.
		Revised targets to fund $0.7m	--	--		
		Additional $1.5m	1,700	1,472		
		Total	1,925	1,706		
4.	Loans to Women / Minorities	Original target to fund $0.7m	11	12	CFF Work Plans, Quarterly & Annual Reports + External Audited Accounts	Total target already achieved.
		Revised targets to fund $0.7m	--	--		
		Additional $1.5m	20	19		
		Total	31	31		

i Figures to June 2104
[ii] Figures to December 2013

ANNEX F:

ANNUAL PERFORMANCE MATRIX

CFF Annual Performance Matrix

Planned vs Actual Results

Period of Performance: July 2008 – December 2014 (based on original $700,000 from USAID)

Period of Performance: November 2010 – December 2014 (based on extra $1.5m from USAID)

Figures in '000 $

	Indicators		July 2008 – June 2009 (000's)		July 2009 – June 2010 (000's)		July 2010 – June 2011 (000's)		July 2011 – June 2012 (000's)		July 2012 – June 2013 (000's)		July 2013 – June 2014 (000's)	
			CFF		CFF		CFF		CFF		CFF		CFF	
			P	A	P	A	P	A	P	A	P	A	P 12 months	A only 6 months to Dec
1	**Total Loans Disbursed**	Original targets to fund 0.7 mil	560	573	1,330	1,643	2,090		2,900		3,250	3,069	3,340	3,513
		Revised targets to fund 0.7 mil					2,500	2,556	3,000	2,807				
		Additional 1.5 mil					1,500	1,456	2,250	1,788	2,800	2,318	3,100	2,969
		Total	**560**	**573**	**1,330**	**1,643**	**4,000**	**4,012**	**5,250**	**4,595**	**6,050**	**5,387**	**6,440**	**6,483**
2	**Sales Created**	Original targets to fund 0.7 mil	600	1,565	1,730	17,327	2,720		3,900		30,000	30,203	32,000	30,657
		Revised targets to fund 0.7 mil					17,500	26,103	22,000	29,395				
		Additional 1.5 mil					1,500	2,000	7,500	5,258	9,000	9,380	12,000	9,663
		Total	**600**	**1,565**	**1,730**	**17,327**	**19,000**	**28,103**	**29,500**	**34,653**	**39,000**	**39,583**	**44,000**	**40,320**
3	**No. of Jobs Created**	Original targets to fund 0.7 mil	20	57	85	141	135		190	144	200	185	225	234
		Revised targets to fund 0.7 mil					175	130						
		Additional 1.5 mil					100	212	200	1,371	500	1,443	1,700	1,472
		Total	**20**	**57**	**85**	**141**	**275**	**342**	**390**	**1,515**	**700**	**1,628**	**1,925**	**1,706**
4	**Loans to Women / Minorities**	Original targets to fund 0.7 mil	2	1	3	5	5		8	9	11	10	11	12
		Revised targets to fund 0.7 mil					7	8						
		Additional 1.5 mil						8		15	16	17	20	19
		Total	**2**	**1**	**3**	**5**	**12**	**16**	**8**	**24**	**27**	**27**	**31**	**31**

ANNEX G:

ILLUSTRATIVE INTERVIEWEE QUESTIONNAIRES

INTERVIEWEE QUESTIONNAIRE FOR FOCUS GROUPS CONSISTING OF BUSINESSES (CFF BORROWERS & NON-BORROWERS)

Background Information of Interviewee		
1	Name of interviewee/Gender (?) /Minority Group (?)	
2	Name of company	
3	Main activities of company/Industry Sector	
4	Position of person interviewed	
5	Region and district of the company	
6	Legal status of company	
7	When company was established	
8	Financing Institution (if not CFF) /Yr from which company has relationship with FI	

SOW Evaluation Questions: 1, 4, 8, 12, 14, 15
Q1. Icebreaker question: What is your business dream and how important is loan finance in its fulfillment?
A.1
Q.2 Is your enterprise part of an association or business cluster and what is the extent of your trade linkages with other local enterprises in your industry?
A.2
Q.3 What problems have you faced in obtaining business finance from FIs? (Note to interviewer: Eg. Interest rate, Loan set up costs, Size of loan, Repayment schedule, Term, Collateral requirement, Complexity of application, Timeframe for arranging finance, Sector & Know-how of loan officers, Gender, Business location, Other?). Note, FI = Financing Institution

A.3
Q.4 Which of the discussed problems are now eliminated or much less of an obstacle?
A.4
Q.5 Why did you choose to do business with the FI from which you borrowed? (Note, in case of CFF borrowers, refer to FI as CFF)
A.5
Q.6 If you are using lease finance, how effective has this been in addressing the financing needs of your business? Do you plan to continue using this form of finance? Note: Only for lease finance users
A.6
Q.7 In reality, how well does the service and financing provided by the FI meet your expectations and requirements of your business? How has this evolved since you started doing business with the financing institution?
A.7
Q.8 Are there any features of the financing services you were provided with that you would like to see improved?
A.8
Q.9 Please provide examples of how the business finance provided help you improve your business? (Note for interviewer: Eg. Sales & Profitability, Liquidity, Increasing capacity through workforce expansion, Productivity improvement, Product development, Access to new markets, Export markets, Compliance with Environmental requirements, Other?)
A.9

Q.10 What is your view of FI' services and the availability of the financial products discussed on the development of your industry? Do you know how it has affected other local companies with which you have trade linkages? Note: This is to explore value-chain/industry strengthening effects
A.10
Q11 How important is it for your business for CFF's services to continue in future, and what additional impact do you think this would have on its development? Note: For CFF borrowers only
A.11
Q.12 What would have been the impact on your business if CFF had not existed? **Note: For CFF borrowers only**
A.12

INTERVIEWEE QUESTIONNAIRE FOR CFF PROJECT TEAM

Background Information of Interviewee		
1	Name of interviewee	
2	Position of person interviewed	

SOW Evaluation Questions: All
Q.1 What methods were employed to identify and reach potential clients for CFF loans?
A.1
Q.2 Has CFF helped to make borrowers 'bankable'? If yes, can you provide evidence or give examples?
A.2
Q.3 How have operating expenses been pro-rated between USAID & Norwegian funds?
A.3
Q.4 What has been CFF's experience with leasing? Successful take-up or not by clients?
A.4
Q.5 What is the current default rate on loans?
A.5
Q.6 What is the cost-income ratio of CFF?
A.6

Q.7 What are the specific challenges that CFF has encounterd in delivering its mandate?

A.7

Q.8 If CFF wwas allowed to keep USG investments for another 5 years what would would be the likely impact on the financial sector in Kosovo and to its target audience?

A.8

Q.9 If USAID decides to withdraw its investment at the end of the project would CFF be sustainable on its own?

A.9

Q.10 Some of CFF's loans and leases will mature beyond the date of the project. If USAID withdraws its investment what measures would CFF take to address outstanding loans and leases?

A.10

INTERVIEWEE QUESTIONNAIRE FOR FINANCIAL INSTITUTIONS

Background Information of Interviewee		
1	Name of interviewee	
2	Name of institution	
3	Main activities of institution	
4	Position of person interviewed	
5	Region and district of the institution	
6	Legal status of institution	
7	When institution was established	
8	Nature of institutions relationship with CFF	

SOW Evaluation Questions: 4, 7, 8, 9, 11,12, 13, 14
Q.1 How successful has the CFF Project been in reaching thoses businesses who would normally have difficulty in obtaining development finance from traditional sources?
A.1
Q.2 To what extent do interest rates and collateral requirements affect ability of entrepreneurs / SMEs obtain development loans? In your experience has CFF performed better than other financial institutions?
A.2
Q.3 What is your opinion regarding financial leases for SMEs and especially farmers in terms of the challenges associated with such a product?
A.3

Q.4 What has been your direct / indirect experience of the CFF Project and what is your perception as to how it has influenced the financial sector in Kosovo?
A.4
Q.5 If CFF's mandate was extended for another 5 years after the current project end date what impact do you believe this would have on the financial sector in Kosovo?
A.5
Q.6 In your opinion what alternative investments could USAID make that might have a greater impact than CFF in terms of improving 'access to finance'?
A.6
Q.7 Has the financial sector in Kosovo changed sufficiently since 2008 so that reaching the underserved could be more effectively accomplished other than by CFF?
A.7
Q.8 If USAID decides to withdraw its funds at the end of the project do you believe that CFF would be sustainable and still able to serve its clients?
A.8
Q.9 If USAID decides to withdraw its funds from CFF what in your opinion would happen to those businesses with outstanding loan repayments or holding leases?
A.9

INTERVIEWEE QUESTIONNAIRE FOR STAKEHOLDERS

Background Information of Interviewee		
1	Name of interviewee	
2	Name of institution	
3	Main activities of institution	
4	Position of person interviewed	
5	Region and district of the institution	
6	Legal status of institution	
7	When institution was established	
8	Nature of institutions relationship with CFF	

SOW Evaluation Questions: 1, 3, 4, 8, 9,11, 12, , 7, 8, 9, 11,12, 14
Q. 1 Has anything changed in the past few years in access to finance by businesses and specific types of borrowers (incl. women entrepreneurs, minority groups) that normally have difficulty in obtaining funding from traditional lending sources?
A.1
Q.2 What has been your direct/indirect experience of the CFF Project and its impact on access to finance to Kosovo entrepreneurs/SMEs, and competitiveness of domestic industries? How has it influenced the financial sector in Kosovo? **Note: If lease finance is not mentioned in replies, ask opinion regarding the effectiveness of lease finance for SMEs and especially farmers.**
A.2

Q.3 If you are familiar with the CFF Project's goals/specific targets, do you believe they are being achieved or not? What are the main factors affecting the outcomes you describe?
A.3
Q.4 If CFF's mandate was extended for another 5 years after the current project end date, what impact do you believe this would have on the enterprise and financial sectors respectively?
A.4
Q.5 In your opinion what alternative investments could USAID make that might have a greater impact than CFF in terms of improving 'access to finance'?
A.5
Q.6 Has the financial sector in Kosovo changed sufficiently since 2008 so that reaching the underserved could be more effectively accomplished other than by CFF?
A.6
Q.7 If USAID decides to get its funding back, what would be some of the options for addressing the outstanding loans and leases?
A.7
Q.8 What recommendations could be made about the future programs in this the area of SME financing?
A.8

INTERVIEWEE QUESTIONNAIRE FOR NORWEGIANS

Background Information of Interviewee

1	Name of interviewee	
2	Name of institution	
3	Main activities of institution	
4	Position of person interviewed	
5	Region and district of the institution	
6	Legal status of institution	
7	When institution was established	
8	Nature of institutions relationship with CFF	

SOW Evaluation Questions: All

Q.1 What role does Norwegian Government / NORFUND have in implementing CFF and what expectations do they have at the end of the project?
A.1
Q.2 Is the project on track to achieve its objectives at the end of the project?
A.2

Q.3 In 2008, 2010 and 2013 you gave an additional $3.2m to CFF for lending. What was the rational for providing this money and who initiated it?
A.3
Q.4 How successful has the CFF Project been in reaching thoses businesses who would normally have difficulty in obtaining development finance from traditional sources?
A.4
Q.5 Have the operating expenses of CFF been pro-rated between USAID and Norwegian funds?
A.5
Q.6 In your opinion what alternative investments could USAID make that might have a greater impact than CFF in terms of improving 'access to finance'?
A.6
Q.7 Has the financial sector in Kosovo changed sufficiently since 2008 so that reaching the underserved could be more effectively accomplished other than by CFF?
A.7
Q.8 If USAID decides to withdraw its funds at the end of the project do you believe that CFF would be sustainable and still able to serve its clients?
A.8
Q.9 If USAID decides to withdraw its funds from CFF what in your opinion would happen to those businesses with outstanding loan repayments or holding leases?
A.9

Q.10 What is your opinion regarding financial leases for SMEs and especially farmers in terms of the challenges associated with such a product?
A.10
Q.11 If CFF's mandate was extended for another 5 years after the current project end date what impact do you believe this would have on the financial sector in Kosovo? Would you continue contributing towards funding CFF?
A.11