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PROJECT APPRAISAL DOCUMENT EVALUATION REPORT

September 2017

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PROJECT APPRAISAL DOCUMENT EVALUATION

Evaluation Report

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EXECUTIVE SUMMARY

The PAD Evaluation assessed how the various component activities under the Economic Growth Development Objective (DO2) Project Appraisal Document (PAD) performed and the extent to which they achieved the DO2 goals, intermediate results (IRs), and sub-intermediate results (Sub-IRs), relating to the Kosovo business environment and economic governance, small and medium-sized enterprise (SME) competitiveness and job-creation, and access to finance activities.

The evaluation did not analyze in-depth the full range of results for each activity, but rather looked at how they combined to achieve the Project's objectives, including coordination between relevant United States Agency for International Development (USAID) activities, as well as cooperation with the Government of Kosovo's institutions and multilateral and bilateral donors. The evaluation answered a number of key evaluation questions, which USAID/Kosovo organized into three blocks.

The first block related to the PAD Project's performance, results achieved, and any gaps that USAID would need to address; the second focused on the Project's coordination; and the third focused on and anticipated the type of support that USAID could address in the future. The responses to these questions provide input to develop the new Country Development Cooperation Strategy (CDCS) and related economic growth PAD.

In summary, the Evaluation reached the following conclusions:

- The PAD Project activities are implementing the Kosovo CDCS for DO2, performing in accordance with expectations and even exceeding targets in some cases. The Project's components collectively tackle many DO2 objectives through increasing private sector employment, increasing tax revenues, encouraging investment by SMEs, contributing to growing sales and exports, and creating jobs.
- The enterprise survey indicates notable differences in workforce growth between the PAD activity beneficiary and comparison groups respectively, which reinforces the view that these activities made a useful contribution to workforce growth in Kosovo. A comparison of export sales indicate that in terms of export shares in EU markets, PAD beneficiaries appear to have twice that of the comparison group.
- Both the Government of Kosovo and SME beneficiaries stated that they benefited from the PAD Projects because of the close partnership in implementing important reforms, and improving competitiveness of enterprises by introducing new technologies, as well as creating market linkages to increase sales and exports. SMEs valued market linkages and considered these to be more important than grants.
- Whether through formal or informal mechanisms, PAD Activities to date have coordinated and collaborated with a wide range of stakeholders, whether with USAID implementing partners or with other multilateral or bilateral organizations, thereby avoiding duplication of interventions, although it is possible to find examples of donors working in the same area without cooperation. PAD activities have excelled at developing good working relationships with Government of Kosovo beneficiaries and stakeholders, with Partnerships for Development (PFD) having the greatest exposure to them.
- The main PAD Project's competitiveness and job creation activities, EMPOWER PS and AGRO, were not designed to address challenges with respect to women or minority enterprises or job creation; however, both have cooperated with minor PAD Project activities, namely the Kosovo Cluster Business Support (KCBS) activities specially designed to tackle minority business development in North Kosovo, as well as the DOI Advancing Kosovo Together (AKT)

activities. However, the evaluation team found that there is a need to improve mechanisms by all donors working in this area to develop long-term solutions that provide these communities with the means to achieve economic outcomes without increasing their dependence on handouts.

- The PAD Project has successfully targeted a number of sectors in manufacturing, services, and agriculture that include growing enterprises contributing to import substitution (apparel, agricultural products) and exports (information technology, furniture). There are opportunities to develop SMEs in other sectors, such as renewable energy and recycling, which to some extent is covered by the EMPOWER renewable energy sector beneficiary enterprises. Metal processing and tourism have not benefited as much, although there may be potential to develop them in collaboration with other donors who are also working within these sectors, namely the European Union and Swiss. Metal processing, which was not directly referred to in the initial sector study carried out by EMPOWER, and tourism have not benefited as much, although tourism had shown greater potential for sales and jobs growth in the EMPOWER sector selection report. There may, however, be potential to develop them further, possibly through cooperation with other donor projects. Much remains to be done to develop and enhance the agribusiness value-chains, which should be continued with few exceptions (such as lettuce and asparagus). New agricultural value chains have been developed, such as raspberries, which are catalyzing development of a much stronger agribusiness industry for which AGRO is the flagship.
- PAD activities have targeted the right markets in the EU and there is scope for expansion through meeting the technical and consumer requirements of specific geographical markets. New market opportunities, for example in the Middle East remain to be explored.
- Future focus on strengthening Business to Business (B2B) links with diaspora businesses likely will yield better results in attracting investment and increasing sales and exports, compared to initiatives to attract diaspora funding or sell investment bonds, because Kosovo has no risk rating.

The evaluation team makes the recommendations presented below:

Improve linkage between Activity IR and Project Results. The direct relevance of a few of the Mission-level IRs are not directly related to the activities. For example, the links between Foreign Direct Investment and the PAD activities is weak and it is difficult to establish relationships between the activity results and the FDI IR DO 2.1. Thus, in future activities, it would be useful to improve the linkages between IRs and activity results. Furthermore, there is a need to revise targets to reflect actual achievement (for example, hectare targets remained quite low compared with achievement). In setting job-creation targets, USAID should consider the fact that there are often lag effects, since particularly for manufacturing industries, which are easier to automate than agricultural production, new technologies may reduce the need for labor for a period until an SME grows to a scale requiring an increase. These changes, however, may not always occur in the same year that investment takes place.

Move away from grants for enterprises. Discussions with beneficiaries point to the popularity of grants, whereas at the same time there is some evidence that firms consider this as useful but not an absolute necessity. Moreover, good businesses are now able to borrow funds easier with the availability of credit guarantees. Thus, USAID projects should consider transitioning away from grants to support enterprise activities investment for the aforementioned reasons, but also because the EU's support mechanism will come into play to support SMEs. Such support already exists for agribusiness. USAID

should consider supporting future projects using grants primarily for transferring technical knowledge and expertise in areas such as modern technologies, certification needs, and market linkages. USAID should continue to provide grants mainly to business associations primarily to help them improve and develop new fee generating services that lead to sustainable business support. USAID should prioritize applicants seeking EU funding in making sound applications.

Future project challenges. The PAD Project faces a significant number of important challenges that USAID should address in future projects to maintain momentum on current reforms and developments and to supplement or complement the initiatives of other donors. USAID should consider the following: continue the World Bank Doing Business coordination and reform support, which is a recognized international benchmarking approach for creating a conducive environment for doing business, in order to achieve further improvement in targeted topics, including legalization and construction reform; support trade policy and implementation to complement assistance to build international trade capacity of enterprises; establish effective inter-governmental coordination mechanisms; further reforms in the area of public finance management (PFM); support tax policy reform; promote effective investment linked to development of government capacity to service investors; strengthen the development of MAS-Q (i.e. quality infrastructure), in cooperation with EU and European bilateral projects to address the conformity assessment challenges faced by business; strengthen business associations so they become sustainable through delivering needed fee-based services to members; invest in workforce development to match industry needs; and continue efforts to improve access to SME finance by developing the Kosovo Credit Guarantee Fund.^{1 2}

Collaboration. Future PAD activities should continue to apply a mix of formal and informal mechanisms for collaboration between USAID activities, and to explore opportunities for even more effective cooperation and collaboration with donors, including the EU, which in the coming years will make available new instruments for enterprise development. The coordination should ensure that there is complementarity of activities.

Support to minorities. USAID should consider building a long-term component strategy within the CDCS to support local organizations within minority communities to work in concert with the government and other donor programs. These organizations will act as the ‘tip of the spear,’ strengthening the support ecosystem facilitating economic growth.

Value chains. The Future competitiveness activities should prioritize new industries, such as recycling, which is growing in importance worldwide for ecological and conservation reasons and provides opportunities in Kosovo given the existence of waste that can be utilized. USAID could also prioritize start-ups in the higher technology sector, such as information technology (IT), since they will have potential to grow and generate jobs. USAID should discontinue support for value chains that have plateaued with little prospects of further growth (lettuce and asparagus), and limit support to relatively well-developed value-chains (dairy); such support should be based primarily on self-sustainable support

¹ Considerable research has been done to correlate WB DB reforms with economic growth. For example, information may be found in: <http://www.cipe.org/publications/detail/impact-business-environment-reforms-new-firm-creation>. Business Regulations and Growth by Raian Divanbeigi and Rita Ramalho, World Bank Group Policy Research Paper, 2015

² MAS-Q. Metrology, Accreditation, Standards-Quality. See: http://pdf.usaid.gov/pdf_docs/Pnadb635.pdf

from embedded business support organizations. Tourism could potentially be further strengthened according to stakeholders in the industry and trends in the region, but USAID could also withdraw from this sector if other donor projects, such as the Swiss project Promoting Private Sector Employment (PPSE), are addressing it better. USAID should give further consideration to metal-processing, specifically investigating prospects to strengthen this industry as a potential supplier of parts and components for domestic industries and export markets.

New markets. Future export market expansion should build upon the inroads made into existing markets since there is sufficiently large potential. Efforts to establish market linkages should be continued, as it strengthens the position in EU markets, as well as creates inroads into new markets such as those in the Middle East. Building markets is a long-term project and the assistance provided by future projects should combine ambitious targets for goals that are achievable within a five-year timeline with longer term goals that will extend beyond the life-of-project (LOP).

B2B facilitation with diaspora resources as a way of encouraging investment and partnerships. It would be prudent to wait until Kosovo achieves a risk rating from one or more of the reputable international agencies, as well as improves its public institutional capacity to tackle foreign direct investment (FDI), and before undertaking donor supported initiatives aimed at attracting investment funding from foreign or diaspora investors. However, the evaluation team recommends that USAID focus on strengthening B2B links with diaspora businesses in the future because these can be an avenue to attract investment, as well as increase exports and business projects with foreign partners.

ACRONYMS AND ABBREVIATIONS

AGRO	Agricultural Growth and Rural Opportunities	DO	Development Objective
AKT	Advancing Kosovo Together	DCA	Development Credit Authority
Amcham	American Chamber of Commerce	EBRD	European Bank for Reconstruction and Development
ASK	Kosovo Statistical Agency	E&E	Europe and Eurasia
ATTA	Adventure Travel Trade Association	EIB	European Investment Bank
AWPK	Kosovo Wood Processors Association	EMPOWER PS	EMPOWER Private Sector
B2B	Business to Business	EU	European Union
BEE	Business Enabling Environment	EYE	Enhancing Youth Employment
BEEP	Business Enabling Environment Program	FDI	Foreign Direct Investment
BSOs	Business Support Organizations	FGDs	Focus Group Discussions
CDCS	Country Development Cooperation Strategy	FTE	Full Time Equivalent
CEFTA	Central European Free Trade Agreement	G2G	Government to Government
CEO	Chief Executive Officer	GAP	Global Good Agricultural Practice
CLE	Contract Law Enforcement	GDP	Gross Domestic Product
CFF	Crimson Finance Fund	GIZ	Gesellschaft für Internationale Zusammenarbeit
CMT	Cut-Make-Trim	GNI	Gross National Income
CNC	Computer Numerical Control	GoK	Government of Kosovo
COP	Chief of Party	HA	Hectares
ICT	Information and Communication	PPPs	Public Private Partnerships

Technology

IFC	International Finance Corporation	PPSE	Promoting Private Sector Employment
IFI	International Financial Institution	SAA	Stabilization and Association Agreement
MCC	Millennium Challenge Corporation	SBA	Stand-By Arrangement
MESP	Ministry of Environment and Spatial Planning	SDC	Swiss Agency for Development and Cooperation
MM	Mixed Methods	SIDA	Swedish International Cooperation Development Agency
MOA	Ministry of Agriculture, Forestry and Rural Development	SME	Small and Medium-sized Enterprises
MoF	Ministry of Finance	SPs	Strategic Partners
MSME	Micro, Small and Medium Enterprises	TA	Technical Assistance
MTI	Ministry of Trade and Industry	TAK	Tax Administration of Kosovo
NATO	North Atlantic Treaty Organization	TEB Bank	Türk Ekonomi Bankası Bank
NBFI	Non-Bank Financial Institutions	UNDP	United Nations Development Programme
NCED	National Council for Economic Development	VAT	Value-Added Tax
NOA	New Opportunities for Agriculture	VET	Vocational Education and Training
PAD	Project Appraisal Document	WB	World Bank
PFD	Partnerships for Development	WBDB	World Bank Doing Business
PFM	Public Financial Management	WD-EDIF	Western Balkan Enterprise Development and Innovation Facility
PMP	Performance Management Plan	WTO	World Trade Organization

I. INTRODUCTION

I.1 PROJECT APPRAISAL DOCUMENT (PAD) EVALUATION DESCRIPTION

Kosovo's economic development is currently guided by a five-year (2014-2018) Country Development Cooperation Strategy (CDCS). The Government of Kosovo (GoK), USAID, other international partners, and a host of additional stakeholders closely coordinated to develop the CDCS. The CDCS's stated goal is "That Kosovo Becomes an Increasingly Prosperous Country, Progressively Integrating into the Euro-Atlantic Community, with More Effective and Accountable Governance".

The CDCS has three Development Objectives (DOs), including DO2, the economic growth objective, which aims to achieve "Increased Investment and Private Sector Employment." DO2 contains three Intermediate Results (IR), two of which are covered by the subject PAD: IR 2.1 Improved Economic Governance and Business Environment, and IR 2.2 Increased Competitiveness and Market Linkages in Targeted Private Sector Areas. DO2 was intended to promote the equitable growth of the economy, and be supported by progress in DO1 (improved Rule of Law & Governance), and DO3 (Enhanced Human Capital).

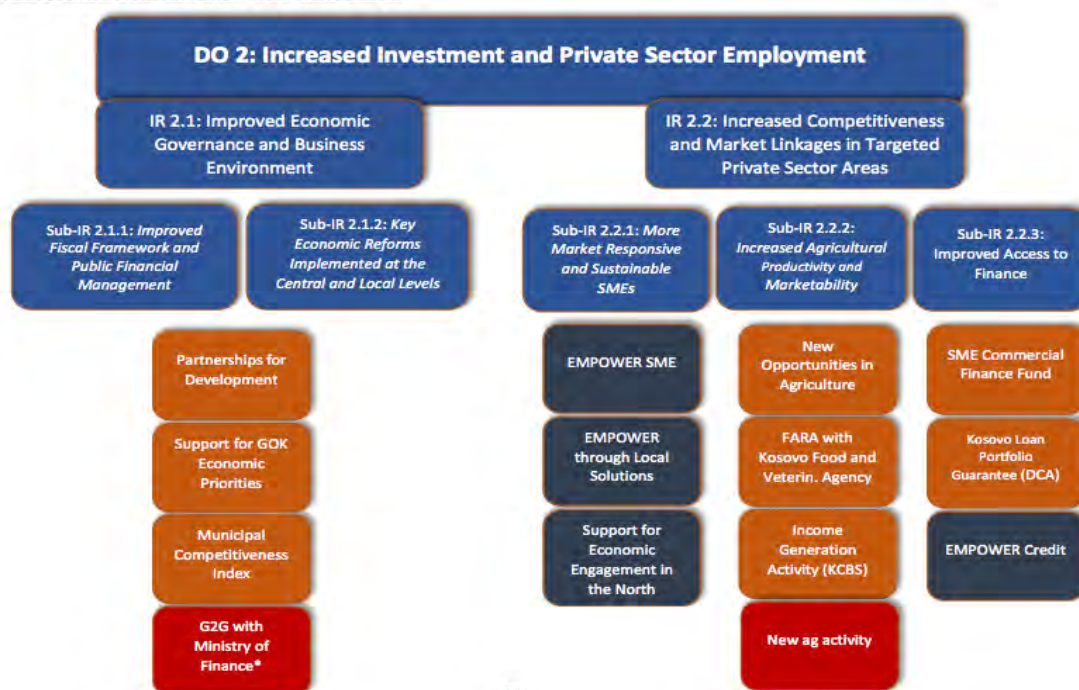
The economic challenges that Kosovo faced at the beginning of the period corresponding to the Project PAD were daunting. The country's Gross National Income (GNI) was ranked 132 behind the other West Balkan countries. The trade deficit was approximately 40 percent of Gross Domestic Product (GDP), one of the highest relative trade imbalances in the World. While this report is not an analysis of the weaknesses of the Kosovo economy, it can be said that a weak private sector, characterized by a predominance of micro-businesses, few if any export ready enterprises, lack of innovation, weak foreign market linkages, poor access to investment funding, a burdensome business regulatory environment and inefficient public institutions, were among the contributory factors. The official unemployment rate was persistently high at around 35-40 percent. Kosovo's business environment was not conducive to private sector growth, and Kosovo ranked 86 out of 189 nations on the World Bank (WB) Doing Business ranking. Micro-enterprises were by far the predominant form of enterprise, and few companies made the leap in size from micro to SME, which meant they had neither the capacity nor the means to serve larger markets, nor were they able to obtain financing to scale-up activities. Agriculture began to develop with USAID support, but there was a continuing need to maintain this growth to develop opportunities for import substitution with local produce and make inroads into regional and foreign export markets. Continued challenges in the agricultural sector included access to credit and markets, inadequate facilities, weak farm-to-fork value-added linkages, and poor inputs and food safety infrastructure. Moreover, given that over one-half of Kosovo's population is rural and poor, support for agriculture would provide new employment opportunities.

The PAD Evaluation assessed a number of activities launched in support of this economic growth Development Objective (DO2) and its corresponding IRs, Sub-IRs, and goals, as part of the implementation of the USAID Country Development Cooperation Strategy 2014-2018. Rather than evaluating each of the activities separately, the PAD evaluation elucidated whether and how the associated activities worked together to achieve their common goals and strategic objectives. The related activities that fall under DO2 are depicted in detail in **Exhibit I** below. The full list of activities under the jurisdiction of this evaluation can be found in Annex I. It includes several activities that are

not listed under DO2, but are linked to it in some way, such as DOI activities for contract enforcement and property rights, which contribute to improving the business environment.³

Exhibit I: Kosovo CDCS DO2 and related IRs and Sub-IRs⁴

Current and Planned Activities under DO2 IR2.1 and 2.2



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Source: PAD, USAID/Kosovo EG Office, 2014.

The premise of IR 2.1 was that government must create a better environment to foster and maintain growth. Thus, USAID had a role in continuing to support public institutions responsible for the laws and regulations that needed reform. The proposition regarding IR 2.2 was that greater economic growth can be achieved by improving competitiveness and linkages within entire value chains and key sectors that stimulate and drive the economy and produce jobs. USAID's Strategy for country development aimed to focus on consolidating previous investments and on implementing reforms and cross cutting goals were to address gender inequalities and reach out to underserved groups. There was to be less emphasis on micro-sized start-ups—except for those founded by minorities, women and youth—or on assistance unaligned to a particular sector; USAID would place greater emphasis on supporting SMEs that can create growth and jobs.

³ The PAD evaluation covered all the activities shown below, with the exception of EMPOWER Local Solutions (which was cancelled) and the Municipal Competitiveness Index, which was carried out in 2014 and has not been repeated to date.

⁴ The new agriculture activity referred to hereunder is AGRO.

I.2 PAD EVALUATION PURPOSE AND METHODOLOGY

I.2.1 EVALUATION PURPOSE

The PAD's primary development hypothesis is that macroeconomic stability and an environment that enables business, coupled with a strengthened private sector (including agriculture) and greater access to finance, leads to a stronger economy and substantial job creation. Accordingly, activities implemented through the subject PAD focus on diversifying the economy and increasing the private sector's contributions to economic growth. PAD activities focus on both helping to ensure both that the public sector plays its role in creating a sound and open economy and that the private sector serves as a forceful engine of growth.

The Contractor's team conducted the evaluation to gather information from various actors within the public and private sectors to assess whether the PAD's activities promoted the aforementioned objectives, and to answer a number of key evaluation questions related to the activities' achievements, coordination, and lessons learned (see **Exhibit 2** below).

The evaluation team performed an unbiased assessment of this effort, and was mindful that the results of this evaluation will inform the creation of the new FY2019-2022 CDCS in the latter part of 2017. Furthermore, this PAD Evaluation is the first of its kind being carried out by USAID and is a learning exercise for evaluations of other PADs in the future.

Exhibit 2: PAD Evaluation Key Evaluation Questions

KEY EVALUATION TOPICS	KEY EVALUATION QUESTIONS
I. PROJECT PERFORMANCE AND RESULTS ACHIEVED	I.a To what extent have USAID activities under this Project been able to address, and collectively contribute to, the economic growth priorities set forth in the Project's intermediate results: improved economic governance and business environment; increased business competitiveness (e.g., increased domestic sales, exports, import substitution), job creation, and credit facilitation? I.b What types of improvements and/or types and level of benefits do assisted entities value and attribute to their involvement with this Project? I.c To what extent have the activities implemented under this PAD been necessary and sufficient to achieve the Project's objectives? Are there gaps, constraints, and/or opportunities where additional program assistance would be of strategic importance?
2. PROJECT COORDINATION AND PRACTICES	2.a In what ways and how well did USAID's partners/activities under this PAD work together and share information to address noted constraints and/or collaborate to take advantage of interrelated opportunities? 2.b In what ways and how well have activities funded under this PAD collaborated and coordinated with Government of Kosovo (GoK) stakeholders, as well as related activities funded by other international donors? 2.c Are there effective mechanisms in place to increase the participation and economic outcomes of vulnerable groups, including women, the rural poor, and other marginalized groups?

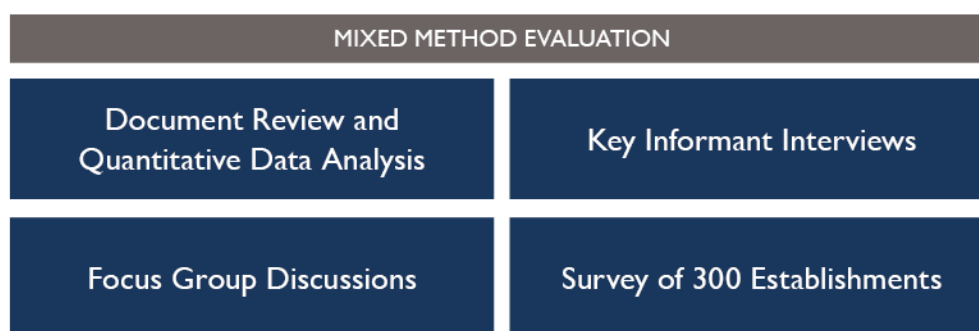
KEY EVALUATION TOPICS	KEY EVALUATION QUESTIONS
3. LOOKING FORWARD	3.a Are the sectors currently being worked on through the PAD still valid in terms of their potential to drive economic growth and employment? Are there other sectors/opportunities that the current project is missing? 3.b Are there other market opportunities (in terms of the geographic end market) with significant opportunities for growth? Is there potential to go directly to these new markets without having to go through Serbia? 3.c What is most constraining growth in the sectors/value chains identified? What firm level constraints to growth exist? Which of these constraints are most amenable to change in the next five years? 3.d Who are key proponents and opponents of private sector growth in Kosovo? 3.e Are there modalities of investment (private equity, mobilization of diaspora resources, PPP structures, bond markets, etc.) that could be explored in the face of the known binding constraints to investment?

I.2.2 EVALUATION METHODOLOGY

The evaluation team conducted the Kosovo PAD evaluation using a mixed-methods (MM) approach, which integrated quantitative and qualitative data collection, data analysis, and interpretation. The evaluation team conducted a MM evaluation because the approach: (1) strengthens the reliability of data and the validity of the findings and recommendations, (2) broadens and deepens the understanding of the mechanisms through which PAD achieves its economic development outcomes and impacts, and (3) integrates contextual factors that affect how activities under the PAD are implemented. The evaluation team did not set out to conduct an in-depth evaluation of any one part of the Kosovo PAD but rather to assess how all PAD activities work together to drive economic development.

To evaluate PAD activities, the evaluation team conducted the following activities (see **Exhibit 3** below): (1) a desk review of key documents related to the PAD and an analysis of implementing partner monitoring and evaluation (M&E) data; (2) key informant interviews and focus group discussions with key stakeholder groups within Pristina and in four cities outside of Pristina, including Prizren, Peja, Ferizaj and Mitrovice, which are all areas covered by the PAD's activities; and (3) an enterprise survey of 300 Kosovar businesses, including PAD beneficiaries and a group of small and medium-sized enterprises (SMEs) that did not receive support from the PAD Project.

Exhibit 3: Key Mixed-Methods Evaluation Data Collections Methods



The four interrelated evaluation activities focused on three areas of inquiry: the Business Enabling Environment (BEE) and Economic Governance, Kosovo's business competitiveness domestically and internationally, and access to finance.

Exhibit 4 below links the evaluation questions presented in **Exhibit 2** to their corresponding data sources, data collection methods, primary focus of investigation, and the research questions that they addressed. The team conducted investigations with several layers of stakeholders, primarily through key informant interviews (KIs) and focus group discussions (FGDs). The evaluation team provides a full list of stakeholders that the team interviewed through KIs and FGDs in Annex 3.

The evaluation team conducted KIs with key PAD implementing partners, as well as the corresponding USAID personnel (Contracting Officer's Representatives). The implementing partners included main PAD activities such as Agricultural Growth and Rural Opportunities (AGRO), EMPOWER private sector (EMPOWER PS), EMPOWER credit, Partnerships for Development (PFD), and other activities contributing to the achievement of DO2, IR 2.1, and IR 2.2, as listed in **Exhibit 1** above. The evaluation team also considered activities that were complementary to the PAD activities, such as Contract Law Enforcement (CLE), Property Rights Project (PRP), and Advancing Kosovo Together (AKT), the latter being relevant to economic interaction between minority and majority communities.

The team's second layer of investigation included conducting KIs with key international donor organizations with a stake in Kosovo's economic development, most significantly the European Union (EU).

Thirdly, the evaluation team conducted a series of KIs with a sample of key on-the-ground GoK personnel from the various ministries associated with the PAD interventions. Annex 3 provides details of the key informants that the evaluation team interviewed from these organizations.

Fourthly, the evaluation team focused on institutions and organizations forming part of the national small business support ecosystem. The evaluation team met with representatives of selected active Business Support Organizations and Financing Institutions, such as the Kosovo Chamber of Commerce, Kosovo business associations, commercial banks, and a non-bank financial institution that worked with PAD, namely Crimson Finance Fund (CFF).

Lastly, the team met with representatives of groups of businesses including sectors targeted by PAD activities. The team held FGDs with them and also included representatives of municipalities and some business support organizations. These discussions with small focus groups representing businesses helped the team obtain first hand views on outcomes and impacts on businesses within visited regions. After these discussions, the evaluation team confirmed with USAID PAD activity personnel and finalized the four proposed four municipalities additional to Pristina (Prizren, Peja, Ferizaj, and Mitrovice) targeted by PAD activities.⁵

⁵ The Evaluation Team initially planned to make the final selection of municipalities or regions following a final analysis of the geographical concentrations of the PAD activity interventions but the team altered this approach due to difficulty in obtaining detailed information on the geographical locations of beneficiaries.

The evaluation team supplemented data from interviews and focus groups with the output from a business survey covering a sample of 300 enterprises, which included PAD beneficiary organizations, as well as organizations that were non-PAD beneficiaries.

The evaluation team also consulted and collected data from documentary sources. The data collection exercise included a review of primary and secondary source information. Primary source information included CDCS, PAD, and Appendices, PAD activity annual reports and work-plans, and performance data of ongoing projects, as well as reports and evaluations of completed and complementary projects. The team obtained additional information from reports published by GoK such as KSA data, international financial institutions (IFIs) including WB, European Investment Bank (EIB), organizations/authorities such as the European Union, United Nations Development Program (UNDP), and other multilateral and bilateral donors.

Exhibit 4: PAD Evaluation Stakeholder Layers and Associated Data Collection Methods

LAYER	STAKEHOLDERS	MAIN FOCUS OF INVESTIGATION	DATA COLLECTION	ASSOCIATED KEY QUESTIONS
1	USAID and implementing partners	USAID personnel involved in design, planning, and monitoring of PAD activities; USAID COPs and staff of implementing projects.	KIIs	1.a, 1.c, 2.a, 2.b, 2.c, 3.a, 3.b, 3.c
2	IFIs, Multilateral & Bilateral donors	Donors and IFIs involved in design, planning and monitoring of economic growth programs relevant to PAD activities.	KIIs	2.a, 3.a, 3.b
3	Government of Kosovo ministries and agencies	Government of Kosovo ministries and agencies responsible for policy making, collaboration with USAID on main and auxiliary PAD activities.	KIIs	1.a, 2.c, 2.b, 3.a,
4	National BSOs and MSME Finance Providers	Stakeholders and Beneficiaries in the Small Business Support Ecosystem including Banks & NBFIs participating in small business financing; Business Support Organizations, including chambers, business associations, etc.	FGDS AND KIIS	1.b, 1.c, 2.c, 3.A, 3.B, 3.C

LAYER	STAKEHOLDERS	MAIN FOCUS OF INVESTIGATION	DATA COLLECTION	ASSOCIATED KEY QUESTIONS
5	Municipal officials, local BSOs, targeted and non-targeted SMEs	Municipal officials responsible for creating conditions conducive to economic growth. Local business support organizations. Enterprises from targeted sectors.	FGDs and KIIs	1.a, 1.b, 1.c, 2.b, 2.c, 3.a, 3.b, 3.c
		Country-wide survey of 300 businesses, including sectors and minority groups targeted by PAD activities.	Quantitative Business Survey	1.a, 1.b, 1.c, 2.c, 3.b, 3.c
6	N/A	Primary document sources including Kosovo CDCS, PAD main and complementary activities, such as Annual work plans and reports, and project M&E data; GoK auxiliary activities, e.g., G2G; Evaluations of Completed activities, e.g., NOA. Secondary document sources including GOK reports and data on economic development; Bilateral & Donor activities related to USAID EE objectives including EU, UNDP, Swedish, Swiss, German, etc.; International organizations, IFI's, and think tanks' reports on Kosovo including WB EBRD, OECD, WEF. Past surveys, including Municipal Competitiveness Index (supported through PAD); MOSAIC, WEF Competitiveness Index, Doing Business in Kosovo, and others relevant to the PAD goals.	Document and data review	

I.2.3 EVALUATION IMPLEMENTATION

PAD Evaluation implementation consisted of three phases: inception, data collection, and reporting.

INCEPTION PHASE

After the evaluation team launched the evaluation, the team finalized the evaluation workplan and reviewed secondary data shared by USAID/Kosovo and obtained either directly from the PAD activities or from other related sources. The team prioritized its review of these materials to further familiarize team-members with the associated activities, aid in the creation and refinement of KII, FGD, and business survey instruments tailored to the evaluation context, and finalize lists of KII and FGD

participants.⁶ The team produced a final evaluation workplan, which it delivered to USAID Kosovo for review.

DATA COLLECTION PHASE

The evaluation team began its data collection phase by briefing USAID/Kosovo. During this in-briefing, the team reviewed the workplan with USAID team members to ensure that there was shared understanding regarding the evaluation methodology, schedule, and plan for implementation. After the in-briefing, the team conducted internal trainings to ensure that all interviewers shared a common understanding of the instruments and techniques for their implementation, thereby increasing interrater reliability. Then the evaluation team began the first series of KIIs in Pristina, conducting interviews in English, Albanian, or Serbian as required. The team held a mid-point briefing with USAID/Kosovo after the first round of interviews, and updated the KII and FGD instruments based on information gleaned from the interviews. The team also used information from the first round of KIIs to inform sections of the business survey before it launched.

After the team finalized and programmed the business survey instrument, the team, in conjunction with the evaluation data collection partner IPSOS Adria, conducted training of the survey enumerators. The team launched the business survey in mid-June and completed it in the beginning of August. After the team launched the business survey, it completed the remainder of KIIs and FGDs in Pristina and the surrounding municipalities (Prizren, Peja, Ferizaj, and Mitrovice). Team members returned to Pristina to finalize and organize collected information.

REPORTING PHASE

The team began the reporting phase of the evaluation by conducting a briefing at USAID/Kosovo detailing the preliminary findings, conclusions, and recommendations from the evaluation. The team included feedback from the briefing in this evaluation report (produced in June and July 2017).

⁶ Full KII and FGD protocols, as well as the business survey instrument can be found in Annex 3.

2. EVALUATION FINDINGS

This section details the team's PAD Evaluation findings related to the key evaluation questions listed in **Exhibit 2**. The evaluation questions are broken down by USAID/Kosovo into three distinct topic areas: project performance and results achieved; project coordination and practices; and looking forward. The evaluation team discusses each of these topic areas in turn, below, and lists findings for key evaluation questions for each topic area by IR, Sub-IR, and Activity, as appropriate.

The PAD Project's priorities as set forth in the IRs are summarized below:

- IR 2.1 Improved Economic Governance and Business Environment;
- IR 2.2 Increased competitiveness and market linkages in targeted private sector areas, subdivide into:
 - IR 2.2.1 More Market Responsive and Sustainable SME
 - IR 2.2.2 Increased Agricultural Productivity and Marketability
 - IR 2.2.3 Improved Access to Finance

The findings related to Questions 1.a and 1.b are based on several triangulated sources, including

- PAD activity documents and data
- Secondary data, such as reports by other projects, official statistics
- Key Informant Interviews from the list in Annex 3 (particularly in relation to 1.b)
- Focus Group Discussions from the list in Annex 3 (particularly in relation to 1.b)
- Business Survey of 300 SMEs including PAD beneficiaries and non-PAD beneficiaries (particularly in relation to 1.b)

2.1 PROJECT PERFORMANCE AND RESULTS ACHIEVED

2.1.1 FINDINGS FOR EVALUATION QUESTIONS 1.A AND 1.B

Question 1.a. To what extent have USAID activities under this Project been able to address, and collectively contribute to, the economic growth priorities set forth in the Project's intermediate results: improved economic governance and business environment; increased business competitiveness (e.g., increased domestic sales, exports, import substitution), job creation, and credit facilitation?

Question 1.b. What types of improvements and/or types and level of benefits do assisted entities value and attribute to their involvement with this Project?

IR 2.1 IMPROVED ECONOMIC GOVERNANCE AND BUSINESS ENVIRONMENT

Partnerships for Development (PFD)

This activity consists of the following three main components: (1) the business enabling environment; (2) improving construction permitting; and (3) improving public financial management with the aim of achieving a lower fiscal deficit and increasing macroeconomic stability. A main driver for PFD is the World Bank Doing Business index, which consists of 10 indices, including many that are directly related to PFD's interventions, such as starting up a business (registration), facilitating construction reforms by improving efficiency of construction permitting, and paying taxes. Notwithstanding the focus on these

areas, the evaluation team anticipates that streamlining procedures and creating transparency, accountability, and responsiveness with respect to public administration through public consultation and intra-governmental coordination, will impact many areas of public administration, creating a better investment climate. The PFD project is extremely broad and the team's findings on this project presented below are not exhaustive but illustrate a number of significant improvements and outcomes.

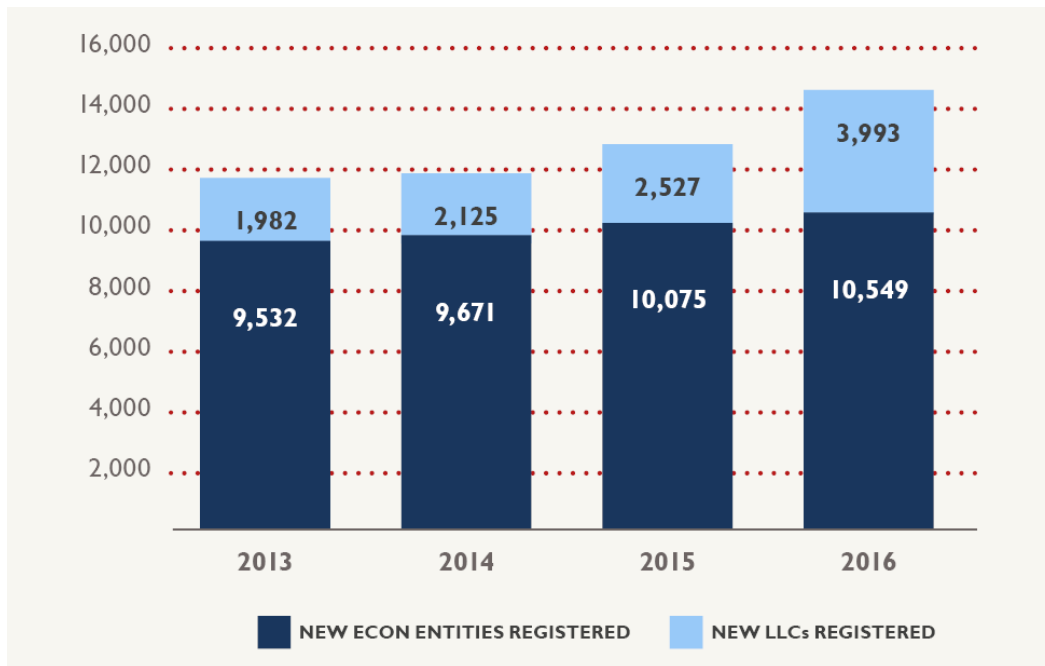
Business Environment. To overcome the barriers to starting a business, PFD has worked with the Kosovo Business Registration Agency (KBRA) to ease registration procedures and reduce related costs. A second area of focus was business permitting: PFD supported the Ministry of Environment and Spatial Planning (MESP) and municipalities regarding the process of legalizing unpermitted construction, as well as in streamlining the permitting process, including cost-recovery calculation of permit fees, and promoting the transparency and accountability of the permit bodies. This was particularly important, as weaknesses in construction permitting are considered to be a disincentive to economic growth and are therefore included in the ten World Bank indices for measuring ease of Doing Business.⁷ PFD also worked to improve legal transparency and access to information by supporting the institutionalization of the Official Gazette Database and promoting it as the only legal source of legal information in Kosovo.

The evaluation team identified the following results of PFD's business enabling reforms:

- I. A significant improvement in business registration procedures and reduction of related costs, which was followed by an increase in formal registration of economic entities.** The success in improving the business registration procedures was followed by a particularly rapid growth of new companies, especially those classified as Limited Liability Companies (LLCs), as shown in **Exhibit 5** below (58 percent increase in 2016 compared with the previous year). This is important because LLCs are the most prevalent form of business in many economies. The structure fosters entrepreneurship by encouraging investors to inject capital into business while limiting the potential personal losses they might incur from their investment. Moreover, as shown in **Exhibit 6**, there was a marked increase in the number of newly registered LLCs that had at least one female owner (257 percent increase between 2012 and 2016). Since the purpose of the business registration reform is to encourage entrepreneurs to register (or reregister businesses under a different legal form) it may be reasonably assumed that there is a link between these improvements and the increase in formal registrations.

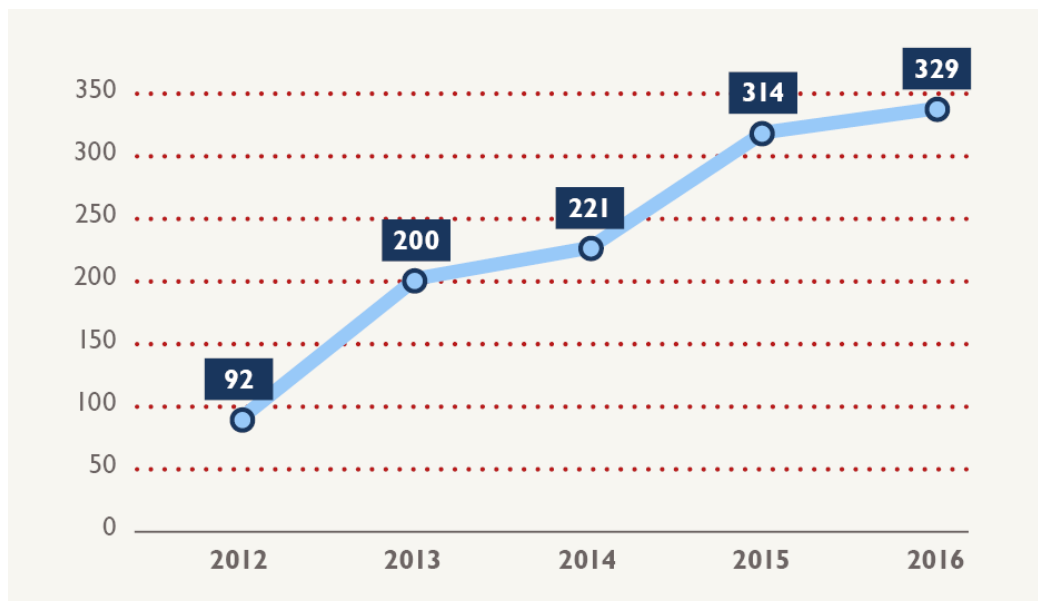
⁷ Kosovo ranked 129th in the WB DB 2017

Exhibit 5: Growth of LLC Registrations 2013 to 2016



Source: KBRA

Exhibit 6: LLCs newly registered annually with at least 1 female owner

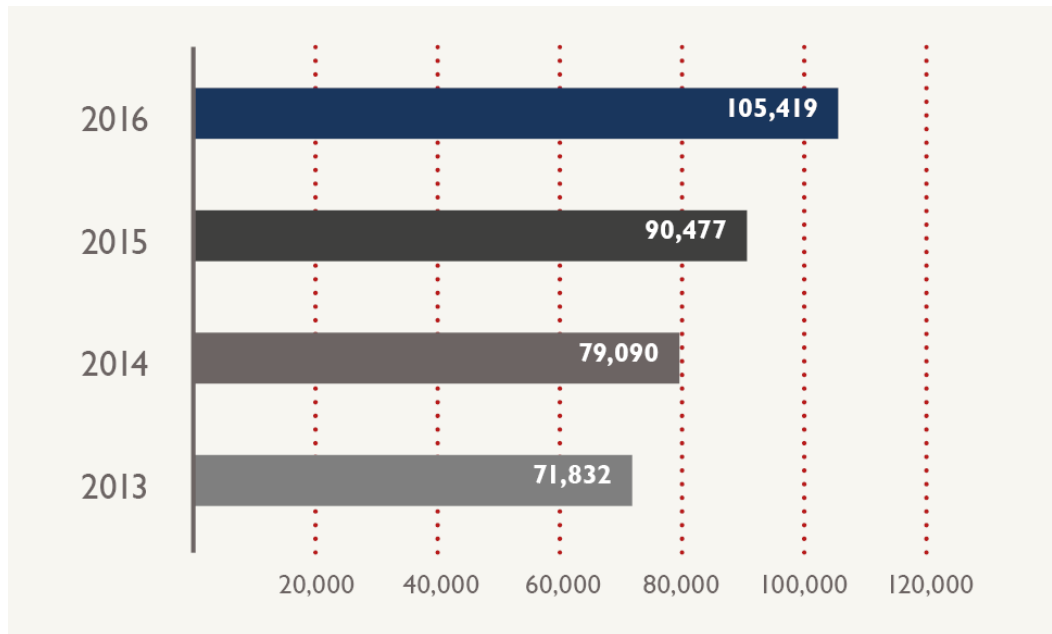


Source: KBRA

2. **Growth in the registration of new LLCs was associated with job creation and an overall increase in private sector employment (see graph below). In cumulative terms, there was a 46.8 percent cumulative increase in employment in LLCs in 2016 compared to 2013.** In absolute terms, employment in LLCs in 2016 stood at 105,419, compared to 71,832 in 2013, as shown in **Exhibit 7**. The share of private sector employment to

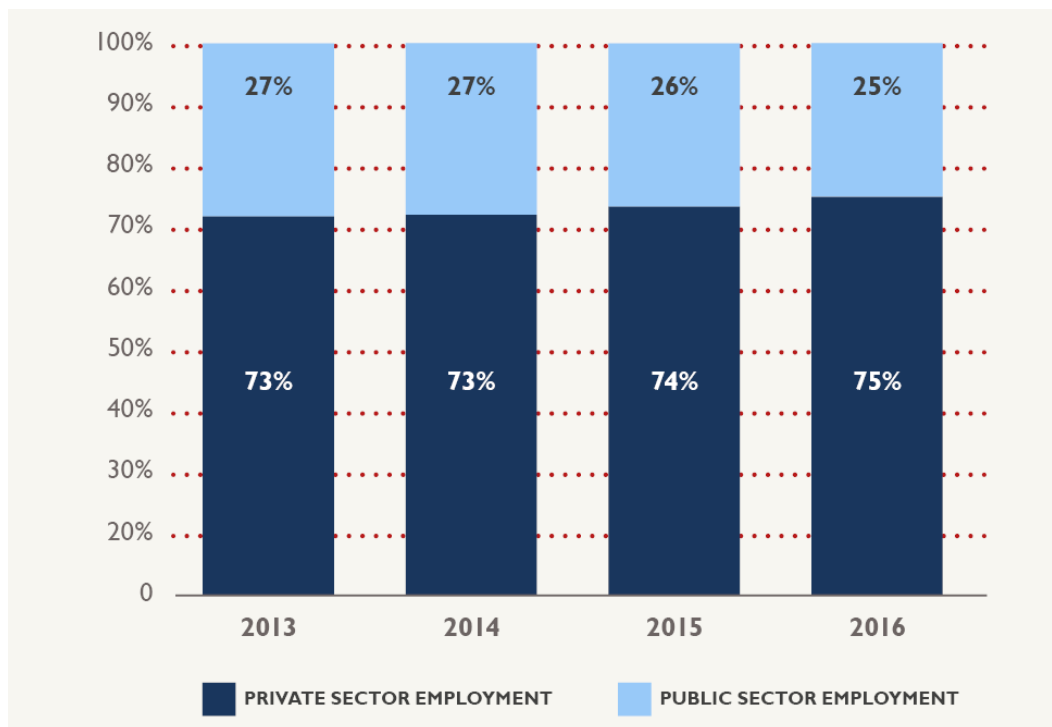
total formal employment also changed from 73 percent to 75 percent between 2013 and 2016 per **Exhibit 8**, which is a significant change given that there was much less change in the preceding period. The exhibit is based on the administrative data published by the Kosovo Pension Savings Trust (KPST). Since LLCs tend to employ larger numbers of workers than sole proprietor businesses, it is reasonable to assume that the registration of new LLCs is to some degree associated with the formalization of businesses, growth in formal jobs, and an increase in the share of private sector employment.

Exhibit 7: Employment in LLCs



Source: Kosovo Pension Savings Trust (KPST) data.

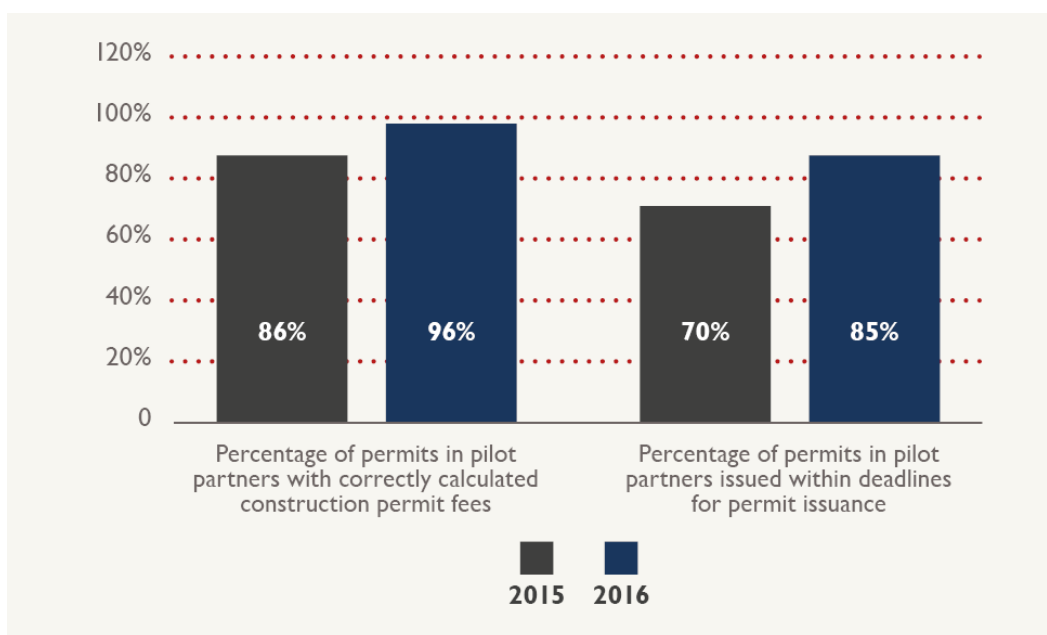
Exhibit 8: Share of Private Sector Employment



Source: Kosovo Pension Savings Trust (KPST) data.

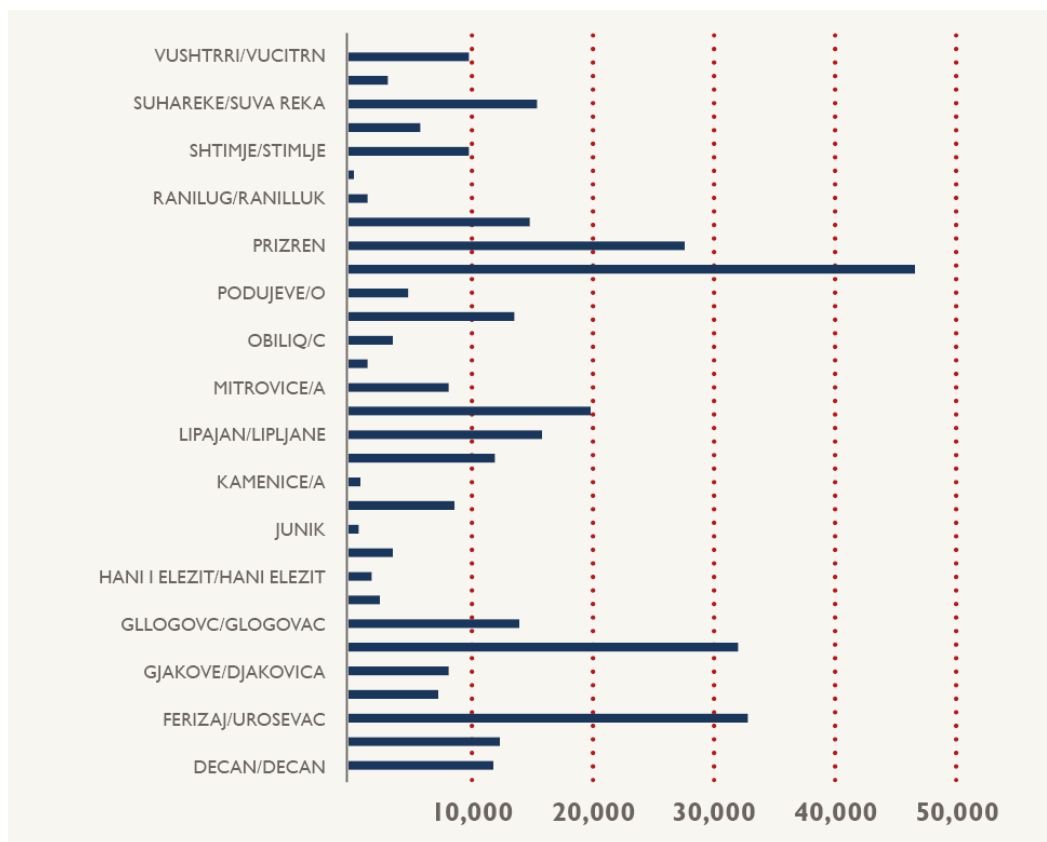
- 3. Registering more than 352,000 construction projects that were previously unpermitted constructions in the Registry.** Illegal property cannot constitute collateral in lending; therefore, property formalization is an important precondition to stimulate lending to businesses. Neither the Government nor PFD were aware of the immensity of this task at the outset since there had never been an assessment of the number of unpermitted constructions. PFD supported selected municipalities to participate in a pilot to both correctly calculate construction permit fees and decrease the time it took to issue permits, with favorable results, as shown in **Exhibit 9** below. Both improvements helped spur registry of unpermitted constructions in municipalities across Kosovo, per **Exhibit 10**. The next step will be the legalization of construction, which could help some entrepreneurs utilize their assets for raising needed funds.

Exhibit 9: Issuing Construction Permits



Source: PfD annual reports.

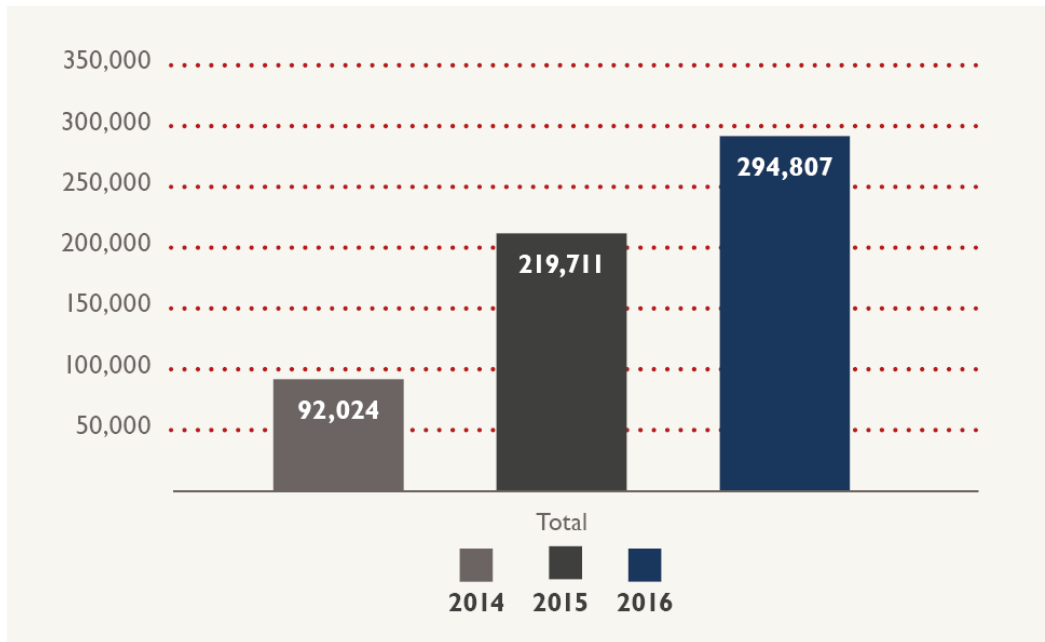
Exhibit 10: Unpermitted Constructions in Selected Kosovo Municipalities



Source: PfD project data.

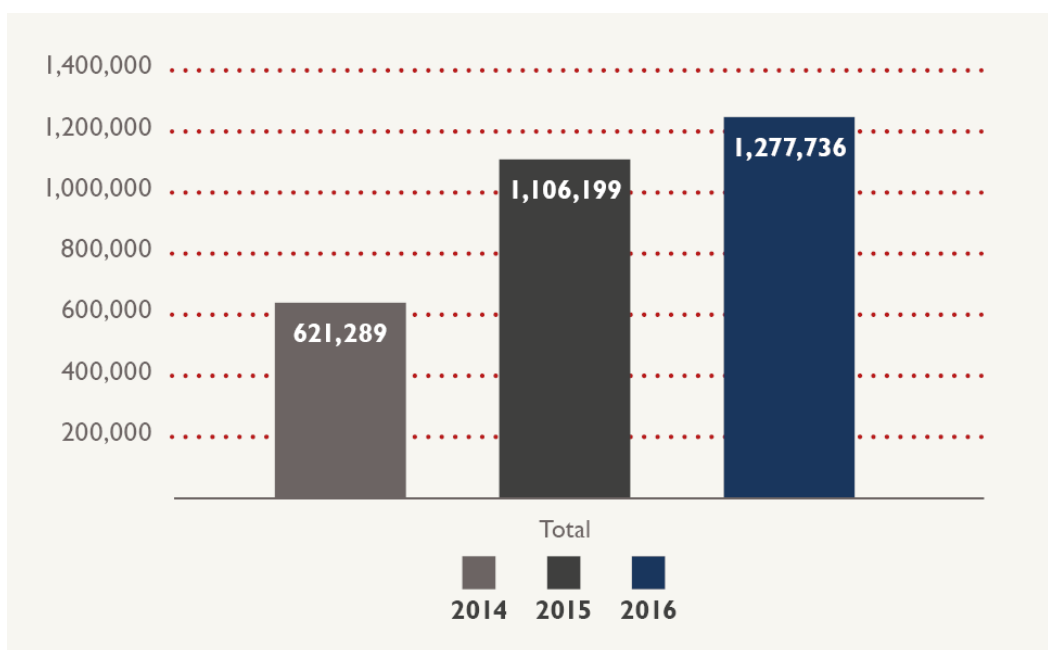
4. **Growing use of the Official Gazette Database, which provides online access to more than 3,300 legal acts by businesses, investors, citizens, and the public sector.** There was a 220 percent cumulative increase in the total number of visits to the Official Gazette Webpage and a 105 percent cumulative increase in the number of views/clicks within the webpage from 2014 to 2016, as shown in **Exhibit 11** and **Exhibit 12**. This reform is important for improving transparency of legal acts and regulations for the local business community, as well as investors.

Exhibit 11: Total Number of Visits to Official Gazette Database



Source: PfD annual reports.

Exhibit 12: Number of Views/Clicks within Official Gazette Database



Source: PfD annual reports.

- 5. PFD support for the Ministry of Trade and Industry (MTI).** PFD supported the MTI in improving legislation on business organizations; the proposed legislation will significantly increase protection for minority investors. This legislation has not been enacted yet; it will be presented before the new Government once it is formed.

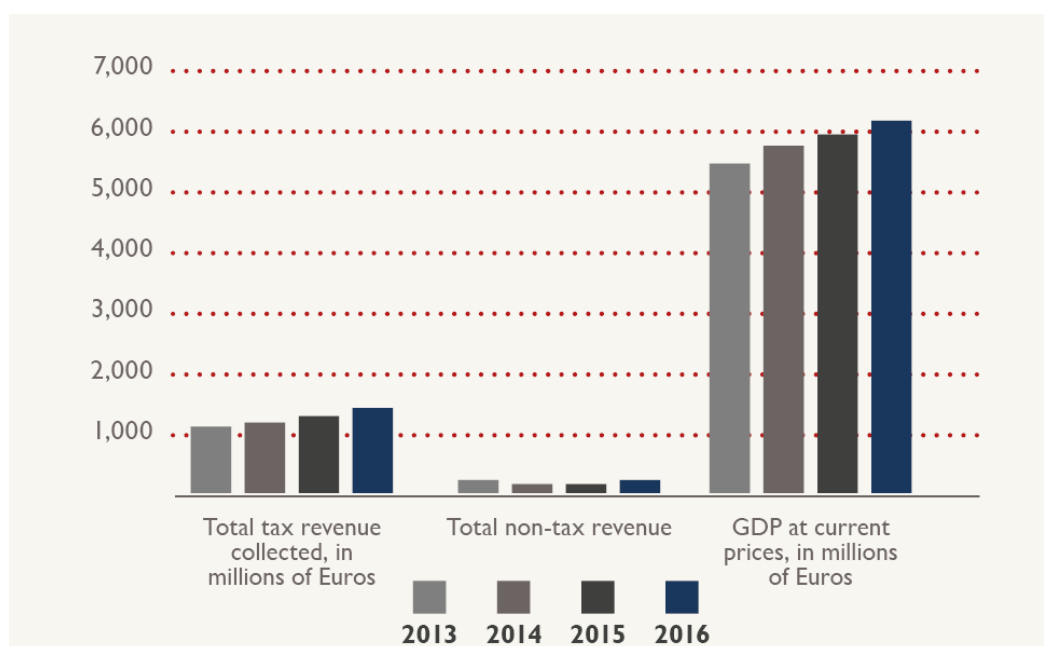
Support to Public Financial Management (PFM) Reforms. PFD supported numerous PFM reform activities in its work with the Ministry of Finance, Customs Office, and Kosovo Tax Office. Most of the tax reforms were introduced at the administrative level, and resulted in better quality services for taxpayers, reduced bureaucracy, improved internal processes, introduction of a risk-based approach, and enabled online declaration of all types of taxes. USAID's baseline of person-hours of training in fiscal policy and fiscal administration was 0 in 2013; the target for 2014 was 500 hours and 643 hours were delivered. These improvements increased the formality of economic activity and it is reasonable to assume it would be associated with an increase in tax collection, as indicated by the improvement in Kosovo's ranking on the WB DB index for Paying Taxes from 77 (2016) to 44 (2017). Additionally, the number of online filing declarations increased to more than 1.5 million in 2016 compared to 944,785 in 2013 and it may be assumed that the reforms to tax administration are correlated with this change through a decrease in barriers to tax declarations.

It is important to mention that as a result of PFD's work with the Tax Administration of Kosovo (TAK), changes were introduced in the treatment of firms' training expenditures, which now are recognized as an expense. In the medium to longer term, this tax advantage should encourage SMEs to invest in workforce development.

On budgeting, PFD supported the design, negotiation, and implementation of the International Monetary Fund (IMF) Stand-by arrangement (SBA) program. The government steering group that negotiated the SBA with the IMF was a staff member of the USAID PDF activity. As such, PFD not only supported, but also steered the negotiation of the SBA with the Fund. The SBA pledged budgetary support on condition that reforms continue. PDF supported the Ministry of Finance in focusing on better management of budget planning and execution. As a result, there has been an improved structure of the budget, reduced budget deficit, and increased fiscal reserves, which is positively noted by the IMF. There was a 27 percent cumulative increase in total tax revenue collected by the Kosovo Tax Agency between 2013 and 2016 per **Exhibit 13** below. Considering that the cumulative growth rate of GDP at current prices for the same period was 13.6 percent, the additional cumulative growth in tax revenue collected indicates that the cumulative effect of the business environmental and PFM reforms contributed to collection greater than the rate of economic growth. Likewise, the share of tax and non-tax revenue GDP increased to 27 percent in 2016, compared to 24 percent in 2014. Meanwhile, the budget deficit as a percentage of GDP decreased from 3 percent in 2013 to 0.9 percent in 2016. Lastly, government fiscal reserves increased to 212 million Euros in 2016 compared to 102 million in 2014, as illustrated by **Exhibit 14**.

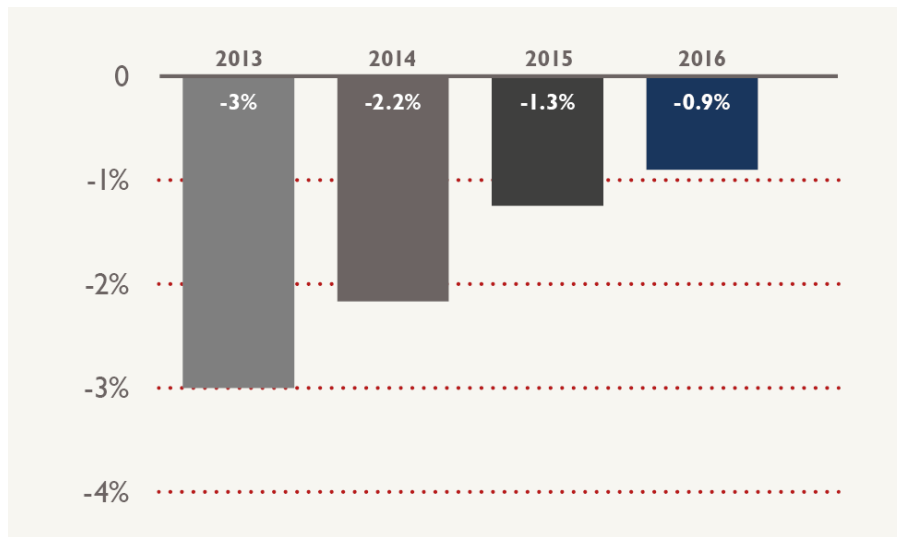
As described above, USAID has been a critical actor in building Kosovo's PFM systems. USAID support has enabled developing the budget planning, expenditure and monitoring systems. However, there are structural problems related to how Kosovo's civil service was recruited (in many cases due to political affiliations rather than professional merit), which acts as a brake on its capacity for knowledge absorption. Regardless, relentless USAID support on PFM over the years has created substantive technical capacity within the MoF to forecast revenues, plan resources and monitor expenditures. Deviations from planned fiscal policy have largely resulted from undue political influences, rather than lack of technical capacity.

Exhibit 13: Tax and Non-Tax Collection 2013-2016



Source: PfD annual reports; Ministry of Finance Reports

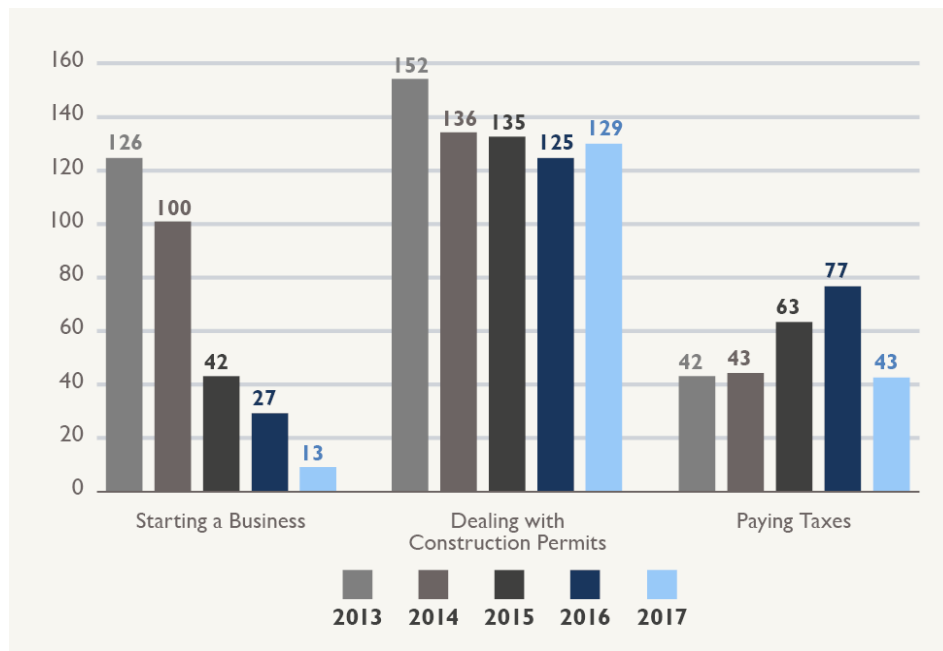
Exhibit 14: Budget Deficit as Percentage of GDP



Source: Ministry of Finance Reports

Improvement in World Bank Doing Business (WBDB) ranking. The WBDB indices are used to target improvement and as an indicator for the progress of reforms. Kosovo's overall World Bank Doing Business country ranking improved from 98 in 2013 to 60 in 2017, per **Exhibit 15** below. USAID's support to the Government of Kosovo through PFD activities is reflected in the improvements achieved in three sets of indicators: starting a business; dealing with construction permits; and paying taxes. In the same time-period between 2013 and 2017, Kosovo's ranking in the ease of starting a business improved from 126 to 13, and in dealing with construction licenses from 152 to 129.

Exhibit 15: Kosovo's Doing Business Rankings



Source: World Bank Doing Business Reports

Support for GoK's Economic Priorities and Government to Government (G2G) for Ministry of Finance were two relatively small PAD activities. The first was implemented to bridge the gap between the completion of the Business Enabling Environment Program (BEEP) and the start of PFD, whereas the second was an activity intended to provide the Ministry of Finance with support under the FORWARD initiative to build capacity in procuring and monitoring needed technical capacity. The former activity was accomplished successfully and included preparation for the Brezovica investment project; the second, G2G, however, was cancelled mainly because of the Ministry's lack of capacity at that time in handling procurement of this type.

PFD support for the Brezovica investment project. PFD were specially tasked to provide support for the Brezovica ski resort project, although this was not originally envisaged as being part of the activity's scope. For this project, the GoK invited private investors to invest to develop the ski resort in the Sharr Mountains. PFD provided transaction support within the limitations of the budget allocated for this technical assistance. The resulting negotiations for this project were unsuccessful and observers of this process partly attributed this to the lack of preparedness and a professional full-time team on the Government's side, although there were also issues with the investor's guarantee.

Other donors and international organization support to business environment improvement and economic governance. PFD's contribution to improving the business environment and economic governance needs to be looked at in the light of other donors' activities as well as the work done by the international organizations. Many donors have been involved in providing support in this area. While this evaluation does not seek to differentiate donor activities and apportion contribution, it can be generally said that donors such as Europeaid and the German Ministry for Economic Cooperation & Development have contributed significantly to economic governance and public institution capacity building, as well as the World Bank, which works closely with the Ministry of Trade & Industry on business environment reform. The IMF also provided Kosovo with support through its standby arrangement and PFD, specifically the CoP, played a key role in supporting the Ministry of Finance during negotiations. In its discussion with the evaluation team, the IMF spoke positively of PFD's inputs, and refer to the key role it played in advising the Treasury in compliance with the GSF (Government Finance Statistics) standards and support it provides to the Ministry of Finance in macroeconomic modeling. Similarly, the WB Advisor at the Ministry of Trade & Industry spoke positively of the important contribution made by PFD. More information on coordination of donor activities is included under question 2.b.

IR 2.2: SUB IR 2.2.1 MORE MARKET RESPONSIVE AND SUSTAINABLE SMES

PAD's key activity in strengthening manufacturing and services enterprises is EMPOWER PS. Its overarching objective is job-creation. In striving for this goal, EMPOWER aims to help firms expand and improve their capacities to both identify markets and to sell to them. At the same time, EMPOWER PS helps individuals obtain the skills required by expanding firms. During its first year, EMPOWER carried out a sector selection exercise resulting in the following targeted areas: Apparel, Wood Processing, Metal Processing, Energy-related Firms, Information Technology, and Tourism. The study divided sectors in two groups, Tier 1 (Wood processing, Apparel & Leather) and Tier 2 (ICT, Tourism, Energy, Food Processing (North Kosovo)). Tier 1 sectors were to receive a full package of assistance under EMPOWER's first component (Market-Oriented Competitive SMEs) and Tier 2 sectors were to receive support targeted on priority needs for job creation, under EMPOWER's second component (Opportunistic Job-Creation). At the outset of the EMPOWER activity, the report proposed that by combining Tier 1 and Tier 2 sector assistance, EMPOWER would support over 1,000 company

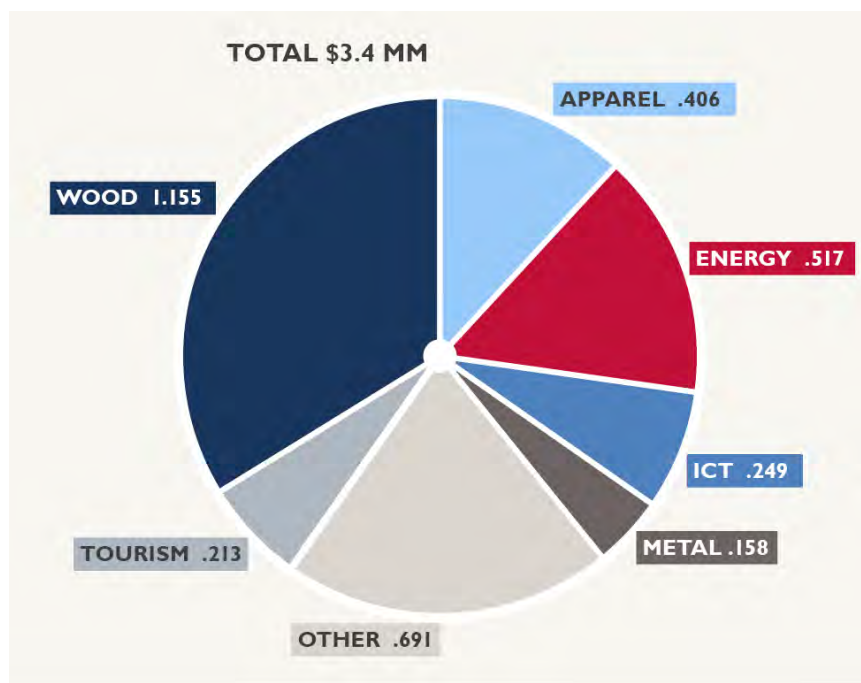
beneficiaries, and create at least 5,000 jobs. A summary of the sales and job growth targets over 5 years based on this report is presented in **Exhibit 16** below.

Exhibit 16: Sector Selection - Projected growth over 5 years

Sector	No. Firms	5-year Sales Growth (% increase) MILLION EURO	5-year Jobs Created
Wood	115	24 (50%)	1,690
Apparel	110	10 (50%)	1,400
ICT	80	28 (150%)	500
Tourism	155	10 (100%)	420
Energy	165	26 (150%)	740
N.Kosovo	5,055	13 (100%)	520
TOTAL	5,680	111	5,270

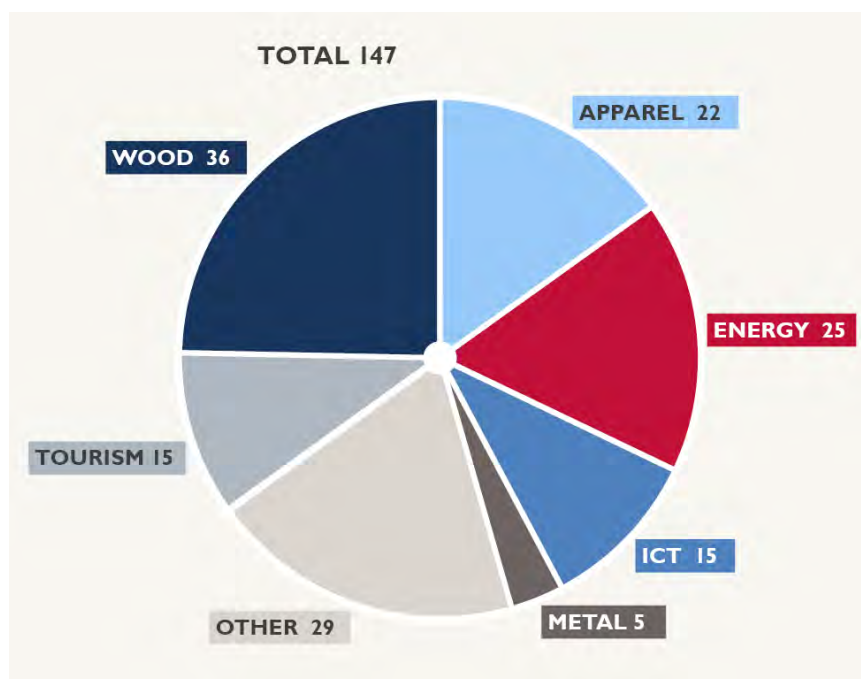
Thus far EMPOWER has delivered support to fewer enterprises and, based on current performance, it will not reach as many sector specific enterprises as indicated in this study. EMPOWER's performance indicators set overall targets for numbers of beneficiaries assisted, sales growth and jobs created. It provided grants and technical assistance to companies for the following purposes: production expansion, connection to markets, workforce development, productivity & quality, and business environment support (through associations). It also provided technical assistance through expert advice and supported the establishment of the Apparel Marketing Association, and further development of Kosovo Wood Producers Association and STIKK (an IT association), which was formed prior to the project. The project provided grant support to leverage funding obtained by the enterprises from public sources, own, and borrowed funds. As of Q10 of the project, a total of 3.4 million USD of grant funding had been allocated to industry sectors to a total of 147 beneficiaries, as shown in **Exhibit 17** and **Exhibit 18** below, with the largest contributions to specific sectors going to wood, energy, and apparel. The largest numbers of beneficiaries also were in wood energy and apparel.

Exhibit 17: Empower Grant Funding by Sector (\$MM)



Source: EMPOWER PS

Exhibit 18: Empower Beneficiaries by Sector



Source: EMPOWER PS

Exhibit 19 summarizes EMPOWER PS's achievements to date, based on data from its M&E system. It shows that all targets, other than jobs creation, were exceeded for the reported period, and the activity

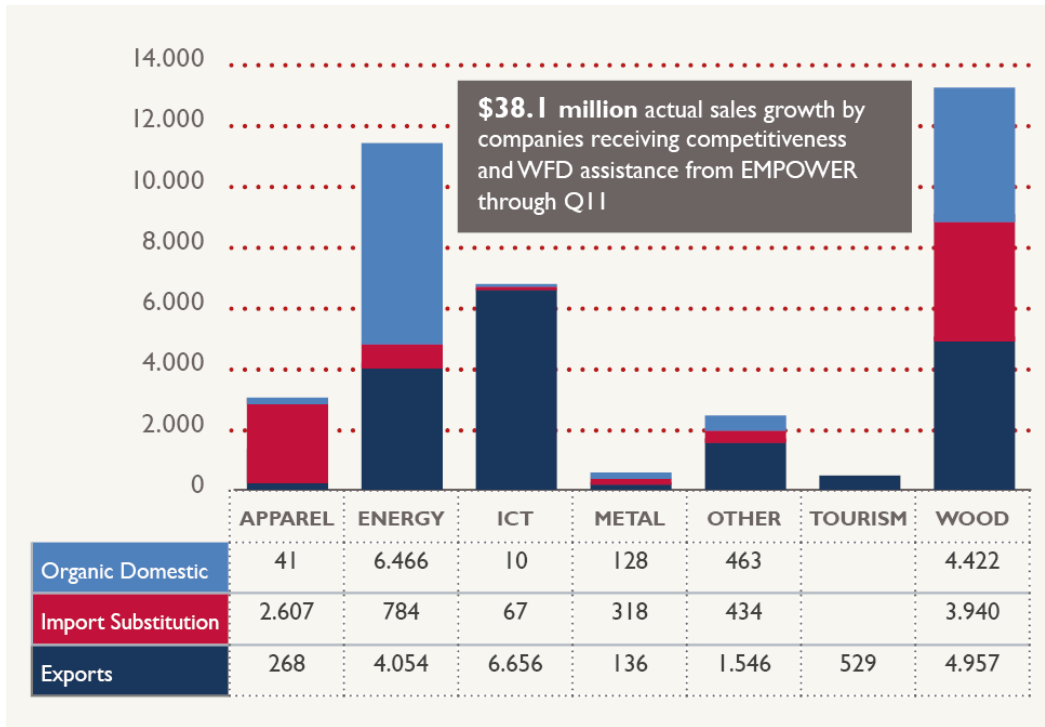
is making good progress to achieve end of project targets, which already have been exceeded for some indicators, namely new geographic markets entered, new products introduced, and investment leverage.

Exhibit 19: Empower Achievements

		YR 1		YR 2		Y3 (Q9, 10, 11)		2019	CURRENTLY	
	UNIT	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	ACTUAL	TARGET	% CURRENT TARGET	LOP TARGET
NUMBER OF ENTERPRISE BENEFICIARIES	#	150	91	260	183 (340*)	300	363	400	121%	91%
ATTRIBUTED AGGREGATE SALES	\$000					64,981	83,992	150,000	129%	56%
AGGREGATE SALES INCREASE	\$000	6,608	1,065	61,824	15,580	28,000	38,147	100,000	136%	38%
AGGREGATE EXPORTS INCREASE	\$000	3,102	738	16,755	8,208	10,304	18,147	50,000	176%	36%
BUSINESS SIZE EXPANSION	#	5	4	10	16	15	18	25	120%	72%
NEW GEOGRAPHIC MARKETS ENTERED	#	10	26	20	111	30	138	50	460%	276%
NEW PRODUCTS INTRODUCED	#	10	16	20	48	30	85	50	283%	170%
COMPANIES INVESTING IN NEW TECHNOLOGIES	#		26	20	38	40	50	80	125%	63%
TOTAL NEW JOBS	#	250	465	2,800	1,272	2,250	1,975	5,000	88%	40%
INVESTMENT LEVERAGE	ratio	3.0x	5.5x	3.0x	5.8x	3.0x	5.43x	3.0 x	181%	181%

Per EMPOWER PS, 38.1 million USD in actual sales growth was achieved by companies receiving competitiveness and workforce development assistance from the activity through Q11. EMPOWER breaks down this figure into a combination of sales through organic growth, import substitution, and exports, as presented below in **Exhibit 20**, which shows that the largest export increases are achieved in the energy, Information and Communication Technology (ICT), and wood sectors, whereas apparel contributes to import substitution. **Exhibit 21** below, for Q11, provides EMPOWER PS's breakdown of job-creation and sales growth.

Exhibit 20: Empower Beneficiaries by Sector



Source: EMPOWER PS

Exhibit 21: Empower Job Creation and Sales Growth

SECTOR	CUM. NO. OF GRANTEE CO.S	# JOBS GROWTH		SALES GROWTH \$000		AVG. JOBS PER CO.	AVG. CUM. SALES \$000/CO.
		Q11	CUMULATIVE	Q11	CUMULATIVE		
APPAREL	22	16	315	629	2,916	14	133
ENERGY	25	43	215	2,472	11,304	9	452
ICT	15	54	595	1,445	6,734	40	449
METAL	5	26	55	98	671	11	134
OTHER*	29	50	221	887	2,674	8	92
TOURISM	15		11	155	529	1	35

SECTOR	CUM. NO. OF GRANTEE COS.	# JOBS GROWTH		SALES GROWTH \$000		AVG. JOBS PER CO.	AVG. CUM. SALES \$000/CO.
		Q11	CUMULATIVE	Q11	CUMULATIVE		
WOOD	36	87	563	2,325	13,319	16	370
TOTAL	147	276	1,975	\$8,011	\$38,147		

Source: EMPOWER PS

Exhibit 20 and **Exhibit 21** indicate the following:

- The industries that experienced the highest average growth per company assisted were ICT, energy, and wood, while the lowest was tourism (although EMPOWER had been more bullish in its expectations of tourism development prospects at the time the sector study was prepared).
- The data on the share of exports show that the ICT was all export oriented, with energy approximately one-half, and wood more than one-third of sales growth. Also, the “Other” category shows a very large proportion of sales, including inter alia food processors in the confectionery business.
- Apparel sales growth resulted from import substitution. Metal had a low sales growth and was mainly import substitution. However, it should be noted that metal processing was not overtly included in the original sector selection report though some of the enterprises in the energy sector work with metal).
- The industries that experienced the highest increase in employees were ICT, wood, and apparel, and the lowest was tourism. Note, ICT companies provide young people with training and internships in what is a relatively long process leading to professional competence.

Total Jobs created are measured by EMPOWER PS as actual jobs reported by the beneficiary enterprise receiving grants. As reported in EMPOWER’s performance tables, the project achieved 88 percent of the target for new jobs. Note, beneficiaries are expected to increase employment approximately by one person for approximately every \$1,000 in co-financing provided by the activity. By Q11, EMPOWER PS committed more than 3.4 million USD in grant funding, which leveraged reportedly 5.43 times the sector investment. In order to assess whether the project achieved the job target, the evaluation team asked another PAD activity that tracked job creation in a number of client sectors, the Crimson Finance Fund (CFF), about the relationship between job creation and investment. According to CFF, this varies between a total investment in the region of \$8,000 and \$12,000, depending on the sector. This order of magnitude is confirmed by an Enhancing Youth Employment (EYE) report that has not yet been published.

Based on the aforementioned data, it appears that for a total investment of about 17 million USD (which is the total investment of EMPOWER PS beneficiaries plus the co-funding through the EMPOWER PS grant, estimated from the activity’s data) it would be reasonable to expect the creation of somewhere

between 1500 and 2300 jobs (depending on whether you use the 8,000 or 12,000 USD figure for investment per job created). The EMPOWER PS current figure is within this range and is consistent with the findings of CFF. In other words, EMPOWER PS grants leveraged by the beneficiaries' own investments created jobs in line with what the team anticipated. We believe that based on the research of CFF and another unpublished source from the EYE project, it is unlikely that it would have been possible to create manufacturing jobs with less investment.

For an idea of the scale of magnitude of the job increases that resulted from EMPOWER PS, compared with the workforce in manufacturing, the team compared the QII manufacturing workforce increase (about 1,370 for manufacturing only, although this does not account for possible domestic job increases down-stream and up-stream of the value-chains) with the total manufacturing workforce according to the Kosovo Labor Survey 2016, published May 2017. The EMPOWER PS figure corresponds to about 3 percent of the employed workforce in the manufacturing sector. The team compared the orders of magnitude of workforce changes in manufacturing and found that they were 44.9 thousand (2014), 43.9 thousand (2015), and 44.2 thousand (2016), based on information in the Kosovo Labor Surveys for those years. The team concluded that EMPOWER PS's contributions appear to contribute significantly to increases in manufacturing employment.

Trade Data. The team found useful source of information on trade in the trade flow figures obtained from the Kosovo Statistics Agency (KSA). The team found it difficult to extract trade data that corresponded exactly to the industry sectors served by EMPOWER PS, but an examination of recently published international trade tables (HS classification) for the period 2014-2016 showed a significant increase in Kosovo's exports of wood products and furniture to the EU, as shown in **Exhibit 22**. These were the only data relevant to targeted EMPOWER PS sectors available on the KSA database. It should be noted that the increase in exports between 2014 and 2016 was approximately 3.5 million Euros. By comparison, total exports reported by EMPOWER PS beneficiaries through to QII were 4.9 million USD (approximately 4.5 million USD). Although a full examination of data would be necessary for attribution, the scale of increase of 2016 exports is comparable.

Exhibit 22: Exports of Selected Goods from Kosovo to the EU



Source: Data on international trade published by ASK (Kosovo Statistical Agency).

Other donor support to Manufacturing and Services. EMPOWER PS's contribution to improving the performance of the companies in the sectors it targeted needs to be looked at in the light of other donor activities in this area. There are currently three significant projects dealing with enterprise improvement. The Europeaid funded competitiveness project Increasing Competitiveness and Export Promotion (ICEP) has targeted a number of manufacturing sectors, some of which coincide with those of EMPOWER PS's, and aims to provide firm level support to about 30 SMEs in close collaboration with KIESA and local consultants. However, this project has yet to provide inputs to target sectors. ICEP does not have a grant component but the EU plans to launch SME grant support in the near term. The other two activities are EMPOWER PS and the Swiss PPSE (Promoting Private Sector Employment project), budget \$5.9 M running from October 2013 till November 2017. PPSE adopts a M4P (markets for poor) approach. The ultimate beneficiaries of the project are the unemployed and underemployed with a specific focus on women and youth. The project is focusing on food processing and tourism. In food processing, as in tourism, the project focuses on systemic improvements that improve the way the markets function as opposed to working only with specific value chains. PPSE has an Opportunity Fund to support innovative projects. PPSE clearly overlaps both EMPOWER PS and AGRO areas of intervention. While there may be other relatively small-scale donor interventions, such as GIZ's (the Gesellschaft für Internationale Zusammenarbeit) work on creating a cluster of SMEs and institutions working in the area of renewable energy, EMPOWER PS is a leading provider of technical assistance to manufacturing industries.

IR 2.2: SUB IR 2.2.2 INCREASED AGRICULTURAL PRODUCTIVITY AND MARKETABILITY

Kosovo's flagship activity for improving the agricultural and food processing sector is currently AGRO, which took over from its predecessor, New Opportunities for Agriculture (NOA), at the beginning of 2015. NOA laid the foundations for AGRO in developing value chains in dairy, table grapes, berries, orchard fruit, field vegetables, lettuce, and asparagus. AGRO works through technical assistance and grants to strategic partners (SPs), farmers, agribusinesses, and other actors working throughout and in support of targeted value chains. Strategic partners are public and private sector actors that have the critical mass, technical knowledge, and productive capacity to catalyze market-led agricultural growth. They include large-scale aggregators (collection centers, pack houses, and processors), commercial farmers, producer and processor organizations, and public-sector institutions that provide support services. Throughout the life of the activity, AGRO aims to achieve the following three results: improve farm production and food processing; increase linkages to domestic, regional, and international markets; and strengthen strategic partners.

Exhibit 23 shows the transformation in Kosovo from the baseline at the beginning of NOA, to the situation at the end of NOA, to the current state of the agricultural sector. The AGRO sales are measured from a zero base and therefore do not include the NOA values. Note, the table shows jobs created as well as AGRO projected FTEs. AGRO goes not use real job counts in determining job increases. The FTE number is an estimated number of jobs based on a formula that assumes the size of the workforce needed to work on the cultivation and harvesting of a crop per hectare, and takes into account the cyclical nature of employment in agriculture during seasons.

Exhibit 23: Agricultural Value Chains Before and After NOA

Value Chain	Before NOA			NOA End Results			AGRO to Date			AGRO Projected FTE
	Sales	Jobs	HA New Tech	Sales	Jobs	HA New Tech	Sales	Jobs	HA New Tech	
Apples	\$ 6,622,105	644	1790	\$ 1,500,000	1269	70	\$ 3,545,705	273	75	681
Asparagus	\$ -	0	0	\$ 33,659	38	27	\$ 27,211	2		40
Blackberries	\$ -	0	10	\$ 1,500,000	250	4				
Blueberries	\$ -	0	0	\$ 3,500,000	268	17	\$ 192,111	15	36	229
Chamomile	\$ -	0	0						110	
Dairy	\$ 94,200,000	3303	-	\$ 57,000,000	1090		\$ 743,638	24		175
Gherkins	\$ 18,000	2	2	\$ 6,000,000	245	34	\$ 3,596,493	262	45	658
Lettuce	\$ 1,075,000	49	43	\$ 6,200,000	197	50	\$ 785,693	21	1.25	183
MAP		0	0	\$ 6,500,000	356	171	\$ 1,733,822	64	30	266
Peppers	\$ 55,866,760	5247	2993	\$ 12,000,000	320	26	\$ 6,920,651	213	132	573
Pears	\$ 2,008,000		354				\$ 5,701		16	9
Pumpkin			354				\$ 523,510	110	570	118
Raspberries	\$ -	0	0	\$ 2,512,889	685	25	\$ 10,858,251	1387	1106	12069
Saffron	\$ -	0	0	\$ 52,000	5	7.5				
Sour Cherries	\$ 184,086	8	58				\$ 139,652	6	44	88
Strawberries	\$ 332,100	23	45	\$ 2,500,000	476	43	\$ 1,106,680	45	12	136
Table Grapes	\$ 4,218,480	96	648	\$ 4,600,000	954	28	\$ 1,368,506	21	55	136
Tomatoes	\$ 365,180						\$ 651,442	49	5	255
Total	\$ 164,889,711	9372	6297	\$ 103,898,548	6153	503	\$ 32,199,066	2491	2237	
Figures extracted from Green Report										

Source: AGRO data

The AGRO target is to achieve a total of 3,800 hectares (HA) under new technologies, create 3,800 new jobs, and generate 134.1 million USD of sales. With approximately one-half of the activity completed, AGRO has achieved 65 percent of the new hectares target, 70 percent of the new jobs target, but only 25 percent of the sales target (explanation noted below). **Exhibit 24** below shows the results to date in relation to end of project goals:

Exhibit 24: AGRO Targets and Performance

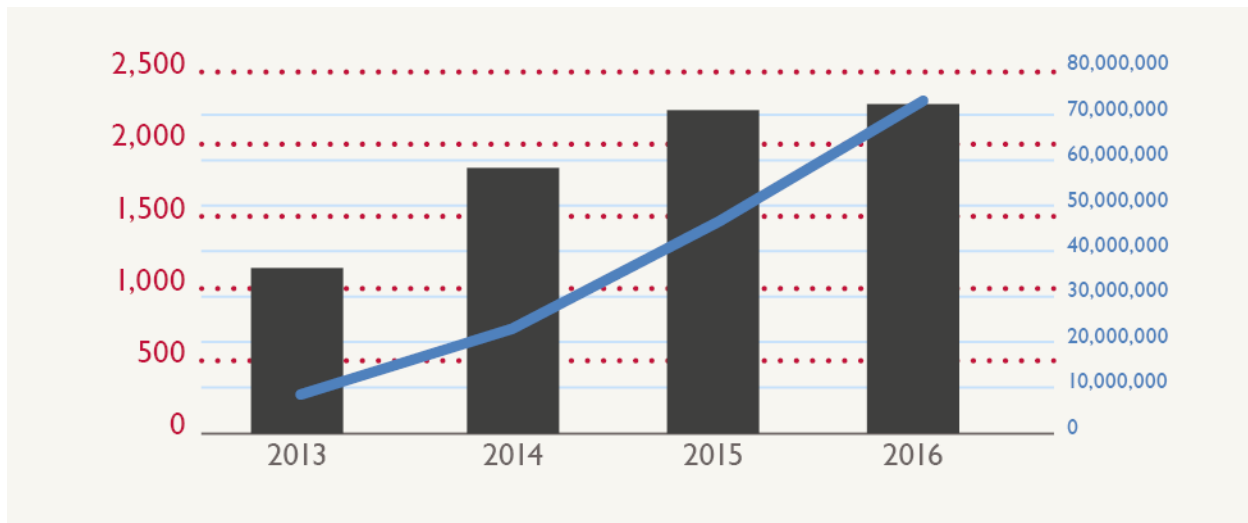
INDICATOR #	INDICATOR	LOP TARGET	RESULTS TO DATE	PERFORMANCE
DO2.2	Jobs	3,800	2,284	60%
R1.1	Number of people trained	12,400	6,377	51%
R1.3	Ha under new technology	3,200	2,237	70%

INDICATOR #	INDICATOR	LOP TARGET	RESULTS TO DATE	PERFORMANCE
R1.6	Firms adopting new tech	100	52	52%
R2.1	Total sales	\$130,900,000	\$32,199,066	25%
R2.1.1	Export sales	\$96,400,000	\$15,484,092	16%
R2.1.2	Domestic sales	\$34,500,000	\$16,714,974	48%
R2.4	Supply contracts	2,400	1,609	67%
R2.6	Sales from contracts	\$19,200,000	\$6,992,215	36%
R2.8	People in B2B	3,760	807	21%

Source: AGRO data.

The total sales and export figures are somewhat below target but it should be noted that sales cannot be expected to grow proportionally to expansion of areas under crop. For example, raspberry cultivation is a major success for USAID agricultural support, which introduced cultivation of this product to Kosovo. The raspberry value chain is a key driver of AGRO's indicators. The development of raspberry production starts with planting hectares. As areas under crop stabilize, yields on maturing crops and improved management continue to drive sales. As demand increases, so does the need for more workers and therefore jobs as well. Based on current projections, raspberry cultivation cumulatively will generate 72 million USD in sales by the end of the project, with final year sales projected at 26 million USD, which is almost 50 percent of the life-of-project cumulative target, as illustrated in the **Exhibit 25** below. The same applies to all value chains, with some lagging longer than others, for example sour cherry and blueberry.

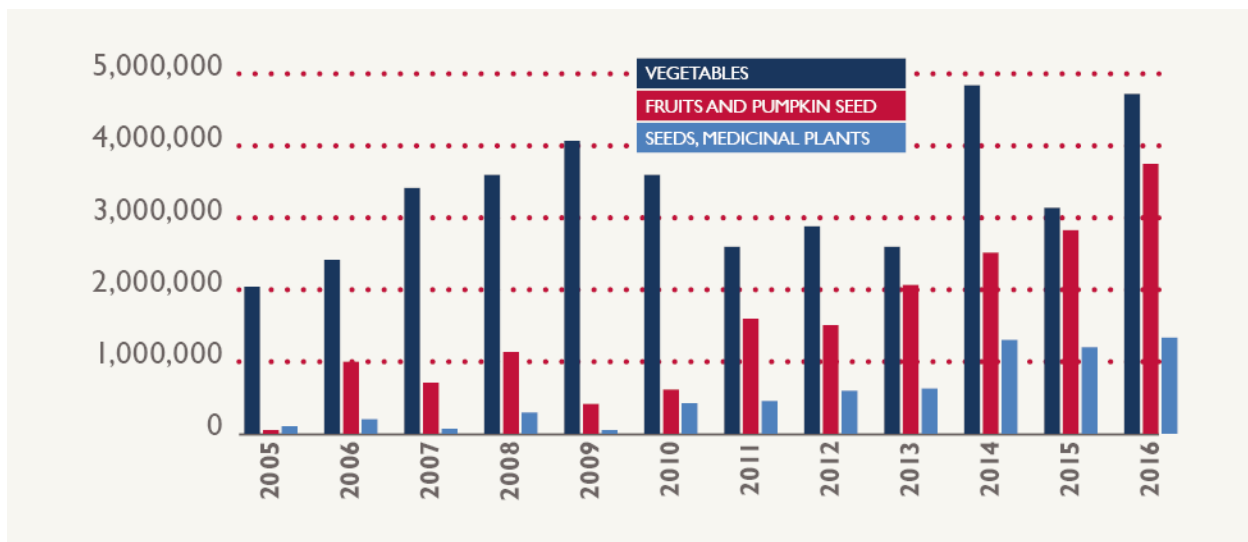
Exhibit 25: Area under Crop / Export Sales, Raspberry



Source: AGRO data.

As in the case of EMPOWER PS, the following data (**Exhibit 26**), obtained from the Kosovo Statistics Office, show that there is an increase of exports for AGRO supported value-chain produce, i.e., vegetables, fruits, and Seeds, Medicinal Plants (though disaggregated data are not available to show how this breaks down). Medicinal and Aromatic Plants (MAPs), including wild collected forest products, remains the strongest export oriented sub-sector, and is generating new jobs for women and youth, and contributing to improvements in income generation in rural areas.

Exhibit 26: Export Sales / Area Under Crop: Raspberry



Source: ASK.

Other donor support to AGRO. AGRO's contribution to improving the performance of agribusinesses in the sectors it targeted needs to be looked at in the light of other donor activities as well as the work done by the international organizations. Although other donors such as UNDP and the Swiss PPSE, for example, have been involved in providing technical assistance to farmers and processors,

no other project in Kosovo operates on AGRO's scale in terms of its outreach to strategic partners and farmers in the value chains. The EU has also been a key player in financing agricultural development, which is provided to agribusiness beneficiaries for upgrading their operations in cooperation with the Ministry of Agriculture Forestry and Rural Development (MAFRD) and is separate from the MAFRD's subsidies to farmers. The EU allocated a total of 79.7 M Euro under IP II for increasing competitiveness in agriculture and food production, raising food safety standards and improving living standards in rural communities, over the period 2014-2020. It has also provided capacity building support to the MAFRD to strengthen its capabilities to manage grant support.

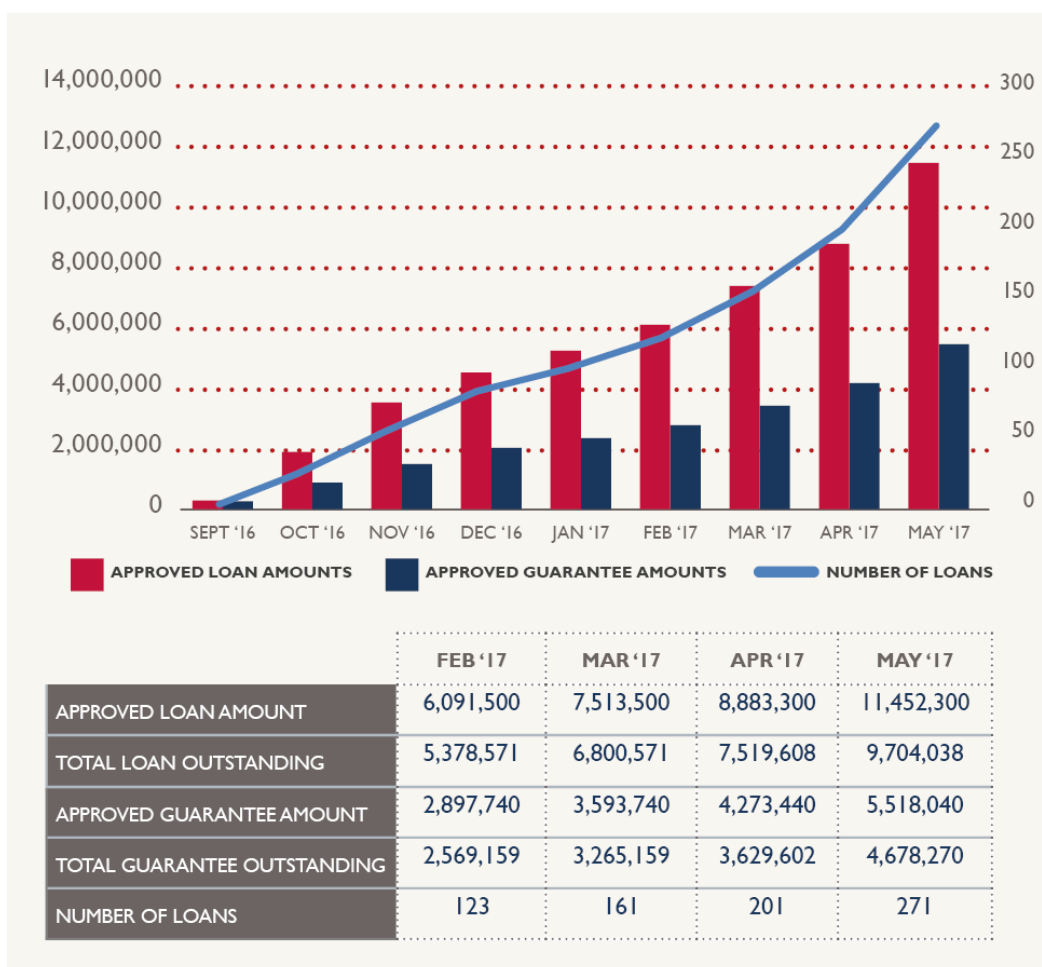
IR 2.2: SUB IR 2.2.3 ACCESS TO FINANCE

The evaluation team found that the commercial banking sector is awash with liquidity (somewhere near 600 million Euros that banks could lend if they lowered their internal lending requirements), but only bankable SMEs with a satisfactory record, financial history, and sufficient collateral are able to access SME finance. Non-bankable enterprises rely on non-bank financing institutions, use microfinance, and largely rely on their own sources of funding (savings, supplier credit, family), which severely limits a company's ability to invest. Access to finance continues to be one of the main barriers faced by SMEs.

Access to Finance under the PAD has been addressed by EMPOWER Credit (completed in June 2017), which was tasked with establishing a credit guarantee fund, as well as providing Development Credit Authority loan guarantees. It also included an agreement with the Crimson Finance Fund, whereby Crimson was allowed to retain USAID funds used for on-lending to SMEs until 2020. The evaluation team found that the project has achieved the results presented below:

Kosovo Credit Guarantee Fund (KCGF). Although there were delays in progress following the start-up of EMPOWER Credit, the activity and its stakeholders took considerable time to agree upon the legal form of the guarantee fund, enact legislation, complete staffing, and develop and implement procedures. The Kosovo Credit Guarantee Fund launched in April 2016 and commenced operations in September 2016. The evaluation team found that the Kosovo Credit Guarantee Fund thus far is a highly successful start-up and the commercial banks working with it have high expectations of its contribution to easing access to finance. Moreover, the public views it as a public institution and not directly linked to the Government of Kosovo, which is a positive in a country where public institutions are often viewed with skepticism. **Exhibit 27** below (from KCGF website) shows the growth in operations since start-up.

Exhibit 27: Growth of the KCGF



Source: Kosovo Credit Guarantee Fund data (website).

The Fund is operating and has observed that commercial banks with which it works are now able to make loans to clients that before had insufficient collateral. Furthermore, according to the Fund, although the cost of guarantees is absorbed in the cost of lending, a reduction of interest rates has also been observed despite this cost. Other donors have pledged funds for additional capital, for example, up to 2.0 M Euro is expected from KfW, raising the total current capital base to 10.8 M Euro. The current KCGF portfolio projections for the next 5 years are summarized in **Exhibit 28** below, with the target by 2021 projected at over 50 M Euro.

Exhibit 28: Kosovo Credit Guarantee Fund 5 year projection (M Euro)

YEAR	2016	2017	2018	2019	2020	2021
Outstanding guarantee portfolio	1,848,846	7,958,961	12,955,825	17,291,422	20,949,061	25,096,283
Outstanding loan portfolio	3,697,692.29	15,917,921.18	25,911,650.07	34,582,844.51	41,898,122.29	50,192,566.73

Development Credit Authority (DCA) loan guarantees. The DCA has been utilized by a number of commercial banks as detailed below.

- **Agriculture DCA** with 6 banks from 26/09/2012 – 26/09/2022 funded by the Ministry of Agriculture, Forestry, and Rural Development (MAFRD). Total amount 26,000,000 USD total amount disbursed 23,059,192 USD (88.69 percent utilization), total number of loans 913, average loan size 25,256.50 USD. Percent of total loans for all 6 banks more than 91 days in arrears is 6.3 percent.
- **Banka Ekonomike.** 1,000,000 USD total to be disbursed of which as of 03/01/2017, 661,017 USD disbursed (66 percent utilization) or 20 loans, average loan size 33,364 USD. Percent of loans more than 91 days in arrears is zero.
- **BKT Bank.** 1,000,000 USD total to be disbursed of which 100 percent is utilized, 40 loans, average loan size 28,238 USD. Percent of loans more than 91 days in arrears is 0.00 percent.
- **NLB Prishtina.** 1,000,000 USD total to be disbursed of which 100 percent utilized, 28 loans, average loan size 35,717 USD. Percent of loans more than 91 days in arrears 26.54 percent.
- **ProCredit Bank.** 10,000,000 USD total to be disbursed of which 9,999,960 USD, or 100 percent is utilized, 243 loans, average loan size 41,398 USD. Percent of loans more than 91 days in arrears 7.79 percent.
- **Raiffeisen Bank.** 7,200,000 USD total to be disbursed, of which 4,645,816 USD, or 64.53 percent utilized, 275 loans, average loan size 16,845 USD. Percent of loans more than 91 days in arrears 3.50 percent.
- **Türk Ekonomi Bankası (TEB) Bank.** 5,766,770 USD total to be disbursed of which 5,752,399 USD or 99.75 percent is utilized, 307 loans, average size of the loan 19,905 USD. Percent of loans more than 91 days in arrears 0.35 percent.

Utilization in Kosovo is 90 percent of available funds compared with 37 of DCA funds utilized globally. From 1999 to 2015, the global cumulative default rate was 2.36 percent. In Kosovo, the percentage of loans more than 91 days in arrears was approximately 6.3 percent. Commercial Banks state that the DCA guarantee was an excellent instrument in increasing lending and they have used most of their allocation and would use more if more funds were available. As a result of the positive results from the DCA, they are pushing their central headquarters to loosen credit risk, allowing them to utilize more of their internal capital for riskier loans and increase their portfolios. One hundred percent of the loans disbursed through guarantee funds are to new clients, women, and young companies, including start-ups, and farmers. None of the other donors' (such as the European Bank for Reconstruction and Development, EBRD, and the International Finance Corporation, IFC) guarantee programs have had the impact of the DCA.

Crimson Finance Fund has disbursed 27 million USD in loans to SMEs in all sectors, including agribusiness, since 2008. It lends 28 percent of its portfolio to Agriculture compared with 4 percent with Commercial Banks and 8 percent KCGF. To date CFF has disbursed almost 500 loans and leases to all sectors and provided in excess of 27 million USD in total financing (note, Crimson Finance is also capitalized by Norwegian Government grant funding).

Commercial banks. The evaluation team met with a number of commercial banks working with DCAs and KCGF, namely TEB, Raiffeisen, ProCredit and BPB. Banks were unanimous that the DCA guarantees and the Kosovo Guarantee Fund was of great value and they looked forward to continuing

and even increasing cooperation with USAID and the KCGF. In general, the availability of credit guarantees has enabled banks to lend to good clients to whom further lending would have not been possible due to insufficient collateral. Furthermore, it has influenced a reduction in interest rates even though the costs of guarantees are included. A few of the banks interviewed stated that it was unlikely they would have financed farmers had it not been for the DCA guarantees due to the risky nature of the business and insufficient collateral. Another bank said that the guarantees had not so much altered the profile of targeted customers, which were carefully selected due to strict criteria, but had enabled them to make further lending. These banks that had increased lending to agribusiness highly valued training that had been provided to their credit officers in learning about agribusiness lending, and were looking forward to further collaboration to increase their portfolios, covering a wide range of manufacturing and services, and looked to both USAID activities AGRO and EMPOWER for support in learning about the industries in more depth. Banks believe progress needs to be made with small businesses to improve financial literacy and introduce good booking practices as part of making them bank-ready. All banks believe there has been an overall improvement in lending to SMEs and reference was made to the use of private bailiffs, which eased execution of judgements against defaulters. According to information received, NPL 90 had come significantly down and were currently around 9 percent for SMEs compared with a few years prior, when it was greater than double that figure.

As in most transitional economies, access to finance continues to be a major obstacle to enterprise growth in Kosovo. According to a recent European Investment Bank report (2016), the SME Finance gap in Kosovo is 870 million Euro, which means that the DCA and KCGF support to SME lending activities, which amounts to about 36 million USD of loan financing, has barely affected more than a few percent (3.6 percent) of the total needs.

IMPROVEMENTS AND BENEFITS ATTRIBUTED TO USAID BY PAD PROJECT BENEFICIARIES

In the following section, the evaluation team discusses the improvements and benefits associated with USAID's interventions by PAD Project beneficiaries, and summarizes beneficiaries' feedback from key informant interviews, focus group discussions, and the business survey. All government institutions were very positive and appreciative of the assistance they had been provided. When asked about the sustainability of this support, respondents said there was still much to be done, that this was a long-term change process and continued support was important for the foreseeable future to ensure long-term sustainability of institutional reforms.

Feedback from Government of Kosovo Officials: Economic Governance, Business Environment, and Competitiveness.

Ministry of Trade and Industry (MTI). The MTI, namely the Kosovo Investment and Enterprise Support Agency (KIESA) Agency, benefited primarily from the USAID Empower Private Sector project, which jointly supported the tourism and wood processing sectors through international fair and B2B participations, and the USAID AGRO project through which MTI jointly drafted the food processing export promotion strategy and in promoting agricultural exports. Also, the USAID Credit Growth project was instrumental in completing the preparatory work, including drafting the law on the KCGF, and in finalizing and establishing the Fund. Furthermore, USAID's financial support ensured the KCGF was able to cover its short-term costs by acting as bridge financing to ensure the Fund's financial sustainability. In addition to that, throughout this time, MTI has benefited greatly from the support and assistance that the PFD project provided through its international and local staff. One of the areas that was initially addressed was general improvement and advancement of the business climate, respectively

in KBRA's case, improvements on the starting-a-business indicator. As a result of that assistance, significant improvements occurred. Kosovo's rating in the World Bank's "Doing Business" improved; at present, Kosovo is ranked 60, and in the starting a business indicator, Kosovo is ranked 13.

USAID's support and coordination have been instrumental in achieving MTI's objectives in promoting Kosovo's private sector, its products and services, and its capabilities and capacities to integrate in regional and international value chains. MTI hopes that USAID's funding will continue and the established partnership will be advanced further. Moreover, MTI expressed that future **USAID economic development projects should take into account the importance and interdependence of economic development and rule of law and law enforcement.**

MTI is satisfied with the collaboration and coordination of efforts, projects, and resources that it has received from USAID projects in reaching GoK/MTI objectives.

Ministry of Finance (MoF). The MoF used the support of PFD to negotiate and successfully implement the SBA agreement with the International Monetary Fund. Project Advisors have helped the MoF to design measures and set up fiscal trails, as well as monitor and evaluate the program's achievements. Also, as part of the program's implementation, with the help of project advisers, the MoF created a new rule that limits public sector wage growth to keep it in line with economic growth. It should be noted here that reforms have led to a significant reduction in the budget deficit, the increase of state reserves, and the increase of tax revenues, which evidence better macro fiscal management.

MoF considers that USAID's current programs have provided adequate support. Based on the success of the initiatives up to this point, MoF posits that in the future additional assistance is needed to further advance accounting policies and improve the capacity for managing public finances in budget organizations by the MoF. MoF finds that the support of the project for further capacity building for macroeconomic analysis, based on the achievements to date, is indispensable to achieve future objectives.

MoF believes that the form of cooperation with USAID projects, a form that prioritizes strategy and needs and that is based on the deployment of councilors within the institutions, has proved to be very successful, and is pleased with the cooperation with USAID thus far.

Feedback from Government of Kosovo Officials: Agricultural Development.

Ministry of Agriculture. The evaluation team was informed that the Ministry is happy with the impact of USAID assistance, and particularly so in agriculture. It is not only about financial support from USAID but also the leadership provided by AGRO and its Chief of Party (COP) in developing the Kosovo agricultural sector, particularly the introduction of new crops and technologies. AGRO has brought the A-Z in value-chain development.

Food and Vet Agency. The agency has had good cooperation with AGRO and has made an important impact on the development of the dairy industry. USAID has been the key for to the success of the producers' association. The development of the dairy industry would not have happened without USAID. A characteristic of AGRO's approach is its effective consultation process with all relevant parties. USAID is a likable partner, and all projects with them are practical and transparent.

Feedback from Focus Group Discussions with EMPOWER and AGRO Beneficiaries in 5 regions (Pristina, Prizren, Peja, Ferizaj, Mitrovice).

The purpose of this section is to summarize the feedback obtained from beneficiaries of PAD activities under the following headings:

Benefits and ability to develop unassisted

Benefits provided to enterprises participating in the focus group meetings are summarized in Annex 7.

Overall, AGRO Focus Group participants indicated that the level of assistance provided by AGRO with regards to increasing the capacity, improving the production and finding new markets is essential for their development. Overall enterprises were pleased with the support provided though in some cases there were reservations. For example, some AGRO producers pointed to the lack of collection points to take produce, and some recipients of seeds complained that they had not been provided with advice on growing produce. Generally, AGRO companies appeared to be less optimistic about developing unassisted and pointed to a number of areas in which they expected continued support (see below). Furthermore, most representatives were highly oriented towards continuing subsidies and grant support.

Generally, all EMPOWER Focus Group participants expressed satisfaction with the support received and expressed hope that it would continue in future. In cases where they expressed reservations, these are included in Annex 7. Some of the most skeptical were tourism representatives, who did not feel that their participation in the events did much to develop their business. In all visited towns, beneficiaries underscored the importance of grants in developing their businesses. In some cases, they said they would not have managed without the grants and hoped they would continue. The only difference was in Pristina where companies felt they could continue without grants but counted on continued USAID support for catalyzing systemic change. In general, the beneficiaries felt that USAID had the ability to influence governmental institutions to improve the business environment for companies.

Key Challenges:

AGRO:

1. Technology and infrastructure
 - Technology and mechanization – still a lot of manual work
 - Lack of collection and storage facilities. Large investment to build.
2. Financing and business risk management
 - Longer tenor loans needed. Problems with access to finance.
 - Lack of agricultural insurance
3. Fiscal
 - Small farmers pay presumptive tax and no VAT. Results in some farmers continuing to present themselves as small to avoid VAT.
4. Extension services and expert advice
 - Lack of agronomists. Faculty staff have little practical experience. Difficult to get expertise other than from donors. Ministry of agriculture has weak capacity and does not have good experts.
 - Development of agribusiness associations to provide embedded services
 - Insufficient capacity of municipality to deal with requests from farmers for assistance.
5. Subsidy policies

- Poor government policies regarding subsidies for cooperatives resulted in the formation of many fictional cooperatives.
 - Poor selection of grantees. Insufficient capacity to monitor grants. Ministry only interested in how money spent.
 - Farmers have become dependent on subsidies paid by government and municipalities. Farmers are poorly prepared when making applications for subsidies.
6. Property issues
- Property rights issues mean that some farmers cannot apply for grants since their land is not in the cadaster.
7. Market access
- Hyper production of raspberries and challenges of selling.
 - Obtaining quality certification

EMPOWER:

1. Fiscal
- Customs duties too high on input materials
 - Value-Added Tax (VAT) refunds
2. Operational Environment
- Poor support at the municipal level, including problems with infrastructure (roads and power)
 - Legislation allowing collection of waste for recycling (e.g. from forests)
3. Workforce
- Sourcing workforce with needed skills
 - Academically qualified personnel with skills that do not match needs
 - Brain-drain / skills-drain abroad
4. Financing
- Longer-term loans needed
5. Unfair competition
- False labeling
 - Trade-mark violations
 - Unfair competition (e.g. under-declaration of value of imported goods)
 - Intrusiveness of customs and tax office
6. Market access
- Testing and certification of technical goods
 - Lack of market information in Kosovo
 - Sourcing of raw materials

Support from Municipalities and Associations

Beneficiaries' accounts vary depending on the location and it is clear that the capabilities of municipalities vary considerably between locations. They are considerably limited in what they can achieve due to a lack of power in decision making that is still centralized, as well as due to a lack of budget to solve infrastructure problems, such as access to power and water. AGRO beneficiaries described collaboration with municipal departments of agriculture, though the latter's capacity was limited due to lack of expertise and budget, and they have to defer to the Ministry on some issues. However, where they exist (not all municipalities have such departments) the municipal agriculture departments try to be helpful and several of the focus group meetings included representatives of municipalities responsible for agribusiness. Similarly, with industrial zoning, some municipalities have tried to accommodate the needs of local enterprises but are also limited in what they can realistically achieve.

Feedback on association support varied between skepticism about their usefulness and acknowledgement by members of relatively active associations such as STIKK and wood processors, that they do a good job in promoting the sector and organizing companies in fairs and exhibitions. However, most representatives pointed out that they were unable to tackle some of the biggest challenges facing enterprises, with workforce development being mentioned frequently.

Looking forward to support

The following summarizes areas in which beneficiaries indicated as areas for continued support, and match up with challenges in many cases.

EMPOWER PS

- Technology upgrading / matching grants to replace old equipment.
- Collaboration with vocational education and training establishments to train workforce to match needs.
- Development of associations and clusters to take advantages of economies of scale through cooperation, information sharing, and lobbying power.
- Standards and certification to adapt to international market standards.
- Start-up finance and incubation to support small businesses in early stages of growth.
- Continuation of training/train-the-trainers to spread knowledge in Kosovo instead of reliance on international donor projects to provide foreign trainers.
- Send professional representatives to foreign fairs to accompany local firms, instead of leaving them to cope for themselves when inexperienced in foreign B2B.
- Export readiness assistance to develop know-how in export marketing.
- More international B2B/country promotion to increase the number of opportunities for foreign B2B and to familiarize export markets with Kosovan products and capabilities.

AGRO

- Product improvement e.g. cheese making
- Diversification into new areas e.g. beekeeping, development of organic production
- Technology upgrading e.g. sorting, processing, packaging
- Access to water and irrigation
- Quality certification e.g. Global Gap
- Development of crop-insurance
- Improvement of infrastructure e.g. collection points, greenhouses
- Sourcing of investment funding
- Engagement of diaspora

KIIs – Business Associations

Meetings were held with a number of business associations working with PAD Project activities, including EMPOWER PS beneficiaries Kosovo Wood Processors Association (AWPK) and STIKK; and NOA/AGRO beneficiaries Organika (MAPs), National Raspberry Association, Kosovo Dairy Processors Association (KDPA), and Kosovo Milk Producers Association (KAMP). The purpose of these meetings was to assess the degree to which they had been strengthened through their collaboration with the PAD activities. Other chambers/associations included in meetings were the Kosovo Chamber of Kosovo, the American Chamber of Commerce (AmCham), and Women's Association SHE-ERA. A few of the aforementioned have also worked with other USAID activities under a different DO. Some have

also been past beneficiaries of other donor activities, and it is widely acknowledged that this overlap has not always resulted in the development of sustainability since the associations' management becomes dependent on donor handouts.

There are many business associations in Kosovo, which have either been formed or have benefited from donor assistance, most of them sector oriented or linked to a specific community, and thus it is impractical to compare the PAD beneficiaries with a comparison group of unassisted associations since there are very few, if any. Included among those not receiving donor support is AmCham (whose membership includes international and relatively large domestic enterprises and has been self-sustaining for many years). The Kosovo Chamber of Commerce is not a typical target of sector oriented direct project assistance since it is an umbrella to 36 of trade/sector associations and claims 17,000 members. The Kosovo Chamber coordinates its activities with donors and informs that it collaborated with the PAD activities particularly in relation to business registration and legislative issues, and with the USAID competitiveness activities on market access, certification and labor issues. Kosovo Chamber of Commerce believes that USAID activities assistance to private sector development is an essential for economic growth and said that it supplements those areas that it is unable to provide assistance such as grants, technical assistance, and international fairs. AmCham was likewise positive about the role of USAID activities and spoke of the necessity of future focus on rule of law, labor policy and workforce skills development, and access to finance. It values the work done by USAID in competitiveness but wondered whether the EU would not be better positioned in future given the wide range of pre-accession instruments that could be made available to Kosovo.

Donors and projects assisting association development tend to agree that there is a lack of collaboration culture among enterprises in Kosovo and that, consequently, forming cooperative initiatives, whether through associations or clusters, continues to be challenging.

Our findings are summarized below.

- *A small number of business associations have made significant progress in institutional development and generating income streams.* KAMP, which has benefited from USAID support for over 10 years, is a particularly good example of an association supported by USAID agribusiness activities that succeeded, with AGRO support, in designing and implementing systems for collecting fees for services provided to farmer members, as well as executing campaigns to promote consumption of domestically produced milk, thus enabling it to achieve financial self-sustainability. Created in 2008 and representing 90 percent of ICT companies in Kosovo, STIKK is another good example of an association that has not only won national recognition but is also a recognized regional player among the West Balkans IT associations and clusters. This association has created a range of services including workforce education, promotion of the IT industry, conferences and networking events for members, all of which place it at the forefront of Kosovo IT associations. Nevertheless, even the strongest associations rely, when they can, on technical assistance from multilateral and bilateral donors.
- *Most of the other associations have attained varying degrees of sustainability.* Members of the Kosovo Wood Producers Association manufacturing solid wood furniture have benefited significantly from an initiative to market their products in the German marketplace, resulting in a growth in exports. However, this association, which is a relatively good example on the spectrum of Kosovan business associations has yet to achieve full engagement of existing members, let alone enrolling new. The association continues to rely on donor support to provide services to members, including grant contributions, and is thus not sustainable.
- *Capacity building and better donor coordination.* A comment that was common to more than one association or business support organization was that rather than supporting associations as one

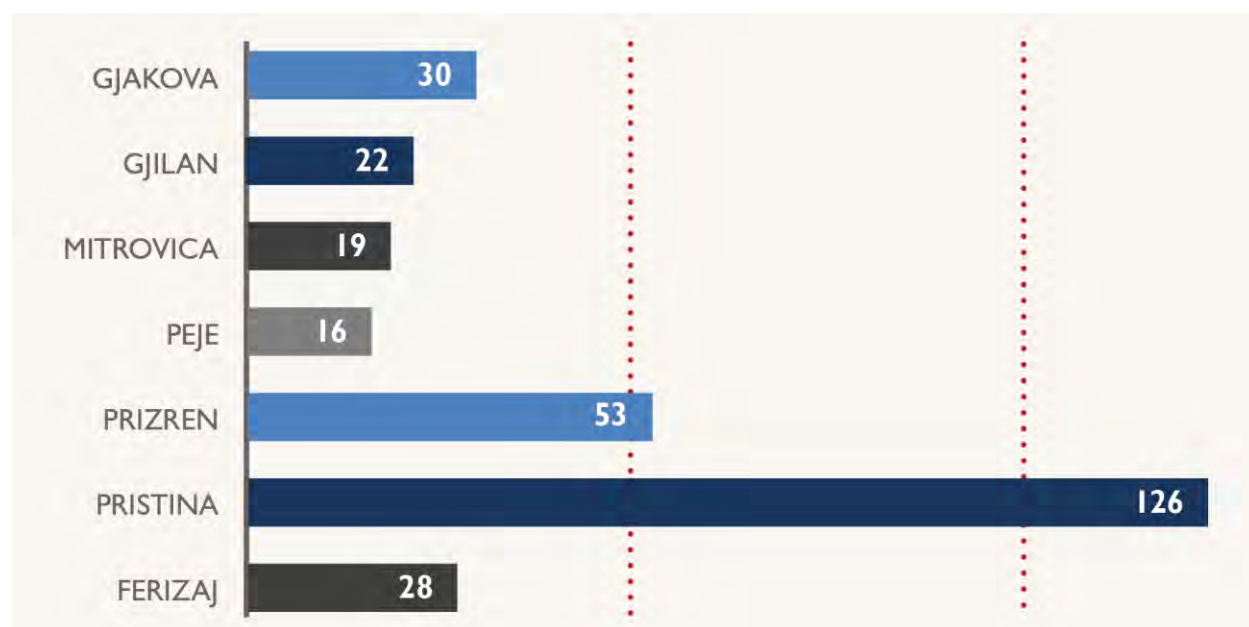
of a project's components, their capacity should be developed such that they become the main conduit of support to the industry. A couple of associations mentioned that better donor coordination on association development would also be beneficial if associations were to receive more effective assistance in achieving sustainability.

- *Women's issues.* SHE-ERA is not a direct beneficiary of the PAD Project although its members include such. The organization has been in existence for a long time now but has not achieved sustainability. Its executive director felt that the organization still had not been successful in becoming a key partner in consultations on women's role in business.
- *All of the associations that have worked directly with PAD Project activities were generally happy with the support and the international expertise provided.*

Findings from Business Survey of PAD Beneficiaries and Comparison Group

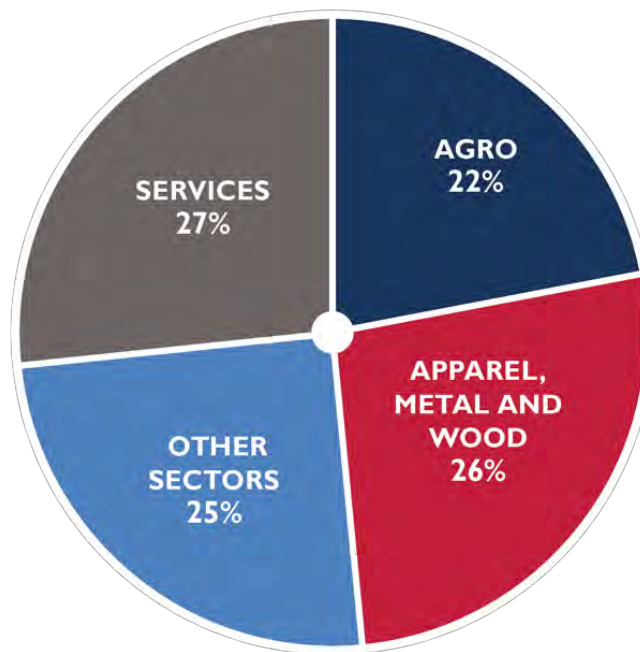
In this section, the evaluation team presents the final results of the enterprise survey. The survey was completed with 294 interviewees out of a planned total of 300.⁸ The interviews were carried out over the entire country, although the majority of interviewees (totaling 126) are based in Pristina. The surveyed population included 193 enterprises selected from the EMPOWER PS, AGRO, and NOA beneficiary lists. The remaining 101 enterprises are a comparison group, selected from the business register, which was included to provide a basis for comparing against the enterprises on the aforementioned USAID beneficiary lists. Details of survey locations are provided in **Exhibit 29** below. Approximately 42% of surveys were administered in Pristina, while the remainder were conducted in outlying cities. The pie chart in **Exhibit 30** shows the sector structure of the survey population.

Exhibit 29: Survey Locations



⁸ The remaining interviewees were unable to confirm meetings within the data collection period.

Exhibit 30: Sector Structure of Survey Population



Source: Business Survey.

Main Obstacles in Business Environment:

The survey population was questioned about the most frequent obstacles to business. The three most frequent were inadequate access to workforce (39 percent of the sample), access to finance (38 percent of the sample), and informal (“disloyal”) competition (37 percent). When asked to identify the biggest obstacle, 18.7 percent pointed to access to finance, and 13.3 percent identified inadequate workforce, and access to electricity and informal competition were referred to by 12.2 percent in each case. Corruption recorded 6.5 percent of frequency when asked about biggest obstacles. On being questioned about corruption in the public administration, slightly less than a third of respondents reported the situation as having improved whereas the remainder considered it the same or worse. Business licensing and permitting, as well as inefficient courts were referred to by 3.1 and 2.0 percent respectively. See Annex 8 for tables on obstacles to business.

Business Environment Changes:

The survey looked into some aspects of the business environment reforms on which the USAID Partnerships for Development activity had worked, to see whether enterprises had experienced improvements.

- i. **Company registration.** Of those enterprises that had registered companies over 4 years ago and again more recently, those who thought registration proceeded much simpler and faster compared with past experiences constituted 63.7 percent and 58.2 percent, respectively, and about 31% thought it was about the same. Only 65 percent of the total surveyed population knew that online registration was available. Of the sampled population, about 10 percent of enterprises were also owners of inactive

businesses, and were approximately equally divided between those who intended to deregister their business and those who did not.

- ii. **Construction permitting applications.** Of those enterprises that were able to compare the construction-permitting procedure over 4 years ago with more recent experiences, 57.9 percent thought the process was simpler, and 31.6 percent considered it to be the same. Of this group, 91 percent obtained construction permits.
- iii. **Dealing with tax administration and public-sector bureaucracy.** Sixty percent of interviewees thought tax authorities were easier to deal with compared with 4 years ago, and 30 percent thought there was no difference. Of the total sample population, 67 percent were visited by tax authorities on average more than twice during the past year. Sixty-eight percent of the surveyed population knew they could complete tax returns online, but 29.5 percent of those who knew did not do so. Of those who do not fill tax returns online, 60.1 percent said they sometimes did not submit tax returns. Two thirds of surveyed enterprises reported annual inspections by tax officials over the past year, and of these 20 percent were inspected over 4 times, 51 percent 2-3 times, and 28 percent only once (on average 2.4 per enterprise). The average time spent by enterprises in dealing with government bureaucracy and administrative requirements was 10.4% of working time.
- iv. **Public hearings on government laws and regulations.** Of the total sample population, 68 percent had never been asked to take part in public consultations during the last 4 years. Of the 32 percent requested to participate in public consultation, 87.2 percent expressed an opinion.

Aspects of SME performance:

The enterprises were surveyed on aspects of their operations and performance that could be related to objectives of PAD activities, for example: increase of jobs, increase of sales and exports, development of new products/services, support to associations representing targeted sectors.

- i. **Changes in Workforce Size and Women in Management:** When asked about growth in workforce, 75 percent of the surveyed enterprises responded affirmatively. This question was asked twice in different ways during the survey. The estimated average percentage change in workforce size over the past four years were increases of 39 and 25 per cent for the PAD beneficiary and comparison groups respectively. A second question on actual numbers of workforce now compared with four years ago came up with 54 and 22 percent for the PAD beneficiary and comparison groups, respectively. There was no significant difference between the responses of PAD beneficiaries and comparison group on the questions regarding employment of women workers and women managers.
- ii. **Target Markets and Competition:** Most of the enterprises (92 percent) sell their main product in the domestic market. On average, enterprises selling in the EU market and/or domestic constituted 22 per cent of the sample, and eight percent sell in the domestic market and/or CEFTA. A comparison between PAD beneficiaries and the others showed that 27 percent of the sample sold in the EU versus 13 percent in the comparison group. Forty three percent of enterprises consider domestic competitors as

being their main competition, a third consider both domestic and foreign, and 23 percent consider foreign.

- iii. **Growth in Sales (Domestic & Exports):** When enterprises were asked about growth in domestic sales over the past four years, PAD beneficiary and comparison group enterprises reported sales growth of 34 percent and 27 percent, respectively, which is a significant difference. The average export growth over the past four years for the 62 enterprises that were able to respond was 45 percent for PAD beneficiary enterprises and 25 percent for the comparison group. However, though the difference is large between the PAD and comparisons groups, the sample responding was too small to be conclusive about the significance of this difference.
- iv. **Introduction of new products/services:** For the entire sample, on average over half the enterprises, 54 percent, stated that they had introduced more than one new product to their markets during the past four years. Sixty-eight percent had introduced at least one product. There were no significant differences between the PAD beneficiaries and the comparison group.
- v. **Participation in trade fairs and exhibitions:** Around 58 percent of the entire sample participated in trade promotion events in Kosovo or abroad. Of those participating, 43 percent attended in Kosovo only. Twenty Eight percent of those participating in such events claimed that they had done so with USAID support.

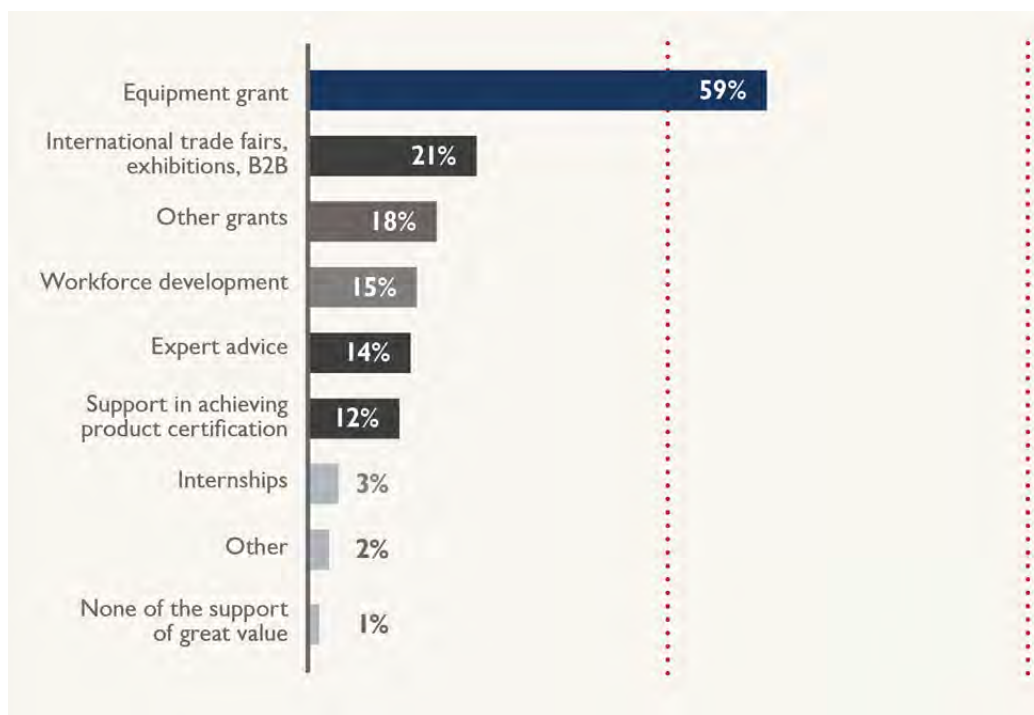
Benefits provided to PAD Beneficiaries:

The 193 beneficiaries surveyed were selected from beneficiary lists provided by various Project activities (specifically EMPOWER, AGRO and NOA). However, from this total, only 79 confirmed that they had been beneficiaries of these activities even after additional probing, which is an important finding. During the survey, the enumerators double-checked this by asking the comparison group whether they had been beneficiaries and 12 from a total of 101 enterprises claimed to have benefited. It is not uncommon that activity beneficiaries do not recognize the name of the activity or the organization that is providing the activity largely due to recall error of the respondent. An additional problem that occurs in enterprise surveys is that the survey respondent is often not the direct beneficiary of the activities' interventions and thus has little or no knowledge of the services received. It is likely that some of the enterprises in the sample were farmers downstream of the AGRO strategic partners and may not have fully understood that they were benefiting as suppliers. Finally, the enumerators indicated that several cases existed of enterprises that stated that they had benefited from donor funding but they had either received funding from an intermediary and/or were unaware of who the source of funding was. Regardless, as a deeper inspection of the administrative data was not feasible, the survey questions for Project beneficiaries included only those businesses that confirmed they were Project beneficiaries within the survey interview (91 total, 79 from beneficiary group and 12 from comparison group).

The PAD activity beneficiaries were surveyed on the benefits from participation. They received a range of support from the PAD Project. **Exhibit 3I** displays the most valuable benefits delivered (enterprises were asked to name up to two). Fifty-nine percent of respondents named grant benefits, followed by international fairs second (21 percent), with other grants and workforce development in third and fourth places. However, the survey results show that only 36 percent of beneficiaries considered grants to be essential for the development of their business, whereas 53 percent considered them useful but

non-essential, and 8 percent would have made the purchases in any case. Of those who received a grant, 35 percent combined it with a loan.

Exhibit 31: Types of Benefits of the PAD

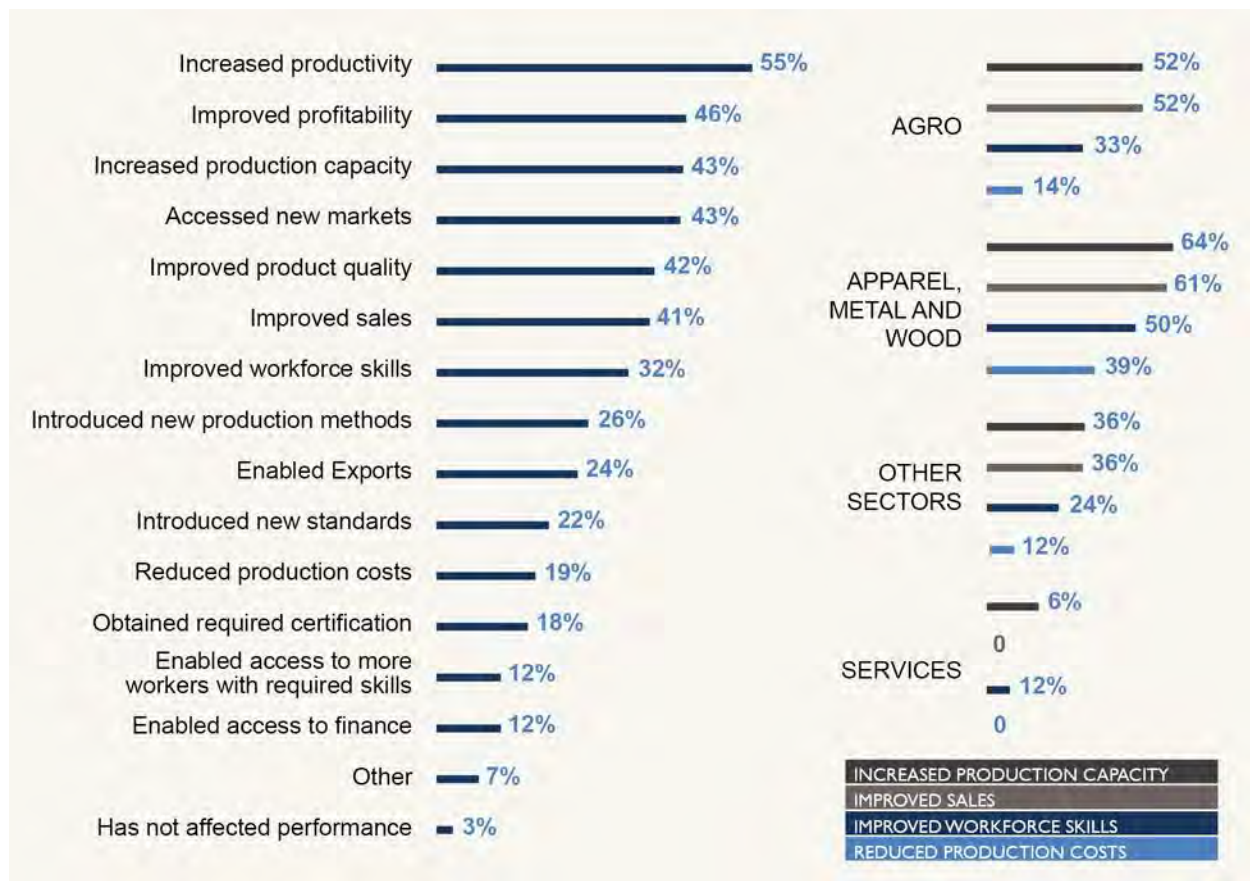


Source: Business Survey

Outcomes for PAD Beneficiaries:

Just under 86 percent of PAD beneficiaries stated that support from its activities had benefited the development of their business. **Exhibit 32** shows how benefits affected performance. When asked about how the PAD Project had affected their company's results, the top five benefits cited are improved productivity, improved profitability, increased production capacity, access to new markets, and improved product quality. A relatively small number of respondents, 12 percent and 10 percent, indicated that they experienced outcomes from PAD assistance in the areas of access to finance and access to skilled workers, respectively. The exhibit also shows the differences in rankings of performance outcomes between sectors.

Exhibit 32: Effects of PAD Benefits

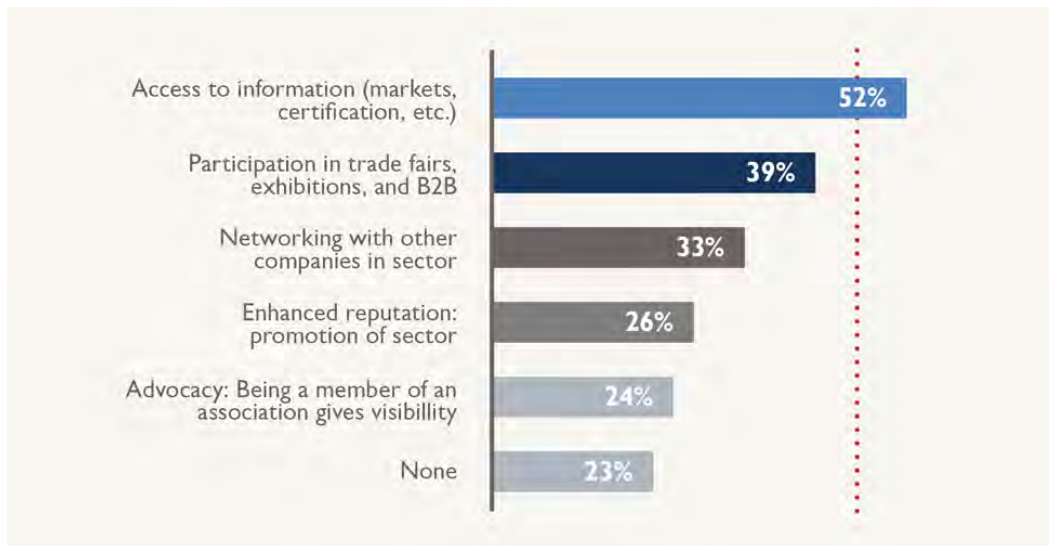


Source: Business Survey

Business Associations:

Most of the targeted sectors have business associations that have received support from PAD Projects. Enterprises were surveyed about membership in business associations or business support organizations (BSOs) representing their business. A slightly larger proportion of enterprises from the PAD beneficiary group were members of trade associations or chambers than for the comparison group, though this difference is not significant. On average, 45 percent of the sample were members and of these, 42 percent claimed to be members of the Chamber of Commerce. An analysis of the membership of sector associations shows that PAD beneficiaries were represented in these associations in larger proportions than enterprises from the comparison group. Eighty-nine percent of those who are members pay fees regularly. Although members listed a range of services received from these associations (see **Exhibit 33**), 30 percent thought they had little influence over the association's decisions and 9 percent felt the associations were serving the interests of a small group. Members of associations named numerous services received, including over half mentioning access to information and approximately one-third acknowledging participation in fairs and networking.

Exhibit 33: Services Provided by Business Support Organizations

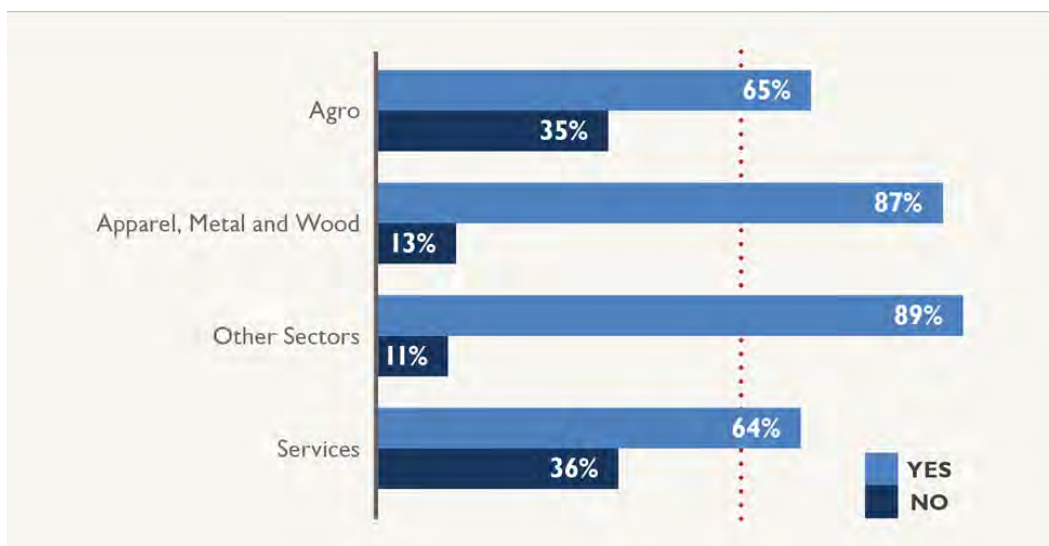


Source: Business Survey

Access to Finance:

Enterprises were asked to indicate multiple sources of funding for working capital. Most (72.5 percent) cover their working capital needs using internal funds, whereas 51.4 percent indicated they utilize bank loans. There are no significant differences in use of bank finance between the PAD beneficiaries and the comparison group. Non-Bank FI loans were indicated by 1.4 percent. Just over five percent indicated they rely on supplier credit. Seventy-six percent of the entire sample made capital investments during the past four years, and 75 percent indicated internal funds as the source of financing with bank loans in second place indicated by half of the respondents. Donor and government grants as sources of investment funding were reported by 14 and 7 percent of the sample. External investors were indicated by less than 1 percent. Lastly, Capital investments by sector are shown in **Exhibit 34** below.

Exhibit 34: Capital Investment by Sector



Although businesses say that they finance investments and working capital through a combination of internal funds and bank loans, only about 54 percent of those surveyed had taken out loans since 2014, whereas 38 percent did not acknowledge receipt of any loans. Of those borrowing funds, 6 percent claim to have benefited from the Kosovo Credit Guarantee Fund, whereas almost 14 percent did not know of its existence.

Priorities for improvement and assistance expectations:

When asked about priorities for their businesses, the top ranking five were: investment in technology and equipment (17.8 percent), training of workforce (10 percent), product and service development (8.9 percent), business development - growing the business (8.9 percent), and accessing international markets (6.7 percent). When asked about types of assistance expected in the future, the top five areas were: financial support from donors (39.8 percent), training for employees (11.4 percent), legal support and business management advice (9.1 percent), support for investment in technology and equipment (5.7 percent), support in accessing export markets (4.5 percent).

PAD Beneficiaries perception of consulting services and willingness to pay:

Assisted enterprises were asked about how they perceived the quality and usefulness of consultants that had worked with them either in preparation of applications for assistance, or during the implementation of the technical assistance. From the sample of PAD activity assisted enterprises, 44 percent stated they had used the services of consultants during the process of applying for support. Note, less than half the applicants found the application process simple. Of those who used consultants, 90 percent believed that the assistance had been necessary for a successful application.

When asked to differentiate between the origins of technical experts, the percentages that reported technical assistance provided by foreign versus local experts were 55 and 29 percent, respectively. Ninety four percent of beneficiaries rated the foreign expert advice as good or excellent, and the corresponding figure for local advice was 88%. The remainder indicated poor quality. When asked whether beneficiaries would be willing to pay for assistance from local experts, 69 percent responded positively.

2.1.2 FINDINGS FOR EVALUATION QUESTION 1.C

Question 1.c. To what extent have the activities implemented under this project been necessary and sufficient to achieve Project objectives? Are there gaps, constraints, and/or opportunities where additional program assistance would be of strategic importance?

In answering this question, we apply the following definitions:

- PAD activities are necessary if they continue to tackle existing constraints on economic growth that could not otherwise be dealt with by the Government of Kosovo acting either alone or with the support of other donors.
- PAD activities are sufficient if they have tackled constraints adequately to the extent that is necessary and possible.

- Gaps result when constraints have not been tackled at all or adequately, thereby creating an opportunity for interventions.

The CDCS 2014–2018 and the Economic Growth PAD 2014–2018 describe the background and the acknowledged challenges, referring inter alia to:

- one of the largest trade imbalances in the world;
- high official unemployment rate and low rate of job creation;
- need to improve private sector participation in the GDP and to reduce the public borrowing deficit; the lack of FDI and slow growth of investment;
- regulatory and administrative burden inhibiting business expansion;
- inability of businesses to scale up;
- lack of access to finance;
- poor links into new markets;
- need to improve economic opportunities for minorities and rural communities, including the need for continued revival of agriculture in these areas;
- need to strengthen the capacities of Government of Kosovo institutions at the national and municipal levels to promote effective and accountable governance and fiscal stewardship.

Since the issue of the CDCS and corresponding EG PAD, there has been some improvement (for example, see answers to I.a), but all of the aforementioned problems continued to exist. Thus, it can be said that from a needs standpoint, the activities are necessary. Furthermore, there can be no doubt about the importance of the contribution made by the PAD Project, to judge from beneficiary responses (see responses to I.b). Moreover, USAID is the third largest donor in terms of actual disbursement of 30 million Euros (2015 figures), with the EU first (70 million Euros) followed by Germany (40 million Euros), and it is clear that the PAD Project has been an important source of donor support. A review of the Ministry of European Integration's report on donor activity (published October 2016) provides information on the scale of USAID's activities covered by the PAD relative to other multilateral and bilateral donors. Around governance (including TA and capacity building to GoK at national and municipal levels), the EU was the largest donor (13.3 million Euros) compared with the U.S. and Germany (with disbursements totaling almost eight million, split almost equally). In the area of trade and industry, USAID was the second largest donor with 4.3 million Euros compared with the EU (5.3 million Euros) and with Germany, Switzerland, and Sweden each disbursing about 1 million Euros. The report specifically refers to two major activities, namely EMPOWER PS and the Swiss PPSE project. In the area of agriculture and rural development, USAID made the largest disbursement, totaling about 4.5 million Euros, compared with the EU in second position (4 million Euros) and Germany in third (2.2 million Euros). The report specifically refers to the AGRO project as the leading intervention.

In the area of economic governance and business enabling, enterprises have referred to the continuing problems of obtaining VAT refunds, and the registration of the unpermitted constructions is but the first step in their legalization process. Moreover, as shown by the gaps evidenced by the WB Doing Business in Kosovo index, there are still areas that need to be tackled, as well as other areas of importance related to governance and business environment, such as investment attraction, trade facilitation, and trademarks, for example.

In the area of competitiveness and job creation, considerable progress has been made in improving the outcomes for ICT, furniture manufacturing, and the energy-sector SMEs, but much can still be done to

support these enterprises in investment, scaling up, improving operational efficiencies, and strengthening market linkages that have been recently established. As evident from the findings (see answer to I.a), ICT, wood, and energy have benefited more than have other sectors in terms of numbers of enterprises assisted, funding provided, and impact on trade. This is not surprising, since a balance must be struck between activity resource availability and where the greatest potential for traction lies.

Although AGRO is the donor flagship activity in providing technical assistance to agribusiness, the sector is still constrained in its ability to achieve full potential, and much remains to be done in further development of the most promising agricultural value-chains. A comparison of value-chain development since the predecessor NOA activity (see answer to I.a) underscores the considerable impact USAID agribusiness support has had. Given that technical and financial resources are limited, AGRO must focus its support. Value chains with the greatest potential have grown faster as a result, raspberries being a case in point.

SME finance has been potentially eased judging from data on the performance of the Kosovo Credit Guarantee Fund, yet considerable challenges remain including those involving improvement of financial literacy as well as capacity for SME book-keeping and reporting. Furthermore, farmers continue to face difficulties in accessing commercial bank finance, and inroads need to be made in this area if this important sector is to achieve full potential.

A full assessment of constraints and opportunities for strategic interventions is a major task, but we list below some of those we consider important on the basis of our literature review, as well as the feedback received from key informants and beneficiaries. If they cannot be adequately addressed during current activities, they should be considered for inclusion in the next PAD.

Economic Governance and Business Environment

- *Continued WB Doing Business coordination and reform support.* Further improvement requires deeper and broader continuation of reforms. Kosovo is ranked 60th with a long way still to go, despite having improved 66 places from Doing Business 2012 (rev). The WB Doing Business framework and support within this framework should be a driver of support and can serve as an effective platform for pushing forward targeted improvements in a wide range of areas and processes, including permitting, property rights, tax payments, access to credit, trading across borders etc.
- *Legalization and construction reforms.* Additional support may be needed in legalization and construction reforms, depending on the progress achieved by PFD during its remaining life-time, including tackling issues still to be identified related to property rights and land ownership.
- *Trade policy and implementation support.* Cross-border trade is an important aspect of the EU accession process and, as such, EU has provided support in this area in the past. However, there are spaces in this field that USAID could fill and, indeed, PFD has provided some limited support in this area by assisting Kosovo with application of the World Trade Organization (WTO) Trade Facilitation Self-Assessment methodology, which can be used in furtherance of Stabilization and Association Agreement (SAA) implementation. Additional areas in this frame, depending on the World Bank and other donor activities, could include specific support in regulation and market surveillance for goods in trade in line with WTO and EU frameworks.
- *Establishment of effective inter-governmental coordination mechanisms* that are responsible for driving the economic growth agenda of Kosovo is one of the greatest challenges facing the GoK

today. Although a number of institutions, such as the National Council for Economic Development (NCED), partly exercise this role, there is a need to establish and functionalize a permanent inter-ministerial mechanism that will push forward specific reform agendas. The establishment of such mechanisms can also counter-balance the current incentive set within government ministries – currently geared toward producing more regulation at an increasing rate – and would further serve as an important forum to eliminate opportunities for corruption.

- *Further reforms in the area of public financial management.* While marked progress has been achieved through USAID support to ensure long-term fiscal stability, additional assistance is required to: (1) strengthen capacities for strategic budget planning; (2) further improve internal systems for monitoring budget execution (both very important for successful implementation of the recent Ministry of Finance decision to plan and execute the budget, based on the detailed disaggregation of specific budget spending categories); (3) improved inclusiveness of stakeholders, including the public, in the budget development process; and (4) improved budget transparency at planning and execution phases.
- *Domestic tax policy and implementation reform.* A comprehensive review and reform of domestic tax policy and implementation would be helpful to align with the goals of simple, transparent, accountable, and responsive systems to support transition to domestic taxation.
- *Investment promotion and marketing support.* The PAD experiences in supporting the failed Brezovica FDI project, as well as the weaknesses within KIESA, point to the need for significant improvements in the function, operation, and activities of investment promotion bodies. Support could be helpful in developing investment promotion and country marketing / positioning efforts, in addition to supporting the feedback loop into domestic policies from potential and existing foreign investors.
- *Sector-specific policy, legal, and operational reviews and implementation.* Through sector-specific reviews of the policy, legal, and operational environment for specific sectors of the economy – such as tourism, agriculture, health services and investment, textiles, wood, production and use of energy-efficient materials, etc. – Kosovo can develop and implement targeted interventions to improve the policy, legal, and operational environment and develop tailored government approaches to creating an open environment for the unhindered development of such sectors.
- *Fragmentation of farmland.* Kosovo has an average farm size of 1.5 hectares and only 1,500 farmers can cultivate more than 10 hectares of land. Developing competitiveness depends on scaling up farms, which will depend on overcoming issues that include: policies incentivizing farmers to sell plots to larger holdings, resolution of property rights issues where they exist, and financing of acquisition by larger farmers/holdings. This is an area that should be tackled in the future, although existing constraints are too formidable for this to be done under the current intervention, for a range of reasons including culture and traditions, as well as the need to provide alternative sources of living to vulnerable groups and minority groups.

Industrial Competitiveness (Agribusiness, Manufacturing and Services) and SME Finance

- *Strengthening of business associations.* Associations play a valuable role in market economics and in representative democracies by providing valuable business services to members, by being bodies for collective advocacy in policy, and acting as a protective barrier when members are confronted with challenging interactions with government officials and corruption. A few associations in Kosovo are on track to achieving financial sustainability. PAD is providing support to association development under the EMPOWER PS and AGRO activities, but this is a long-term task that is unlikely to be completed within their lifetimes, since cooperation and

collaboration does not appear to come to Kosovar businessmen easily (as remarked by one businessman “cooperation is not in the nature of businessmen in this country”).

A future project should include an element to provide business skills and management mentoring to selected existing associations to support good business operations and increase the value of services provided to members, so that they create financial sustainability and market value. This activity would provide training on reform methodologies to facilitate advocacy efforts, and support the development of protective activities for members that support anticorruption and good governance efforts. Furthermore, it could support international linkages with similar organizations to facilitate exchange of knowledge on association management, information on market and non-regulatory methods of market, and enabling of business deal facilitation for members. This activity would work closely with a business-enabling intervention, particularly on issues related to advocacy and interaction with government officials, and could even be integrated into such an intervention.

- *Development of capacity and expertise of local business-development service providers and agricultural extension services.* Managers of enterprises have commented that local consultants are able to provide them with basic support but often lack the skills for tackling operational management problems and accessing new markets, which usually requires country-specific know-how. Feedback from farmers also points to the lack of accessible extension services and lack of know-how within the Ministry of Agriculture. AGRO has built a reputation of being able to provide solid advice and support to farmers and processors directly, but this needs to be commercialized and institutionalized. The same applies to support for manufacturing enterprises. KIESA does not have the skills and capacity to provide more than the most basic support, and local consultants have usually not worked sufficiently long with specialist operational experts for know-how to be transferred to them. At this juncture, it should be noted that a plan to include EMPOWER Local Solutions under the FORWARD program as a partner to EMPOWER PS to build local consulting expertise in manufacturing and services did not materialize.
- *Support to innovative start-up enterprises.* The CDCS places less focus on micro-sized business start-ups, except those involving minorities, women, and youth. Instead, it provides more sector specific assistance and places greater focus on encouraging growth of SMEs and job creation. In reducing involvement in start-ups, the CDCS refers to ongoing donor activities such as the Norwegian-funded Innovation Centre Kosovo.

The restriction on start-ups should be reviewed given that they are an essential part of a developing economy. The current Kosovo mindset of first-generation entrepreneurs, who established themselves in business after the conflict is a severe constraint on innovation and growth. Many tend to copy others and are reluctant to scale-up. Second generation entrepreneurs are different and they reach out for business ideas that are beyond the imagination of the first generation. There are already examples in Kosovo of companies that have established technology-based companies, which are growing and creating employment. Longer term coaching and mentoring is an important aspect of entrepreneurial development and achieving investment readiness. Working with innovative entrepreneurs requires a less restrictive approach on the sectors they work in, as opposed to focus on a number of established and traditional industries such as wood processing or apparel. In short, a future project should consider promoting other areas, especially in new technologies.

- *Effective management and utilization of natural resources.* The CDCS stated it would expand focus on natural resources. Although EMPOWER PS can be said to be already working with natural resources by virtue of its activities with companies utilizing natural sources of energy and

recycling, the abundance of natural stone and mineral materials in Kosovo creates opportunities for development of this sector.

- *Workforce development.* Both AGRO and, by design, EMPOWER PS work separately in the areas of workforce development, not only through job creation but also through training, including collaboration with projects focused on this, such as the Swiss Agency for Development and Cooperation (SDC) supported EYE project. The challenge of reducing unemployment is so huge that consideration of how future support could be channeled into improving workforce development to match industry needs should be included in a follow-on PAD.
- *International B2B and market linkages.* Still relatively few enterprises in Kosovo are export-ready and capable of supplying international buyers. Thus, a follow-on PAD would need to continue to build the capacities of SMEs to do this. We expect that as SMEs scale up and develop products that are competitive with imports, so they will become able to adapt to the standards of targeted foreign markets. Recent studies of international market linkage support to West Balkans enterprises, including those in Kosovo, revealed that this was the most valuable and potentially most sustainable aspect of technical assistance.
- *Development of crop insurance.* The lack of crop insurance is a significant constraint on investment in agribusiness. Having crop insurance would enable producers to maintain their production cycles and would eliminate periodic disaster losses that, in many cases, send them back to the starting point.
- *Continued development of the Kosovo Credit Guarantee Fund and capacity building of enterprises to access finance.* The KCGF is in its early stages, but the results to date are promising in terms of uptake, although time will tell how the Fund performs and whether it achieves sustainability. As evident from estimation of the SME credit gap in Kosovo, there is potential for its significant expansion. This would offer opportunities for support in further capitalization of the Fund. Furthermore, the Fund has yet to develop new types of products adapted to sector needs. Although the fund helps to address the problem of insufficient collateral, many challenges remain, including support to SME owners and managers in adopting bank-ready accounting and financial reporting.
- *Improvement of access to finance for farmers.* Agricultural finance with commercial banks' lending to agriculture is about 3 percent of their portfolios. Lack of long-term capital investment financing in agriculture leads to lack of infrastructure for collection, storage, and processing. Value-chain financing has not been widely adopted by Kosovo commercial banks but, as shown by Crimson Finance Fund, a non-bank financial institution, adopting this approach can improve the capacity of lenders to understand the sector and finance agribusiness. Having said this, commercial banks will need to take into account that an enterprise within a value chain is vulnerable if it has one main client and lacks diversification. A follow-on PAD could improve the adoption of value-chain financing methods in banking, as well as increasing the capacity of non-bank financial institutions to lend to the agricultural sector.
- *Trade finance.* The growth of exports and trade in all sectors will require good access to trade finance for smaller companies, the understanding of which is often poor in commercial banks in transition economies.

Finally, we make a general observation applicable to all areas of competitiveness support. From responses received in the survey, it is clear that beneficiary business owners highly value USAID technical and financial assistance. However, an unhealthy expectation does appear that technical assistance goes hand in hand with grant support. The data show that the grant support is leveraging application of own funds to a higher degree than targeted. This is good, since it shows willingness to

invest. However, especially with USAID's push to ease access to finance, careful consideration should be given to whether non-reimbursable grants would be appropriate in the future. Technical assistance would be well applied to help beneficiaries identify how they can rely on their own assets and improved financial management to finance investments without grant support.

2.2 PROJECT COORDINATION AND PRACTICES

Question 2.a. In what ways and how well did USAID's partners/activities under this PAD work together and share information to address noted constraints and/or collaborate to take advantage of interrelated opportunities?

Question 2.b. In what ways and how well have activities funded under this PAD collaborated and coordinated with Government of Kosovo (GoK) stakeholders, as well as related activities funded by other international donors?

2.2.1 FINDINGS FOR EVALUATION QUESTIONS 2.A AND 2.B

In this section, the evaluation team presents findings related to Questions 2.a and 2.b. **Exhibit 35** is a cooperation matrix, summarizing how PAD Project activities coordinated or collaborated with other USAID activities, Government of Kosovo, and international organizations and key donors. *Coordination* is understood to be exchange of information in activities so as to avoid duplication, whereas *collaboration* is understood to consist of joint participation in interventions (although the table below does not differentiate between the two). It shows that the PAD Project worked together with a large number of partners. Notably, there were several activities that were outside the PAD that were of particular relevance to PAD objectives, namely:

The DG activities Contract Law Enforcement (CLE) and Property Right Project (PRP), which make an important contribution to improving the business environment (and should ultimately affect the WB Doing Business rankings).

The Advancing Kosovo Together (AKT) activities, namely Prime, implemented by a US implementing partner, and Local Solutions, implemented by a local partner. These two activities essentially had the same objectives, although the Prime was intended to build the capacity of the local partner. This was to increase inter-ethnic cooperation and integration through building relationships between communities and improving economic opportunities for minorities, which included support to development of small businesses.

Exhibit 35: Cooperation Matrix

		Economic Governance & Business Environment	Competitiveness & Market Linkages						
		IR 2.1.1 PFM & IR 2.1.2 Economic Reforms at Central & Local level	IR. 2.2.1 Responsive SMEs	IR 2.2.2 Agricultural productivity	IR 2.2.1 Economic outcomes for minorities		IR 2.2.3 Access to Finance		
		PFD	EMPOWER Private Sector	NOA/AGRO	Income Generating Activity	Support for Economic Engagement in North	EMPOWER CREDIT/ KCGF	KLGP (DCA)	CFF
DO2 PAD	PFD								
	EMPOWER Private Sector			X	X	X	X		X
	NOA/AGRO				X		X		X
	Income Gen. Activity		X						
	Support for Econ. Engagement in North		X						
	EMPOWER CREDIT		X	X					
	KLGP (DCA)								
	KCBS		X		X	X			
	CFF		X	X					
DOI	AKT Prime								
	AKT Local		X						
	CLE			X					
	PRP			X					

		Economic Governance & Business Environment	Competitiveness & Market Linkages						
		IR 2.1.1 PFM & IR 2.1.2 Economic Reforms at Central & Local level	IR. 2.2.1 Responsive SMEs	IR 2.2.2 Agricultural productivity	IR 2.2.1 Economic outcomes for minorities		IR 2.2.3 Access to Finance		
		PFD	EMPOWER Private Sector	NOA/AGRO	Income Generating Activity	Support for Economic Engagement in North	EMPOWER CREDIT/ KCGF	KLGP (DCA)	CFF
Government of Kosovo	MTI	X					X		
	KIESA	X	X	X					
	KBRA	X							
	MoF	X							
	MoESP	X							
	MoA			X					
	Food & Vet Ag.			X					
	Central Bank			X			X	X	X
	PMO	X							
	Official Gazette	X							
	MoLSW	X	X						
	Tax Administration	X							
	IMF	X							
	WB/IFC	X	X						
	EBRD		X						

		Competitiveness & Market Linkages						
		Economic Governance & Business Environment						
		IR 2.1.1 PFM & IR 2.1.2 Economic Reforms at Central & Local level	IR. 2.2.1 Responsive SMEs	IR 2.2.2 Agricultural productivity	IR 2.2.1 Economic outcomes for minorities		IR 2.2.3 Access to Finance	
		PFD	EMPOWER Private Sector	NOA/AGRO	Income Generating Activity	Support for Economic Engagement in North	EMPOWER CREDIT/ KCGF	KLGP (DCA) CFF
Donors/International Orgs	UNDP			X				
	Europe Aid							
	Austrian Dev. Agency						X	
	GIZ/KfW		X	X			X	
	Swiss Dev Corp		X	X			X	
	IOM		X	X				
	SIDA	X	X		X	X		

Source: PAD Evaluation Teams research

PAD Implementing Partner Cooperation

A general observation is that the activities under this PAD are self-contained and as such, there was practically no formal output from one to another. However, the different activities did, where appropriate, build upon one another's work. As described by one senior PAD activity manager, there was always "100 percent coordination and communication" through USAID-facilitated coordination events (e.g., monthly COP lunchtime meetings and bimonthly implementing partner meetings). In addition to formal meetings, round tables and conference, a large number of informal contacts occurred since the PAD activity management and staff knew one another quite well. COPs would meet informally to share information, perspectives, advice, etc. The degree of cooperation depended on the activity and the potential for exploiting interrelated activities. As described by another COP, at one point in time, they were handed a form to assist the cooperation process, which was felt to be unnecessary since they were already communicating well. All COPs mentioned that the USAID CORs from their own program and other PAD activity programs have open and regular communication among all programs. This is somewhat unique in comparison to other countries, where CORs tend to restrict open, formal communications with their activity COPs.

EMPOWER PS stated that, although they *cooperated* (sharing information), there was little *collaboration* (engaging in joint activities) with AGRO or others since there was not much overlap of activities. However, there was an exception. EMPOWER joined with AGRO and KCBS on one joint agriculture activity in the north, whereby EMPOWER funded, KCBS implemented, and AGRO supplied technical assistance. As described later in the report, these joint-activities work well in the short-term but there is a need to establish and implement a longer-term strategy to achieve long-lasting effects.

Partnerships for Development is designed to enhance the business-enabling environment for the business community as a whole and to improve public financial management for the benefit of the entire economy. PFD adopts a holistic approach without looking at the specifics of problems facing specific sectors. Therefore, while its staff might interest themselves in the experiences of businesses learned from their colleagues on the competitiveness activities, there was never any intent to work on resolving the barriers facing farmers or manufacturers but rather on easing the business environment for the community as a whole. PFD also coordinated with EMPOWER Private Sector on a tourism issue, which also involved the Ministry of Trade and Industry.

Crimson Finance Fund has been operating in Kosovo for many years. As well as being part of the PAD, it is a subcontractor on several of the projects. CFF's Chief Executive Officer (CEO) and staff have in-depth knowledge of the Kosovo economy and are willing to share with people and projects. Collaboration between them and other USAID activities was active and productive, both with the PAD EG and DG projects. CFF collaborated with projects by sharing information about the financial sector, business sectors, and the legal and regulatory framework. CFF works with borrowers who operate in the same sectors covered by AGRO and EMPOWER Private Sector, and consequently referred its clients to these projects. Likewise, CFF has been provided with information by the aforementioned projects. For example, EMPOWER has provided details on grantees. AGRO had discussed cooperation with CFF in relation to financing of their partners but said that the transactions tended to be one-off deals (although, as discussed earlier under question 1.a Access to Finance, Crimson Finance's portfolio includes 28 percent agribusiness financing). In this area of access to finance, EMPOWER PS and AGRO cooperated with EMPOWER Credit in supporting the promotion of the Kosovo Credit Guarantee Fund.

PAD Project Cooperation with Other DG Activities

PFD worked together with the Contract Law Enforcement activity. CLE had a lead on the drafting of the bankruptcy law, but PFD provided advice during the drafting of the law. On the other hand, CLE provided advice to PFD on drafting the law on business registration. PFD and CLE also worked together on the law on enforcement procedures, which was also closely coordinated with IMF and the Central Bank of Kosovo. PFD also worked together with the Property Rights Project activity in relation to the drafting of the Property Rights Strategy, as well as in relation to property tax. PFD collaborated with AKT via the sharing of data and coordinated work with regard to northern municipalities. Contacts by AKT regarding non-majority municipalities were leveraged for inclusion in interventions related to the Official Gazette.

AGRO worked together with AKT Local Solutions to support lead firms interested in expanding the supplier base to include new suppliers from Kosovo minority groups. In some cases, AKT Local Solutions provided the grant to a lead firm, while AGRO provided extension services. AGRO did not have a specific goal of reaching out to minorities, so AKT Local Solutions leveraged its mandate to coordinate with AGRO to reach out to agribusinesses in minority community areas. DG activity CLE undertook did form a partnership to support establishment of agribusiness supply contracts, deepening AGRO's impact within their value chains. AGRO also reached out to DG activity Property Rights Project to explore areas for cooperation but found that PRP was only interested in working in certain municipalities to address women's property right issues and modification of local laws.

AKT also collaborated with EMPOWER Public Sector. AKT shared its beneficiary list with EMPOWER PS. In certain cases, where a particular enterprise could not be supported by EMPOWER PS because of threshold requirements in terms of sales and job-creation potential, AKT would be brought in to contact the company. AKT Local Solutions also collaborated with Contract Law Enforcement on leveraging business linkages between Kosovo Albanian and Serbian businesses. When AKT Local Solutions provided certain trainings to its partners, CLE was brought in when the training dealt with how to design a contract. AKT Local Solutions collaborated with both EMPOWER PS and AGRO in sharing information related to grants provided by the Ministry of Agriculture (although this grant scheme apparently did not materialize). AKT local solutions also collaborated with PFD on workshops organized involving Kosovo municipalities. For example, AKT Local Solutions undertook capacity needs assessments of targeted municipalities and focused on whether sufficient inclusion of minority communities was taking place (i.e., provision of translation in non-majority languages), whereas PFD would do trainings and interventions related to the business-enabling environment. AKT further held an information session with its beneficiary businesses on Kosovo Credit Guarantee Fund opportunities, but because of nascence of the fund, no AKT beneficiaries benefited from the credit scheme. AKT Prime and AKT Local Solutions were partners in supporting the equipment-based grants from AGRO with technical advisory services coming from them to the Strategic Partners (3 complementary grants on berries).

PAD Implementing Partner Cooperation with Government of Kosovo

The PAD Project has worked closely with the Government in Kosovo. We distinguish between *collaboration* when both have worked and divided roles on a task to achieve a jointly defined goal and *coordination* when information was shared and the separate task execution was coordinated between the two parties. The deepest collaboration involved PFD, which worked closely with several institutions

within GoK, including the Prime Minister's Office, the Official Gazette, and Ministry of Trade and Industry in relation to WB-Doing-Business-driven reforms; with the Ministry of Environment and Spatial Planning in relation to construction reform; and with the Ministry of Finance, Kosovo Tax Agency, and Customs in relation to public finance management reform. In all the aforementioned cases, a large degree of collaboration as well as coordination occurred. PFD staff have sat in the offices of the various GoK institutions and worked closely with their staff to align goals and execute tasks. However, EMPOWER PS and AGRO have also worked extensively with government ministries and institutions at the national and local levels. Below we list notable examples of this type of collaboration.

- Assistance to MTI in coordinating initiatives on improving the WB Doing Business Index and reform of the law on company organizations
- Assistance to the Kosovo Investment and Enterprise Support Agency in supporting international promotion of manufacturers and agribusinesses
- Assistance to the Kosovo Business Registration Agency in streamlining business registrations
- Assistance to the Ministry of Finance in concluding a Standby Agreement with IMF
- Assistance to Ministry of Finance on property tax and own source revenues
- Assistance to Kosovo Tax Office on streamlining procedures and reform of tax policy on workforce training costs
- Assistance to the Official Gazette
- Assistance to the Ministry of Environment and Spatial Planning on the regulatory framework for construction licensing
- Assistance to the Kosovo Customs on creating a risk-based customs clearance procedure
- Assistance to the Ministry of Agriculture on agricultural development strategy (including an embedded advisor to the Ministry) and to the Foods and Veterinary Agency, which was provided with a grant for procurement of a management information system
- Assistance to municipalities in piloting reforms related to construction permitting
- Assistance to municipalities in revenue planning
- Assistance to municipalities in measuring their progress on the basis of the Municipality Competitiveness Index implemented by a local PAD Project implementing partner

Note, the findings from Question 1.b on the benefits attributed by the Government of Kosovo to USAID includes attestations to PAD Project support from government officials.

PAD Project Coordination with International Organizations and other Donors

Previously donor coordination was largely driven by the EU office, but since the fall of 2016, the Ministry of EU Integration has taken over donor coordination. Coordination is not regulated, and it takes place only at a high level under the Prime Minister's supervision. These donor meetings tend to be very formal and do not provide opportunity for effective cooperation on a technical level. The aid management database set up by the Ministry of EU Integration is a qualified-user system in which donors must enter data. When PFD decided to look into how it could collaborate on issues related to registration of property, it found that there were 14 ongoing projects being carried out by various donors. Furthermore, each ministry has its own department for EU affairs, and it is questionable how effectively these coordinate interrelated projects. The evaluation team was informed of a recent occasion on which the EU affairs department of one ministry produced a list of projects, which missed a key donor working in areas that were of direct interest to this institution. Another example was the experience of the PFD activity, which checked whether there were other donors working on issues related to property rights

and found, to their surprise, that there were approximately ten initiatives under the supervision or management of various donors and NGOs. Thus, USAID and donor projects tend to collaborate and coordinate on the initiative of their respective program managers.

Collaboration is said to be somewhat more difficult with Europeaid projects given the long programming periods and relative inflexibility of these projects, making it difficult for them to adapt and take advantage of synergies with bilateral donors. On the other hand, there has been relatively little need for collaboration with the EU during the PAD Project to date, since over this period Europeaid projects either have intervened in areas where USAID was not directly involved (for example, trade policy, MASQ) or had no comparable interventions. However, one recently launched exception is an EU competitiveness project that works closely with the Kosovo Investment and Enterprise Support Agency and has a sector-focused approach that overlaps to some degree with EMPOWER PS's. However, the current Europeaid project is unable to provide grants and felt that this may somewhat reduce its attractiveness to beneficiaries by comparison, although it plans to support KIESA-facilitated international market linkage events. To date, there has been no collaboration, although EMPOWER PS has met with this project's representatives. In the future, Europeaid is likely to make new financial instruments available to SMEs, and an enterprise grant-support program targeting some of the sectors covered by EMPOWER PS will soon be launched.

Notwithstanding the challenges of inter-donor cooperation, the PAD Project has worked well with international organizations and donors. In fact, EMPOWER PS is co-funded by the Swedish International Cooperation Development Agency (SIDA). Some examples are provided below, though these focus on examples where there was close interaction with other institutions and donors rather than mere sharing of information and views.

- PFD worked closely with the World Bank on the Doing Business reforms with the Bank's own advisor embedded in the Ministry of Trade and Industry and with its staff encouraged to take a close interest in interventions by other donors in the area of economic governance in order to avoid duplication of effort.
- EMPOWER PS has cooperated with the Swiss-funded EYE and PPSE projects. For example, at the beginning of 2016, three large wood-processing firms participated at the SwissBau Fair in Basel, Switzerland. The Association of Wood Producers of Kosovo, in cooperation with PPSE, the Kosovo Investment and Enterprise Support Agency and EMPOWER Private Sector jointly supported the visit. Also in 2016, for the first time in Kosovo, an international familiarization trip took place with international tour operators and journalists, designed to create contacts between domestic and international tourism businesses co-funded by the PPSE project and USAID Empower PS, as well as by the French Embassy in Kosovo. The EYE project has worked well to complement EMPOWER's internship program training students for the wood-processing industry in the north. Each provided funding and training assistance with the Association and businesses by applying differing methodologies of funding/donor support, yet working and achieving a common objective. As EYE has conducted a number of industry studies, these have also been shared and discussed with PAD to determine which sectors each is working in and how not to duplicate.
- EMPOWER PS and the European Bank for Reconstruction and Development have cooperated on projects involving introduction of international standards and product certification (e.g., for solar roofs).

- EMPOWER PS and GIZ are cooperating in support to the metal-processing and renewable-energy sectors.
- EMPOWER SME collaborated with Kreditanstalt für Wiederaufbau (KfW) and Austrian Development Agency in development of the Kosovo Credit Guarantee Fund.
- AGRO and GIZ cooperate in agricultural development, with the latter working at farm level with individual farmers who subsequently graduate to work with the PAD activity.
- AGRO cooperates with UNDP in areas with minority and vulnerable beneficiaries. UNDP uses AGRO technical assistance through farmer groups, collection points, and associations.
- AGRO engages with EU projects as a member of the working group with the EU at the Ministry of Agriculture, where they exchange ideas and decide what they may do to complement existing projects. Within agriculture, AGRO is part of any of these decisions and solutions (as reflected in the dairy success, which had originally resided within the EU).
- AGRO has worked with the IFC. An agriculture insurance model has been created with AGRO's input in establishing a Risk Management Unit within the Ministry of Agriculture.
- AGRO is in regular dialogue with GIZ, but no coordination occurs as they work in different areas (except with medicinal and aromatic plants, acronym MAPs, and leverage funds for fairs and certifications), but the associations lead this communication.
- AGRO has cooperated with PPSE on fair finances and the strategic approach for MAP (mostly assistance on support to business). There was also cooperation on the Contract Financing and Payment Efficiency Kosovo Market Conference, organized by the Kosovo Manufacturing Club (KMC) and supported by USAID AGRO and the PPSE project with the objective of promoting and encouraging contract financing by commercial banks operating in Kosovo and analyzing pros and cons of law on late payments.
- AGRO cooperated with the SWISS CORITUS project in offering one-time assistance for financial support of associations linked to AGRO.
- AGRO coordinated with the Dutch volunteer services project, working to provide technical assistance to farmers.
- AGRO and Japan International Cooperation Agency (JICA) have been talking with AGRO on their limited activities, mostly supporting associations.
- The Hungarian Embassy has been working in partnership with AGRO for sour cherries through market linkages with a service provider.
- Turkish Cooperation and Coordination Agency has been providing small investments to support the National Raspberry Association and developing a small-grants program.

2.2.2 FINDINGS FOR EVALUATION QUESTION 2.C

Question 2.c. Are there effective mechanisms in place to increase the participation and economic outcomes of vulnerable groups, including women, the rural poor, and other marginalized groups?

The PAD Project tackles the challenge of increasing participation of vulnerable groups in economic activities in a variety of ways. These include:

- *Targeting women and minorities for inclusion in activities being carried out by implementing partners EMPOWER PS and AGRO.* The latter provides opportunities for inclusion of women employees in some of its harvesting activities (e.g., MAPs) that women are more competent

- in implementing, although it did so in geographic areas targeted by Strategic Partners, while leaving other areas to dedicated activities such as the AKT activities.
- *Special activities established to target minorities in North Kosovo, namely EMPOWER Support for Economic Engagement in the North Activity (2014-15) and its predecessor Project Income Generation Activity (2013-14) (implemented by KCBS). Note, these activities are included in the PAD Project but have been included here rather than in the response to I.a, given their relationship to economic outcomes for minorities.*
 - *Women in business were financed through provision of a DCA guarantee to the TEB commercial bank, and rural and agricultural businesses that would not have qualified for commercial bank loans were provided with non-bank financing through the Crimson Finance Fund. Crimson's loan portfolio includes 28 percent to rural and agricultural businesses compared with about 3-4 percent for commercial banks.*

This section focuses on the mechanisms adopted by PAD Project activities and dedicated collaborating activities (such as AKT), but it also refers to other donors' activities to supplement the picture of support for inclusion of women and minorities in economic outcomes.

IR 2.1 IMPROVED ECONOMIC GOVERNANCE AND BUSINESS ENVIRONEMENT

PFD did not deal directly with vulnerable-group issues, including women and minorities but, through easing business registration, it impacted registration of women-owned businesses, which have grown at a faster rate.

IR 2.2: SUB IR 2.2.1 MORE MARKET RESPONSIVE AND SUSTAINABLE SMES

EMPOWER PS includes women and minority targets. Project data presented in **Exhibit 36** demonstrates that support for job creation has benefited all priority groups, cumulatively, for the Project to date. Of the Project's 1,975 attributable jobs created since outset, nearly one-half have benefited women, over one-half youth (categories overlap), and almost one-tenth minorities. These can be considered good results, given that the share of women in the active workforce is 19 percent (one of the lowest in the world) and about 13 percent of the population are minorities.

Exhibit 36: EMPOWER PS Support by Priority Group

CUMULATIVE						
	TOTAL	WOMEN	YOUTH	MINORITIES	NORTH	WOMEN MANAGERS
Apparel	315	204	89	22	-	4
Energy	215	52	48	29	28	1
ICT	595	355	442	32	20	14
Metal	55	8	10	10	5	-
Other	221	113	55	63	94	2
Tourism*	11	-	-	-	-	-

CUMULATIVE						
	TOTAL	WOMEN	YOUTH	MINORITIES	NORTH	WOMEN MANAGERS
Wood	563	143	296	27	28	28
Total	1,975	875	940	183	174	49

Source: EMPOWER PS

Women

EMPOWER has been a major driver in women's labor force participation, achieving one third of jobs created in this group. The empowerment of women in Kosovo is a priority for EMPOWER, and they continued to engage in activities that support, train, and increase job opportunities for women. As part of their activities, EMPOWER supported the Women in Online Work (WOW) program, which aims to mobilize and train women, preparing them to work online and generate income. The program targeted women aged 18–34 who had or were in the process of completing university-level education, were unemployed or underemployed, and had intermediate knowledge of the English language. In addition, EMPOWER encourages the companies from all selected sectors to promote Women in Management, companies that employ EMPOWER project beneficiaries are very open to involving women in decision making and promoting responsibility-sharing in their companies. A review of EMPOWER's current list of 135 partner enterprises indicates 18 women as owners/contacts in the beneficiary enterprises, and at least 15 are from minority groups.

Youth

Strong and targeted workforce development and internship programs for youth (18–24 years of age) are the key to success and have been shown to be effective mechanisms for guaranteeing youth employment for EMPOWER, which has identified wood and ICT as the largest youth employers during the life of the project. EMPOWER is working to establish a viable mechanism that will enable training of young unemployed men and women in ICT, such that they can become sufficiently knowledgeable and skilled to work in the growing ICT industry. Through the STIKK Training Academy, EMPOWER supported youth to undertake ICT training and internships. Results have shown that 30 percent of the youth that completed the training were employed. IT stakeholders speak of the difficulties in training people, which are in part due to low education standards in the country. The ICT Association Training Academy consists of 6-month training cycles covering software and mobile applications programming. In the wood sector, EMPOWER jointly with wood-related associations continued with support of youth internships in the sector resulting in 80 percent employment. The purpose of the program was to place interns in wood-processing companies and provide specific training on computer numerical control (CNC) machinery, that is, providing practical training in preparation for future employment in the industry.

Minorities and North Kosovo

EMPOWER continues working in North Kosovo by targeting key areas of success that will lead to creating new jobs. Skilled workers are the bottleneck of North Kosovo companies, which still need support in obtaining needed equipment and skilled workers. The EMPOWER project is in the process of creating effective mechanisms that will enable North Kosovo beneficiaries included in all the program's

activities to find new markets, improve their production and quality, increase their capacity, thereby creating the need for additional jobs. For example, EMPOWER facilitated three wood-processing companies in cooperating with the wood-processing company Kelmendi from Peja/Pec. In addition, to improve quality of the final products and attract potential customers, EMPOWER organized visits for three wood-processing companies from North Kosovo (Markovic, Godzi, and Fontana) with traders of kitchen appliances and fittings (Gorenje, Beko, Hafele and Blum). The business contacts have already been established and the first orders have already been made; all this increase in sales will immediately result in increased demand for workers.

EMPOWER, through its interventions in competitiveness and workforce development in the north, has created 210 jobs to date – of which 90 are for women and 28 for youth – and is projected to generate 455 jobs over the life of the project. Outside of the sector area, EMPOWER PS was involved in agriculture in the north, aiming to stimulate commercialization of the region's vegetables value-chain. Thus, EMPOWER launched a major new initiative with a focus on creating a pilot group of greenhouse vegetable growers and then connect them to collectors and buyers that would purchase their output, to move them from reliance on local greenmarkets to active suppliers to major final retailers, such as the large chains located in South Kosovo. Jointly with the Kosovo Center for Business Support, and with AGRO's technical assistance, 12 farmers and 4 collectors were supported to install greenhouse space, and collectors were provided with handling and sorting equipment.

Activities Implemented by the Kosovo Center for Business Support (KCBS)

Almost every organization involved in development in Kosovo attempts to include vulnerable populations as part (or all) of their focus in terms of beneficiaries. However, these efforts have generally fallen short of the desired impact, and sustainability has not been high, mostly due to the shifting political (North vs. South Kosovo and issues relating to Roma, Ashkali, and Egyptians or RAE) and cultural (women) environment. Nonetheless, organizations like KCBS, which is part of the PAD Activity, have carved out their niche within USAID funding assistance (direct and through project grants) targeting farmers in the north and women. The EMPOWER Support for Economic Engagement in the North Activity (2014–2015) and its predecessor project Income Generation Activity (2013–2014) proved that measured success and progress was possible by providing grants, technical assistance, and linkages to the south (albeit very small numbers overall). People trained, increased sales, and FTEs created all exceeded the short project's goals. KCBS engagement and research indicate the most valuable contribution of all their activities is considered to be the technical assistance provided. Although they believe they have made progress and impact, the following observations were made:

- *Funding terms too short.* KCBS finds generally that interest (on the side of both recipients and donors) and funding assistance are mostly short term. Annual funding and gaps in project funding can lead to staff leaving for new opportunities, resulting in continual retraining of staff.
- *Lack of transformative projects.* Unfortunately, the activities as scoped out were more of the same type of traditional development assistance projects, with nothing transformative or innovative in delivery or sustainability.
- *Poor sustainability of investment in technical assistance.* Reports show KCBS had been able to create market linkages (even between North and South Kosovo) and focus on producing for the markets, but the real question remains: how much of this investment has been sustained? The supportive environment for these groups is so weak that most of KCBS's assistance has been

directly to companies (primarily via trainings) rather than relying on associations or vocational education and training (VET) establishments.

A much longer timeframe and an ongoing support solution needs to be established to prevent the inevitable backslide so many development organizations face. Continuity of assistance is important and should made a longer-term priority if USAID is to provide effective assistance through these types of special activities.

IR 2.2: SUB IR 2.2.2 INCREASED AGRICULTURAL PRODUCTIVITY AND MARKETABILITY

Women

Within AGRO, all data is disaggregated by women and youth, as shown in **Exhibit 37** below. However, certain value chains lend themselves better to targeting of specific vulnerable groups. For example, over 60 percent of the labor force picking berries is women. Another example is AGRO's support and investment in medicinal and aromatic plants, which target women and more rural, marginalized families as a reliable source of income. According to AGRO's 2016 Annual Report, "Twenty-five percent (25 percent) of participants of U.S. government (USG) agricultural programs including grants, employment generated, events and participation in B2B events have been women during FY16 (based on the PMP [Performance Management Plan] weighting system). Eleven percent (11 percent) of all training participants during FY 2016 were women, with 437 women trained. AGRO also continues to seek opportunities to provide grants to women's groups and to individual women or groups of women entering business. This has been particularly successful in the field of medicinal and aromatic plant (MAP) cultivation and processing and in soft fruit production (strawberry and raspberry) by individual women entrepreneurs and groups."

As the Advancing Kosovo Together Local Solutions project was designed to directly target vulnerable populations, AGRO has instead elected to assist Strategic Partners located in geographic areas or in sectors that directly rely on and support these groups. Working through women's groups has also been an effective mechanism by AGRO for sustained support. But overall, AGRO has not focused too many resources targeting this group, as their key objectives have been to drive business growth in the selected value chains and, due mostly to politics preventing progress, limited assistance has been available to farmers in these areas.

Exhibit 37: Agricultural Jobs by Beneficiary Group

	NOA FTE's				AGRO FTE's				
	Men	Women	Minorities	Total	Men	Women	Youth	Minorities	Total to date
Numb.	5353	800	369	6153	1469	1022	1547	565	2491
Perc.	87%	13%	6%	100%	59%	41%	62%	23%	100%

Source: AGRO data on Full Time Equivalent jobs

Financing of women in business. USAID facilitated a Development Credit Authority guarantee for financing women in business through TEB Bank in Kosovo. The "Women Entrepreneurs Program" was

launched in 2014 as a unique program in the market to support and empower women in business through a combination of financial and non-financial support mechanisms aimed at creating greater participation of women in business, followed by a credit-line agreement with the European Bank for Reconstruction and Development that enabled lending and training of women. Part of the project was a Memorandum of Understanding with the main associations of women, such as SHE-ERA, Women for Women, and G7. The project was additionally empowered by the risk coverage agreement from USAID, with the aim of increasing access to finances. The program is running successfully and thus far amounts to a portfolio of 5.3 million Euros, of which 200,000 Euros are allocated to new businesses. Overall 625 businesses are credited and 62 of them are new businesses.

TEB Bank has taken the initiative in supporting the ideas of women entrepreneurs and USAID has provided fund guarantees for investments by women entrepreneurs. Recently, TEB Bank created the new card called the Women Entrepreneurship Credit Card, a card that is dedicated to women entrepreneurs. This was achieved as a result of cooperation between TEB, the European Bank for Reconstruction and Development, and USAID.

Other Organizations

SHE-ERA has been assisting women entrepreneurs since 1999, starting in Gjakova but now countrywide. All their projects have been based on non-sustainable short-term grant assistance, providing skills development, policy advocacy, income generation, and industry analysis for over 15,000 women. Their years of local grass-roots assistance has earned them valuable trust working in challenging locations with marginalized populations and, through a transition from donor dependency to a social-enterprise model, they continue to provide more sustained and longer-term impact. Both projects funded by the Swiss Agency for Development and Cooperation in economic growth had targeted this same group in Phase I but also experienced very limited success. Since their market-systems approach enables people to help themselves, it has not matched well targeting the Roma, Ashkali, and Egyptians and northern populations, who are most often waiting for handouts and investing little to change their own situations. Other associations, such as STIKK, have had great success with both women/girls and youth by virtue of the particular education, skills, and profile their respective industries attract.

Although not interviewed as part of this PAD evaluation, several sources referenced the work done over the years by Kosovo Force (KFOR), a NATO-led international peacekeeping force. In terms of reaching vulnerable populations, KFOR may be worth investigating further to see if their mechanisms have been effective.

Youth

As for youth, the U.S. government, through its AGRO Activity, has made youth in agriculture a central tenet of its program, by continuing to promote changes in youth attitudes toward agriculture and to expand youth opportunities in Kosovo's growing agribusiness sector. AGRO continues to emphasize the importance of drawing youth into agricultural production and agribusiness. Youth comprised 43 percent of program participants in agricultural training events during FY 2016. This is more than twice the result from FY 2015. The AGRO Jobs Center initiative is showing promising results by linking graduates of the Agriculture Faculty with actual jobs and will continue to function as an engine of growth through linkage with the University of Pristina.

2.3 LOOKING FORWARD

2.3.1 FINDINGS FOR EVALUATION QUESTION 3.A

Question 3.a. Are the sectors currently being worked on through the PAD still valid in terms of their potential to drive economic growth and employment? Are there other sectors/opportunities that the current project is missing?

Manufacturing and Services

Kosovo has an abundance of forests and, hence, natural resources, which should provide ample natural resources to support the continuing development of the wood-processing industry and, in particular, the solid-wood furniture-manufacturing industry, which has made inroads into EU markets, partly due to new linkages with the diaspora. The future resolution of forestry management challenges in Kosovo would improve local industry access to raw materials and create new opportunities for wood processing.

Apparel has been successful in competing with imported garments and is positioning itself to provide outsourced manufacturing to EU-based buyers. EMPOWER has initiated the activity and, with the support of technical assistance, has held a training on Cut-Make-Trim (CMT) for producers interested in supplying products for well-known brands on what they need to do to improve efficiency and quality of their production. The ultimate goal would be to develop potential for exporting through CMT or private labels. Although this sector is valid, it will need to be exceptionally competitive in the face of much more advanced competition in the Balkan region. An example is Albania, which has the advantage over Kosovo on apparel for export because of established trade linkages and proximity to Italian firms, as well as low-cost and skilled labor.

The so-called “energy” sector, which includes a range of companies from solar-panel manufacturers to companies in the recycling industry, has performed well, and this area is to receive further support including from Millennium Challenge Corporation (MCC). This sector consists of many different types of economic activities, which makes it difficult to generalize about opportunities. GIZ is working on development of an energy cluster that includes solar-panel manufacturers, but discussions with a financing institution involved in this sector reveals skepticism about the sector’s future, given that current government plans for purchase of solar-generated power are about one-half that of planned-installed capacity. Another area that is said to be constrained in growth is waste recycling, which should have great prospects, given the amount of waste located in urban and rural areas. The current obstacle is access to waste materials, whether on municipal landfill sites or in forests. Notwithstanding these problems, examples of foreign investments already exist in plastic recycling linked to manufacture of food packaging, and these herald the development of new industries, which have taken place independent of PAD Project support. This is indicative of other opportunities that could be tackled in future. Indeed, an analysis of Kosovo trade-flow and manufacturing-sector output data shows that plastics-goods manufacturing is a significant economic activity.

Metal processing has not developed much under the PAD Project. Discussions with the producer of a Kosovo-designed and assembled 3D Printer indicated that no companies were currently capable of precision machining in Kosovo, for which reason this company outsources parts manufacturing to a Western company. It is not surprising that metal processing has not attracted much support from

EMPOWER. The costs of investment in machinery and workforce development in this industry can be massive challenges for uncertain outcomes in the face of tough competition regionally and in Central Europe. Further complications related to workforce development are include the fact that newly trained, skilled workers like welders rarely remain in Kosovo for long as wages in the European Union are substantially higher and mobility for these jobs is easy. The validity for providing support to this sector is questionable, with the exception of economically justifiable niche areas that provide important supplies to growing domestic sectors.

Kosovo's ICT sector is also growing rapidly, and investment in training and development of the workforce is expected to enable expansion in a sector that not only provides software development and maintenance services, but outbound customer call centers providing technical advice that take advantage of the foreign-language skills (especially in German) of young Kosovars returning from abroad. Furthermore, during past years ICT companies have been establishing links with foreign markets, in many cases with USAID support, and these are expected to mature into business relationships.

Tourism can be looked at as a service that reinforces investment and business-attraction initiatives. Business people like to do business in places they like to visit. Moreover, thanks partly to private and donor-assisted (including USAID's) activities in the West Balkans, the region is becoming a growing tourist destination for a range of market segments, including adventure tourism and hiking, cultural tourism, and city-break visits. This has been recognized as an opportunity by other donors, e.g., PPSE. Tourism is made increasingly easy with the entry of low-cost airlines into the West Balkan markets. Despite this, the PAD Project has not tackled this opportunity to the extent possible, and beneficiaries in the tourism sector generally expressed the view that the support provided has not really had a catalytic effect. Notwithstanding this, tourism development should be provided a place in the spectrum of competitiveness-building activities, with support provided at the government institutional level, as well as to tour operators and service providers. USAID should capitalize on future opportunities for collaboration with regional bilateral activities or regional programs to further development of intra-regional tourism.

Agribusiness

Beginning back in 2010, the AgStrat report set the stage for both New Opportunities for Agriculture and now AGRO to identify and strengthen the value chains with the greatest potential for transformative change within Kosovo's agriculture sector (of course allowing for mid-course corrections and 'pilots' to verify local market interest and adaptability of those predictions).

Thus far, AGRO has seen a doubling of production of all types of berries, and these crops have the greatest growth potential and returns for exports from Kosovo. These value chains are valid.

The medicinal and aromatic plants is still relatively new and underdeveloped in volume (with slightly high start-up costs for dyes, tents, etc.). However, through continued support from the donors and government to remove the bottlenecks, Kosovo could produce at least 10 times the volume currently being realized. As indicated earlier, this value chain lends itself very well to rural locations (natural forests/small land holdings versus larger cultivated fields) and more vulnerable populations. MAP's value chain is valid.

The revitalization of the sour cherry industry (1,000 hectares producing 10,000 tons) is off to an auspicious start through innovative partnerships like the cold-chain Calabria project, with an anchor investing company, eager and trained farmers, local government, the Hungarian embassy, and the Agriculture Faculty from the University of Pristina. This value chain has a great deal of promise.

Although apples have little chance of competing in the very competitive export market, concentrated efforts for import substitution should continue by upgrading and sorting according to quality and educating/transforming local retailers to pay for higher quality Kosovo apples rather than relying on imports. Greater industry cooperation will be needed to take this industry to the next level, but since Kosovo has the right varieties and technologies already, this is achievable. Thus, the value chain is valid.

Gherkins remain a strong staple crop with a reached export market and expansion on a commercial scale. Almost all gherkins are being pickled at the moment, so additional progress in the processing could benefit future growth.

With the introduction of more cold chain within the supply chain, table grapes hold promise and should continue to expand through key Strategic Partners and accessing new export markets.

A base level of support for the staple crops of peppers, tomatoes, onions, and lettuce has mostly been assumed by local associations and the farmers themselves, as these older traditional crops will most likely always be included as part of the agriculture assortment.

Dairy has made enormous progress over the past decade with most of the support systems in place via association services; government support with testing and subsidy schemes; and cooperation among AGRO, the industry, and government to push for pasteurized milk. This industry has received much support and is approaching a point of development where it is questionable how much more support needs to be donated.

Among all these successes, only the lettuce and asparagus value chains have shown less promising results and encountered difficulties in taking adaption and production to scale as a key growth crop (versus small scale and individual lead) for AGRO. Both these products have remained very static, and unless AGRO can find an engine for their growth again, then there is not much point in staying with them. Lettuce is supplying local markets very well, but the next challenging step would be to enter into export sales, and this is very challenging. Asparagus would offer more opportunities for export, but this would require larger areas under crop. For asparagus to receive AGRO support, one would need to see export sales and jobs as the outcomes of that support.

Regarding where AGRO should continue to direct its current efforts or where the next agriculture project might emerge, it is clear that no new value chains should be added (at least from a donor-driven approach). Associations will need to take the lead in providing continual varietal screening for all crops and will also need to support/organize demonstrations and trainings at specific sites (facilities/lead farms) on an ongoing basis. Plenty of opportunity remains for both government and the University of Pristina to become involved in this growth, but while both have the resources, the lack of political stability may not allow them to engage. It is time that the industry develops its own vision (with support), which will help guide private sector investment in nurseries and planting materials to continually improve and adapt the value chains to market demand (especially for apples and grapes). Unfortunately, the government subsidies create disincentives to local investment in the production of seedlings, as they make it cheaper

to import seeds. Another issue that will continue to evolve and potentially require future engagement from USAID concerns the privatization of large lands (for public lands).

AGRO has yet to fully capitalize on the investments and initiatives made to date. Since they expect to have spent all their grant funds by 2017, they will be focusing on strengthening Strategic Partners by aggregating the industries through the national associations (success with dairy after much investment and time being an example). AGRO sees the associations as the mechanism for financial success by being responsible for replication of soft/top fruits among processors, companies, and national input suppliers. The associations will also need to play a key role in aggregating, lobbying, earning a revenue, and industry promotion, while also addressing the long-standing and ongoing VAT issues, standards, and enforcement.

2.3.2 FINDINGS FOR EVALUATION QUESTION 3.B

Question 3.b. Are there other market opportunities (in terms of the geographic end market) with significant opportunities for growth? Is there potential to go directly to these new markets without having to go through Serbia?

A full examination of market opportunities requires a trade-flow analysis that takes into account the comparative advantages of Kosovo's products, as well as logistical considerations, traditional contacts, cultural affinity, etc. for all its sectors, EMPOWER is exploring regional market opportunities for exports, as well as identifying opportunities for import substitution. To be sure, the nearby regional markets and the EU provide the nearest and most accessible opportunities, given the efforts Kosovo is making to align itself with the market requirements of the EU. Notwithstanding this, import substitution should continue to be a key objective for most companies especially that it is way for them to prepare for export by developing capacity to compete with foreign producers in the Kosovan market. For example, Kosovo imports more than 90 percent of apparel and 50 percent of wood products, including furniture and wood pallets and biomass; even doubling the production capacity will not be sufficient to fulfill local demand. Reaching new markets will require continued investment in development of the value chain and support in country promotion from the Kosovo Investment and Enterprise Support Agency, with more strategically planned participation in B2B, trade shows, exchanges, etc., both locally and regionally. Future support will need to focus not only on identifying target markets but also on ensuring that product characteristics, quality standards, and certification match buyers' requirements.

In the food production sector, the Middle Eastern markets provide opportunities due to traditional affinities. In recent years, the USAID REG (Regional Economic Growth activity), which is overseen by the E&E Office in Washington, has helped West Balkans beneficiaries to explore opportunities in this market, and the EMPOWER Private Sector has collaborated with REG in sending Kosovo companies to participate in Middle Eastern food fairs. Indeed, it is AGRO's opinion that all value chains need to end up in the export market for real growth. Since very few EU and Middle Eastern markets know Kosovo, KIESA needs to substantially increase its financial support to industry for promotion with even more strategically planned participation in B2B, trade shows, exchanges, etc. Finally, a national rollout of certified Global Good Agricultural Practice or GAP process (building upon capacity of the raspberry success) supported by government and industry is critical to long-term success of any of the key value-chains for export.

Kosovo is still behind on investing in and expanding the food-processing sector (except for diaspora links to EU markets), which means that little attention has been paid to food safety or marketing beyond diaspora EU markets. As this is a focus of PPSE, AGRO might want to conduct joint planning sessions to see how combined efforts might be complementary. Gherkins are the only crop at present taking this opportunity seriously. Others need to follow, and assistance projects must work within the industry to get part of production into processing, eventually applying food safety across all value chains. Success will require government investment and support to differentiate Kosovo products from others in the market.

Farmers' feedback from focus groups generally supported the aforementioned market opportunities. From Pristina, "there is a demand in Switzerland and Albania for peppers in cream and [we] do not have enough to export to Macedonia. Increased exports must include educational awareness support, clearer rules, and implementation of standards." Some farmers in Ferizaj noted they believe transitioning more towards organic farming will open new markets and increased revenue.

Potential to Enter New Markets Directly without Passing through Serbia

This question appeared to be mostly focused on agricultural products under the PAD. Therefore, according to AGRO, raspberries was the only value chain that was previously reliant on Serbia for exports. Traditional routing was with Serbian aggregators (from existing relationships) for raspberries at 8,000 tons last year (2016). But due to an oversupply in the entire global market, each of AGROs' eight main Strategic Partners were stuck with overstock, since they were relying on Serbs who had low prices and were burdened with their own overstock and so did not buy any Kosovo products. Through AGRO assistance, the Strategic Partners reached out to new markets (via trade fairs and their own efforts) and have successfully connected with Japanese, Italian, German, and Austrian buyers. A total of 4,000 tons have thus far been pre-contracted (volume on spot market with weekly price adjustments), and it appears the entire stock has found markets (demand still exceeding Kosovo supply). Some of the smaller producers, who have limited quantities and continue to rely on previous relations/markets with Serbia, believe their only chance to 'break' these linkages is by expanding local collection centers.

With regard to the other berries, blueberries are already entering the EU markets. Strawberries have been produced for fresh local/regional markets (independent of Serbia). NOA's support helped diversify varieties and complement seasons, but this essentially flooded local markets with varieties that do not freeze well and these had to be sold to the nearest buyer in Serbia rather than being wasted. In order to expand into pure export markets, Kosovo needs to plant new crop for industrial sales (which will be piloted with AGRO's Strategic Partners). As Serbia is a global leader in strawberry exports, this may present future market-access challenges. The other value chains have secure local or Balkan markets and so will continue to expand without interference from Serbia.

On the issue of potential problems that might be encountered at border crossings, one dairy producer explained that this was avoided by goods being picked up by drivers and trucks from Western Europe, who did not appear to have any problems crossing the border between the two countries.

2.3.3 FINDINGS FOR EVALUATION QUESTION 3.C

Question 3.c. What is most constraining growth in the sectors/value chains identified? What firm level constraints to growth exist? Which of these constraints are most amenable to change in the next five years?

The following subsections present the views of different stakeholders on main constraints and their amenability to change over the next five years.

EMPOWER Private Sector

During discussions with EMPOWER PS the following key constraints were identified:

- Selection of the most appropriate technologies in line with companies' growth needs, and investment in their procurement;
- Development of a well-trained workforce;
- Improvement of working-capital through recovery of VAT on purchases of equipment, raw materials, spare parts, and services.
- Fulfillment of technical requirements for accessing export markets and attainment of quality certification.

Other constraints included the informal economy and dumping of products by importers.

AGRO

Agribusiness faces similar constraints to manufacturing. In addition, the following were identified during discussions with stakeholders:

- **Mindset:** The greatest overall constraint for the older, more traditional value chains has been to shift the mindset of the farmers to grow in newer and more productive ways (technologies and practices). Adapting to newer crops has been much easier as they require entirely new ways of thinking, inputs, technologies, and support systems to get the product to market. However, rapid success now requires additional measures to be taken to ensure quality at each step of the growing cycle and direct, sustainable investments without cutting corners.
- **Government policies.** Government has a long way to go in coordinating its policies and activities from a national down to a municipal level and in becoming a strong partner and driver of growth in the agricultural sector rather than a barrier. Related to this is government's annual budgeting process (and political motivations), which prohibits businesses and value chains from achieving their necessary long-term goals, such as full value-chain certification (e.g., Kosovo achieving status to export animal products [milk] to the EU).
- **Agribusiness associations:** Associations still have not achieved sustainability, nor have they earned the full trust of agribusinesses to the point where they see benefits to joining. The collection center/ aggregator model can still be implemented more effectively and expanded geographically in order to have a more coordinated system of moving products efficiently and profitably to markets.

KIESA

KIESA believes that improvement in the rule of law in Kosovo is the main challenge constraining growth across industries and value chains. A radical change in the workings of the judicial system and the resolution of legal obstacles in the business environment, such as property rights, would stimulate investment and increase the rate of company growth.

Ministry of Agriculture, Forestry and Rural Development (MOA)

MoA has indicated that small-land fragmentation and overall outdated farming practices and technologies may continue to hold back progress. The Ministry believes that many of the challenges within the enabling environment need to be addressed by the Ministry of Finance. Although the Ministry's budget has been increasing annually (up 120 percent from 2014–2015), it is still not sufficient and the issue of access to finance in the sector is still a huge constraint. F&V Agency believes that certification across all food and animal products remains the greatest barrier to export. They also noted that not enough farmers are registered as official businesses (therefore not paying taxes), creating a very unbalanced and unfair competitive environment challenging those that are 'playing by the rules'.

BSO's AmCham

BSO's AmCham has been battling the bureaucracy within business procedures for years and feels that it has been making substantial progress (with much more room for improvement, as indicated by Kosovo's relatively low score on the WB Doing Business index). However, in AmCham's view, the uncertainty and shifting political environment now appears as the greatest threat to creating effective policies to help the competitiveness of each sector. Associations such as Organika (medicinal and aromatic plants) and Mjedra e Kosoves (raspberries) believe one of their greatest challenges in supporting the growth of their respective value chains is the ability to transition the businesses they serve (their target) from relying on (free/discounted) donor assistance to looking to their associations for this support. They need members and prospective members to be willing not only to help determine priorities and directions for these organizations but also to pay for the associations' services.

One of the most critical services association members need is assistance with developing the skills and shifting the mindset that will allow food production to operate as a business and not a subsistence practice. This involves understanding markets, investing in quality, streamlining and modernizing production, post-harvest handling and distribution, and managing costs and pricing for long-term growth. SHE-ERA fundamentally sees that the government's lack of support for and failure to prioritize investments in women's rights and economic growth constrains any progress they can make through their programs. The Kosovo Center for Business Support sees the never-ending cycle of short-term support and the starting and stopping of initiatives (whether it be skills development, market linkages, access to finance) as the greatest constraint on growth. Working with marginalized populations requires a much longer-term strategic approach and full integration of donor-driven support with input and commitment from community-based businesses and organizations.

Other Donors/Projects

Swiss development assistance has observed donor dependence from businesses, BSOs, and even government as one of the major barriers to placing responsibility for economic growth squarely with the actors themselves. Expectations about free money and about the approach most donor projects take in delivering technical assistance need to be radically shifted to incorporate longer timelines and heightened abilities to adapt to changing conditions in the marketplace. Political stability is also a critical component, providing assurance of a productive business climate and consistency in both regulations and enforcement.

Enterprises

The enterprises interviewed during the Focus Group Discussions and business associations referred to many types of constraints on growth they faced relating to the economic environment and internal operations of their production. Generally, constraints cited fell into a number of broad categories across value chains for all sectors: inputs, technology application, certification and standards, workforce skills development, integrated value-chain support, access to markets, and government regulations. Further detail is provided in **Exhibit 38** below.

Exhibit 38: Enterprise Business Constraints by Category

Category	Identified Growth Constraints
Inputs	Low-quality raw materials; fake parts from Asia; difficult/costly to access and use new seeds, fertilizers, pesticides; limited quantity and ability to source locally.
Technology Application	Lack of equipment, outdated equipment, lack of spare parts, mismatch between capacity of equipment and needs (producers produce large-capacity equipment, if custom made then very expensive), limited operational knowledge, lack of services.
Certification/Standards	Lack of convenient and lower cost access to testing and certification services.
Workforce Skills Development	Lack of skills, mismatched skills, poor reinforcement/ repetition of trainings for adopting new practices, lack of customization/consultation on technical assistance, mismatched skills from skills to business, addressing seasonal labor issues, weak vocational-school training, workers leaving once trained.
Integrated Value-Chain Support	Addressing each bottleneck at each stage of production; missing collection/aggregation system; weak associations or other BSOs; addressing each level of certification, starting from forest certification; assess EU market certification requirements (different markets require different certificates).
Access to Market	Converting contacts into sales, identifying new markets, promoting Kosovo products.
Government Regulations	Uneven playing field and inconsistent rules, VAT, corruption, regulations, application processes (political motivation behind subsidies), lack of national

All sectors mentioned, to varying degrees, the challenge of *access to finance*, although when one probes more deeply, it seems there are often ways to work around this problem with sufficiently strong will and creative problem-solving, as well as the ability to make the business case. As indicated in the exhibit above, issues concerning access to skilled labor continue to arise in connection with the burden this places on business and the dearth of support from the public/academic sector in terms of supplying the needed training.

Constraints Amenable to Change in the Next Five Years

The following constraints are most amenable to change over the next five years and generally apply to all sectors, whether agribusiness or other.

- *Shifting mindset.* Changing mindset is a very difficult and long process that needs to be continued through training and demonstrating the benefits of new production processes.
- *Food safety/certifications/standards.* Significant progress is possible in this area but requires an integrated approach that builds capacity to access MASQ infrastructure nationally or regionally, to improve SMEs understanding, and to support adoption. National strategy is set to achieve GlobalGAP (and other necessary food-safety certifications) across critical value-chains.
- *Weak support system.* This process has already begun, and continued investment in strengthening associations and transitioning assistance from donor projects to a services-based industry is critical (All sectors). Launching a national crop insurance scheme by the government should help reduce risk, thereby encouraging more actors to enter into the agricultural sector (Agribusiness).
- *Technology application.* It is essential to continue investing in modern production practices and equipment to be competitive domestically and to develop international competitiveness (All sectors). From the Ministry of Agriculture perspective, heavy investments in a national irrigation system must serve as a backbone for increased growth. A combination of both public and private financial assistance must help build this foundation, looking toward mutual returns (Agribusiness).
- *Workforce skills development.* Without a qualified workforce, no further development will be possible; but change is achievable in five years. The industry must capitalize on all the projects and programs currently working to improve education and training systems in Kosovo and to ensure the labor market demand is met by a skilled labor force. Success can be realized only when public and private sectors develop a joint-approach to adapting to the skills needs in a global marketplace (All sectors).
- *Access to markets.* Ultimately substantial economic growth in agriculture can only be achieved through exporting, and all resources should continue to be invested in accessing EU markets (beyond direct diaspora connections) through increased certifications, expanded market linkages, and promotion of Kosovo products. Similar logic applies to other sectors. Inroads into

new markets are already being made, and new business connections can mature in the next five years.

- *Access to finance.* Improvements can be made that will particularly improve access to finance by agriculture and provide longer term financing for capital investment.

2.3.4 FINDINGS FOR EVALUATION QUESTION 3.D

Question 3.d. Who are key proponents and opponents of private sector growth in Kosovo?

The high-level opponents and proponents (otherwise referred to as threats and opportunities) of private sector growth in Kosovo are summarized in terms of those *internal* and *external* to Kosovo.

Internal

Political stability versus instability. Political stability is a critical ingredient for economic growth. Past years have shown that this is difficult to achieve in Kosovo. However, much momentum for change in the public and private sectors has been generated through PAD activities. There is reason to remain optimistic that the changes initiated by PFD, the opportunities created and potential being realized in key value-chains by EMPOWER PS, AGRO, and the efforts of business support organizations working in cooperation and coordination with one another, will maintain the momentum. A government that maintains and even accelerates the reform process, and develops ways of making best and inclusive use of natural resources, will be a proponent of growth.

Minority inclusion versus minority exclusion. Linked to the issue of political stability is inclusive economic development of all communities in Kosovo. A top-down approach is challenging but necessary to continue (through donor pressure) to adapt policies and programs in full support of integration of these marginalized populations within mainstream economic-growth opportunities. With dedicated long-term funding, community-based organizations can implement bottom-up activities. A government that can accomplish this will be a proponent of economic growth.

Human Capital and Brain Drain. It is undisputed that a competitive economy needs to have well educated people with skills matching the needs of industries with growth potential, as well as those of the public sector. Kosovo is reforming its educational sector but the rate of progress is slow. Linked to the need to supply the workforce with well-educated people is the challenge of tackling the brain-drain, and to keep talented entrepreneurs and experts in the country. At the same time, the brain-drain creates opportunities in the future since experienced and qualified people could be attracted back into the economy.

Competition versus cooperation. Strength is in numbers. Cooperation and collaboration between businesses in Kosovo do not come easily, although this is not atypical of transitional economies. As shown by the example of advanced economies, the more intense the business networking and the more collaboration between otherwise competing enterprises, the more successful the economy will be in terms of innovation and development of strong value-chains. Signs are already appearing that this is possible in Kosovo (e.g., cooperation between furniture companies in marketing to the EU and the success of some of the associations, such as dairy and ICT). Such enterprises will become proponents of economic growth.

External

Regional instability. The West Balkans region faces internal challenges such as inter-ethnic conflict and high unemployment. It is ruled by political parties that display ambivalent attitudes to whether or not they ought to strive to be part of the European Union and North Atlantic alliance. Lastly, the region could become embroiled in international conflict.

EU Accession. Furthermore, apart from the economic disparities between regions in Europe, the European Union itself faces immense challenges from within that make it difficult to predict the outcome of accession driven reform processes. This makes it all the more difficult for the countries in the region, Kosovo included, to implement the reforms needed to create conditions conducive for economic growth.

Competition. If there is no acceleration in SME investment and growth, other countries with transitional economies could potentially gain an advantage over Kosovo and reduce its opportunities for internationalizing trade.

2.3.5 FINDINGS FOR EVALUATION QUESTION 3.E

Question 3.e. Are there modalities of investment (private equity, mobilization of diaspora resources, PPP structures, bond markets, etc.) that could be explored in the face of the known binding constraints to investment?

It is widely recognized by government and international financial institutions that access to finance is one of the binding constraints on investment in the private sector, and this is prompting suggestions for new modalities of investment. Some of these as well as a novel idea are set out in this section.

Private Equity and Municipal Bonds

As recently reported in a Kosovo economic gazette, the country and its businesses are still not being rated by internationally renowned financial ratings agencies. This alone speaks volumes about the ideas of establishing private equity funds to invest in Kosovo business (see also below). Suggestions have also been put forth about the issue of municipal bonds that could be used for investments, thereby generating work and employment for business. However, the municipalities are not credit worthy. They depend on budget financing from the federal government, as well as on locally generated revenues from property tax, licenses, permits, etc. The federal budget itself is weak, especially since it has been dependent primarily on custom duties that will disappear under the Central European Free Trade Agreement (CEFTA) and SAA with the EU. The only reason banks buy federal debt is because they feel obligated to do so; they limit this to the extent possible while keeping their excess liquidity in Western banks for reasons of safety and security. Thus, it is extremely unlikely that anyone in Kosovo would buy municipal bonds. Therefore, for the foreseeable future, infrastructure will be funded from the federal budget and loans from the IFIs, such as the World Bank. We do not recommend this as a viable method of funding in the short term.

Investment Funds for innovative start-ups

Linked to the question of private equity funds is the question of how to provide access to finance to start-up entrepreneurs. Kosovo needs innovative businesses to become competitive. In early 2017, the GoK signed an agreement to join the Enterprise Innovation Fund, which forms one pillar of the umbrella structure, the Western Balkan Enterprise Development and Innovation Facility (WB-EDIF), created by the European Union, aiming to provide a range of complementary financial instruments and support services to SMEs in the Western Balkans. However, to date, this fund has reportedly only made a handful of investments in the entire West Balkans and is unlikely to finance many Kosovo start-ups. Statistics show that even in the most advanced economies, less than 1% of start-ups are successful in getting equity investment from all sources. Thus, most start-ups in Kosovo will need to source funding in the same way as in other parts of the World, as well as seek to access relatively low-cost debt financing. However, it is worth noting the experiences of neighboring countries such as Serbia, which have established an Innovation Fund with funding from the EU and administrative support from the WB. The fund offers innovative companies mini-grants and matching grants, the former being non-refundable small grants for covering initial R&D costs and the latter larger grants with the obligation of payment of royalties to the fund.

Mobilization of Diaspora Funds for Investment in SMEs

There have already been attempts to create an equity fund in Kosovo, namely the DEED (Diaspora Engagement in Economic Development), established with the involvement of the UNDP, but it has not been successful in attracting funds. The Kosovo diaspora is estimated at 800,000 individuals, living and working outside the country. Their remittances are estimated to be on the order of 15–20 percent of GDP. We discussed the idea of mobilizing diaspora funds with stakeholders in the international community, as well as with informed Kosovars, and summarize these views below. First of all, it should be noted that the diaspora remittances are made up of funds sent to supplement family income. However, also included in this amount is spending by Kosovars visiting families during regular visits. The remittances, as noted by UNDP, are thus overwhelmingly geared to basic consumption, and the numbers using these funds for economic activity is relatively small. Linked to this is the observation that any remittances used for business purposes are likely to benefit family members rather than be applied to the business endeavors of unrelated or unknown people. Furthermore, the diaspora is not a unified group but rather representative of many generations of migration and thus, the attitudes toward business support and use of funds varies considerably.

There is anecdotal evidence that diaspora members are becoming increasingly disconnected from Kosovo and their families as they integrate into the societies of their new homes. However, Kosovars abroad know their country well enough to be aware of the immense challenges related to rule of law, corruption, and political instability. Thus, it is not surprising that there is reportedly reluctance to participate in the economy by anything other than informal support to one's nearest relatives through the remittances. Still, it may be assumed that once sufficient reform is achieved, which also means considerable improvement in all indices on the WB Doing Business scale and an improvement in people(s) perception of the legal system and corruption, some diaspora members will seek opportunities along with other foreign investors. It is unlikely this will occur in the medium term, and any activities to seek diaspora involvement should be focused in relation to market linkages as well as linkages between successful diaspora entrepreneurs and innovating entrepreneurs in Kosovo rather than on promotion of large-scale mobilization of diaspora funds to create SME financing facilities.

Notwithstanding the above, there are a few examples of diaspora investments in Kosovo, and the diaspora has been involved in the Innovation Centre Kosovo project. In Kosovo, as well as in other parts of the Western Balkans, individuals or small groups of expatriates become involved in supporting start-up enterprises. However, these are small-scale occurrences, important though they may be from a

process standpoint. Furthermore, there is anecdotal evidence that not an insignificant portion of Kosovo goods exported to Western markets, finds its way there thanks to the efforts of diaspora businessmen. Thus, focus on B2B linkages with diaspora is important.

In relation to focus on B2B linkages with diaspora, we draw attention to the following. EMPOWER has as one of its foci leverage of various donors/investors to support investment that would increase production, sales, and jobs. While EMPOWER was focused on participation and exhibition in trade fairs, B2B meetings, identification of PSAs, the discussion with the Albanian Diaspora Business Network (ADBN) began, supporting expansion of Kosovo businesses through market linkages with diaspora businesses. Collaboration between EMPOWER and ADBN will enable diaspora businesses to connect with businesses in Kosovo to explore and develop business opportunities. As indicated by EMPOWER, ADBN is planning to organize a convention this year, where business members at 25 branches from around the world will participate. As a part of this convention, ADBN together with EMPOWER will organize B2B events, where businesses from Kosovo will meet and discuss business opportunities with diaspora businesses. EMPOWER has high expectations that this event will result in a number of new business deals. Initial activity was also established in the form of market support, resulting from a meeting with the diaspora AlbExpo project representatives, which is part of ADBN, where they presented to wood processors their plan to establish showrooms for Kosovo products in the EU and other markets around the world.

To summarize, we do not believe raising funds from the diaspora on a large scale is a viable option, given current constraints, but we do advocate building upon B2B linkages with diaspora businesses.

Public Private Partnerships (PPPs) As a Way of Stimulating Investment in SMEs

Public Private Partnerships, which are considered an opportunity to attract FDI and strengthen local SMEs, have been under discussion during past years. Undoubtedly, there could be opportunities to involve SMEs in the operation of public services and infrastructure, including municipal transportation, public parking, municipal waste recycling facilities, sports and leisure facilities, IT infrastructure, as well as establishment and operation of educational facilities, health services, and industrial parks, among many others. However, there is agreement on the part of the Kosovo government, IFIs, and the donor community that considerable obstacles remain to be overcome. While some examples exist of successful PPP's in Kosovo, particularly in the transportation sector, equally prominent examples of challenging PPP projects can also be found, such as the experience with the Brezovica project, which could have served and could still serve as an important engine for driving SME growth in tourism, related services, and supplier industries in the agribusiness sector.

The general consensus is that, although Kosovo's PPP Law is consistent with EU guidelines, low awareness, poor understanding, and lack of capacity in public authorities (both government and municipal) concerning the nature of PPP's, identification of the best projects that can be tendered through the PPP method, as well as the structuring of PPP projects and their implementation. Even if there were stronger capacities and better understanding, as already mentioned above, Kosovo does not have a country rating and, as such, it would be almost impossible for Kosovo to attract serious investors. Furthermore, municipalities, as potential partners in such PPPs, do not have the creditworthiness to attract financing from commercial banks, although they could offer public infrastructure/land as part of the project agreement.

A way forward might involve the identification of suitable projects that could be piloted with the help of donors (such as USAID) in partnership with international financial institutions (such as EBRD, IFC, and others). The project would have to tackle a market opportunity that could create significant

opportunities for other businesses, such as conversion of waste materials into industrial inputs. It would require suitable partners, for example, a progressive municipality and availability of relatively strong enterprises with the requisite operational and financial capacity. However, it must be noted that in the current circumstances PPPs could only represent a solution for vitalizing SMEs in the medium to long term.

3. EVALUATION CONCLUSIONS AND RECOMMENDATIONS

3.1 PROJECT PERFORMANCE AND RESULTS ACHIEVED

3.1.1 CONCLUSIONS AND RECOMMENDATIONS FOR EVALUATION QUESTION 1.A

Question 1a. *To what extent have USAID activities under this Project been able to address and collectively contribute to the economic growth priorities set forth in the Project’s intermediate results: improved economic governance and business environment; increased business competitiveness (e.g. increased domestic sales, exports, import substitution), job creation, and credit facilitation?*

CONCLUSIONS

The table below summarizes the PAD Project’s progress in achieving DO2 goals and the IRs. The sections following the table present conclusions on performance of the separate components of the PAD Project under IRs 2.1, 2.2.1, 2.2.2, and 2.2.3, respectively. These include: Improved Economic Governance and Business Environment, More Market-Responsive and Sustainable SMEs, Increased Agricultural Productivity and Marketability, and Improved Access to Finance.

Exhibit 39 shows results (such as the World Bank Doing Business ranking improvement and improved government revenues) that are the outcomes of IR 2.1 activities to improve economic governance and the business environment. The exhibit also indicates those activities that can be said to have collectively contributed to achieving the Project objectives, particularly in relation to private sector investment, private sector employment and job creation, and sales in the targeted sectors.

Exhibit 39: DO 2 Results

DO2	Comments on Progress	Role of PAD activities
<i>Value of FDI</i>		No direct relationship between FDI and ongoing PAD activities. Note, PAD Project was involved in unsuccessful Brezovica project to attract FDI.
<i>Private Sector Investment as Share of GDP</i>	From 18.4% (2014) to 20.6% (2016)	Improving BEE due to PFD, investments encouraged by EMPOWER and AGRO will have contributed to this, and improved access to finance through PAD activities (DCA and KCGF guarantees, CFF)
<i>Ratio of Private Sector Employment to total Employment</i>	Target 76% (2018) Achieved 75.3% to date	Reforms to business registration by PFD will have contributed to this, as well as job-creation interventions by EMPOWER PS and AGRO, and PAD Access to Finance activities.

DO2	Comments on Progress	Role of PAD activities
IR 2.1 Improved Economic Governance & Business Environment		
<i>WD BD ranking</i>	Target 2017 60 th position from 81 st (2014) Achieved 60th	PFD has directly impacted WB DB rankings through its work with public institutions and reforms.
<i>No. registered businesses submitting tax declarations</i>	Target 77,000 (2017)	PFD has impacted this through its work with public institutions and reforms.
IR 2.1.1 Improved Fiscal Framework and PFM		
<i>Govt revenue (tax and non-tax) as % GDP</i>	27% achieved v 27.5 % target (2016)	PFD has impacted this through its work with public institutions and reforms
<i>Person hours of training as a result of USG assistance</i>	The activity has consistently exceeded the training-hour targets set	The achievement of BEE reforms was a PFD output in its work-plan.
IR 2.1.2 Key Economic Reforms Implemented at the Central and Local levels		
<i>Key BEE reforms</i>	Target 5 (2016) and 3 (2017) Achieved project results exceed the targets considerably through the total Project Results achieved	The achievement of BEE reforms was a PFD output in its work-plan.
IR 2.2 Increased Competitiveness and Market Linkages in Targeted Private Sector Areas		
<i>Value of Sales in targeted sectors</i>	Target 40 M USD (2017) Over 100 M USD aggregated sales achieved by EMPOWER PS and AGRO to date	Mainly through EMPOWER PS and AGRO.
IR 2.2.1 More Market Responsive and Sustainable SMEs		
<i>Number of beneficiaries who adopted new technologies</i>	Numbers of companies adopting new technologies -50 (2017 to date)	EMPOWER PS has facilitated adoption of new technologies. Mission target runs into thousands of beneficiaries, which is an unrealistic measure EMPOWER PS and KCBS activities have contributed to new job creation.
<i>Number of jobs created as a result of USG assistance</i>	Target 2,500 (2017) Achieved 1,975 (through Q11)	Jobs creation consistent with expectations for achieved levels of investment. Note, PFD is also likely to have contributed to business registration reforms.
IR 2.2.2 Increased Agricultural Productivity and Marketability		

DO2	Comments on Progress	Role of PAD activities
<i>Value of sales in agri sector as a result of USG assistance</i>	Target 24 M USD (2017) Achieved 32,199 USD sales increase 2017 to date	NOA and AGRO results
<i>Number of hectares under improved technologies as a result of USG assistance</i>	Target 70 HA Achieved 2,237 HA (Q11)	NOA and AGRO results
IR 2.2.3 Improved Access to Finance		
<i>Value of domestic credit to the private sector</i>	Target 3% Access to finance for SMEs facilitated by PAD Project exceeds 3.6%	CDA and KCGF guarantees, CFF non-bank lending.
<i>Interest rate spread</i>	5.7% (Central Bank info)	Interest rate spread has fallen in Kosovo

Source: PDF, EMPOWER PS, AGRO, and other sources as indicated.

PFD and Auxiliary Activities under IR 2.1.

The PFD activity has been flexible in adapting its technical assistance to opportunities identified during implementation, and USAID maintained momentum for reform initiated during the predecessor BEEP activity. PFD successfully integrated public financial management support into technical assistance, which had previously been provided under a separate USAID activity. An evaluation of PFD results based on documentation and data indicates that the activity is meeting its goals, is on track to achieve the activity performance indicators, and the PAD Project IRs. The experiences of PFD reveal the continuing need for deep reforms and capacity building within government ministries and institutions in a wide number of areas. The Government of Kosovo in the period 2014–2017 is acknowledged to have improved the fiscal framework and sustainability, especially after election-driven decisions in 2014 to increase the wage bill. The PAD Project helped a great deal in this endeavor of stabilizing the public finances.

EMPOWER PS

An evaluation of EMPOWER PS results based on documentation and data indicates that the activity is meeting its goals, is on track to achieve the activity performance indicators, and the PAD Project IRs. The job-creation figures achieved thus far appear to be consistent with what has been observed on another USAID-funded activity, even though there is a nominal shortfall of about 12 percent at Q11. However, it should be noted that since growth and job targets are set cumulatively for the entire group of assisted enterprises, the results do not acknowledge the increasing strength of all the value chains, since within that total are sectors – including metal processing and tourism – that do not appear to have benefited much from the activity. Otherwise, an examination of the employment growth figures in manufacturing published by the Kosovo Labor survey suggests that EMPOWER is making a significant impact in terms of employment growth.

AGRO

An evaluation of AGRO results based on documentation and data indicates that the activity is generally on track at its half-way stage. Sales including export sales targets are appear not to be on target, but it

should be noted that, in reality, these do not grow in proportion to hectares under crop and the LOP (Lifetime of Project) targets should be achieved. The data for job creation are useful in seeing how agriculture is providing employment opportunities but cannot be applied in estimating growth of full-time employment in the private sector, since it is an approximate figure rather than one showing true growth in full-time employment (as with EMPOWER). The sub-IR targets set for hectares under new technology have been greatly exceeded.

Access to Finance

The PAD Project SME financing facilities have performed well and are meeting objectives. However, on the basis of the estimates of the SME lending gap (800 million Euros, according to an EIB report), they only impact a very small percentage of enterprises' borrowing needs.

The Combined Effect of Activities Under IR 2.1, IR 2.2.1 – IR 2.2.3

In conclusion, the activities in this PAD Project collectively contributed to the achievement of DO2 goals and the activity IRs. The Business Environment and Economic Governance project enabled reforms that encouraged formation and registration of new enterprises, including Limited Liability Companies, and supported implementation of measures to ease payment of taxes, which contributed to the increase in participation of the private sector in total employment as well as an increase in tax revenues. The improvement in the overall business environment was measured by achievement of the WB Doing Business target. PAD activities facilitated the growth of SMEs in manufacturing, services, and agribusiness through a combination of technical assistance and grants, resulting in the achievement of sales growth targets as well as making contributions to private sector employment. The Access to Finance activity contributed to tackling a major challenge in financing SMEs, namely insufficient collateral. The Kosovo Credit Guarantee Fund is already performing well, and the loans it is enabling as well as the grant support from the PAD Activities, which is used to leverage SME's own investments, contribute to the increase of private sector investment.

RECOMMENDATIONS

The DO and IR Indicators could be revised to show better linkages between them and the activity results, as well as to ensure that targets are a reflection of activities. For example, there is no direct link between DO.2 *Value of FDI* and the results from the PAD activities. Any investment involving foreign investors would be incidental rather than resulting from activity input. Another example is IR.2.2.1, namely "*Number of beneficiaries who adopted new technologies*". The target set was well in excess (in thousands) compared with the much smaller numbers of enterprises being provided with firm level support; IR 2.2.2 "*Number of hectares under improved technologies as a result of USG assistance*" has a target remained quite low compared with achievement). In setting job-creation targets, for example IR.2.2.1, "*Number of jobs created as a result of USG assistance*", consideration should be given to the fact that there are often lag effects, since new technologies may actually reduce the need for labor for a period until an SME grows to a scale, thereby requiring an increase. In the case of agriculture, the method for assessing the job-creation results works out full-time job equivalents to take into account seasonal workforce. This approach could also be adopted for manufacturing industries that use seasonal labor.

3.1.2 CONCLUSIONS AND RECOMMENDATIONS FOR EVALUATION QUESTION 1.B

Question 1.b. What types of improvements and/or types and level of benefits do assisted entities value and attribute to their involvement with this Project?

CONCLUSIONS

Government of Kosovo beneficiaries have expressed a high level of satisfaction with the support provided by the PAD Project.

Conclusions from Business Survey

- **Main obstacles in business environment:**
The survey of obstacles to business indicated obstacles that are consistent with those indicated by other surveys with access to finance being the one indicated most frequently.
- **Business Environment improvements:**
The business environment reforms conducted during the past four years are leaving their mark although the survey results show there is still considerable improvement to be achieved. Almost two thirds of those are able to compare business registration today with that four years ago believe that it is easier, but about a third are still unaware that online business registration is now possible. Thus, clearly there is still a need to promote and popularize business registration reform. Similarly with construction permitting and dealing with taxes, close to sixty percent believe it to be simpler in each case. It is not surprising that improvements in permitting are still to make their mark countrywide given that the changes are still in the process of being introduced to many municipalities. However, on average enterprises estimate that on average they are spending up to ten percent of their time dealing with public administration. Moreover, two thirds of surveyed enterprises reported tax inspections during the past year, which averaged over 2 per enterprise. This shows there is still considerable room for improvement in reduce administrative burden in dealing with public authorities. About a third of surveyed enterprises had been invited to submit opinions by public institutions on laws and regulations, and the vast majority had taken advantage of this opportunity. This shows the business community is willing to participate but there is ample room for improving engagement with them.
- **Aspects of SME performance:**
The survey points to notable differences in workforce growth between the PAD activity beneficiary and comparison groups respectively, which reinforces the view that these activities made a useful contribution to workforce growth in Kosovo. A comparison of export sales indicate that in terms of export shares in EU markets, PAD beneficiaries appear to have twice that of the comparison group. A comparison of export sales growth over the past 4 years also indicated that the PAD beneficiary group appears to have grown sales almost twice as much. Over a quarter of enterprises promoting products and services abroad claimed they had done so with USAID support. All in all, the data points to PAD beneficiary enterprises achieving higher growth in terms of size (workforce numbers) and export sales.
- **Benefits provided to PAD activity beneficiaries:**
Somewhat less than a third of the total were surveyed for benefits and outcomes from participation in PAD activities. The most valuable benefits to recipients of PAD support were grants followed by international fairs and workforce development. However, just over a third of the recipients of grants thought that grants were essential for the development of their business, whereas over a half though they were useful but not essential. The data indicates that though grants are a popular form of support (and beneficiaries hope to receive more of the same, as

evident from an analysis of expectations – see below) the majority could manage without. The data also showed that only about a third of recipients combined the grants with a loan, which suggests they very likely used own funds to leverage the donation. Given developments in easing access to finance e.g. the start-up of the Kosovo Credit Guarantee Scheme (described in this report), there exist, more sustainable, sources of funding for enterprises that could be exploited in future.

- **Outcomes for PAD activity beneficiaries:**

PAD activity beneficiaries attribute the improvement of their businesses to the PAD activities, referring to improved productivity and capacity, access to markets and improved quality as main outcomes. These are a reflection of the purpose of the types of interventions that were undertaken by the PAD activities. However, the fact that a relatively small proportion of respondents referred to access to finance as being a key benefit indicates that there may be benefits in directing technical assistance to enterprises to securing commercial sources of funding to supplement investment of own funds.

- **Business Associations:**

The data shows that PAD beneficiaries were represented in associations to a greater extent than comparison group enterprises. It also shows that less than half of the enterprises were members of business support organizations such as sector associations or a chamber. Whilst members are aware of services, there is still a lot of skepticism about the extent to which enterprises are able to influence decisions made by the business support organizations. As assessed by PAD activities and donors in Kosovo, there is still considerable work to be done in popularizing the achievement of business goals by collective actions and activities of enterprises through membership of business support organizations.

- **Access to Finance:**

The survey confirmed that enterprises continue to rely largely on own funds for working capital and investment, and there were no significant differences between the use of commercial loans between the PAD activity beneficiaries and the control group. Facilitating SMEs in the use of commercial loans remains a major challenge and does not appear to have been directly tackled by the firm level support activities. It is interesting that 6% of enterprises that has used bank finance claimed to have been beneficiaries of the Kosovo Credit Guarantee Fund, which is unusual given that banks do not normally inform clients that they are guaranteed.

- **Priorities for improvement and assistance expectations:**

Enterprises aim to continue investment in technology and equipment, workforce development and improvement of products and services. They expect this to be matched with assistance in the form of financial support from donors, trainings and expert advice. Thus, the majority of enterprises feel they could manage without donor financing, many have become used to them and consider them to be a regular form of assistance. Note, this impression was also gained from focus group interviews, during which many enterprise representatives expected continued grant support.

- **Perception of consulting services and willingness to pay:**

Many of the PAD activity beneficiaries reported necessary and positive experiences of using consulting services as part of the assistance application process as well as during its implementation. Over two thirds of enterprises were positive about using local consulting services, which indicates that there are signs that the usefulness of consulting services is being acknowledged by managers of enterprises.

Overall Conclusion on Benefits to PAD Project Beneficiaries

Both Government of Kosovo and SME beneficiaries stated that they had benefited from the PAD Project. The government officials expressed appreciation for the guidance and partnership that the PAD Project had provided to them for the implementation of important reforms, including embedding experts in the government institution offices. Enterprises participating in the PAD activities had benefited significantly from participation by improving competitiveness (newer technology, better and new products, increasing sales and exports) and scaling up their enterprises (workforce growth). Enterprises particularly valued PAD-activity support in establishing market linkages. Grant support was considered important, although the majority did not consider it essential.

Recommendations

Move away from grants to support investment in technology but continue to use them for development of fee generating services embedded within BSOs such as business associations or clusters: The issue of grants has many aspects. One is the expectation that there will always be grants, which was expressed by respondents during focus group meetings. As evaluators, we heard companies say they believed it would always be the norm. It would be good to encourage those companies that prefer to use grants to turn to more sustainable sources of funding (beyond the LOP), namely commercial loans. The availability of credit guarantees now offers good enterprises new opportunities for accessing loan finance. This means a move away from USAID grant support for equipment purchases. Another consideration is that EU funds will provide grant opportunities, thereby raising the question of whether it is necessary for USAID to continue to do so. Beneficiaries should be encouraged to and assisted in accessing loan financing and using EU SME financial support where it is available.

This is not a criticism of the use of grants per se, but rather an indication that the time for change may have come in how they are applied in future activities. The use of these grants has demonstrated that SMEs have access to and are willing to use their own funds to invest. Moreover, the survey results indicate that they should not be viewed as a necessity. Future USAID project support should consider using grants primarily for transferring technical know-how in areas such as modern technologies, supporting certification needs where necessary, especially given the lack of sufficient MAS-Q services in Kosovo, and enabling market linkages with foreign partners. Furthermore, they should be provided mainly to business associations or clusters to help them improve and develop new fee generating services embedded in value chains leading to sustainable and affordable business advisory services. It is noteworthy that the survey pointed to willingness amongst enterprises to pay for services.

3.1.3 CONCLUSIONS AND RECOMMENDATIONS FOR EVALUATION QUESTION 1.C

Question 1.c. To what extent have the activities implemented under this project been necessary and sufficient to achieve Project objectives? Are there gaps, constraints, and/or opportunities where additional program assistance would be of strategic importance?

CONCLUSIONS

The activities carried out by the PAD Project have been necessary to achieve Kosovo's development objectives and to overcome key problems recognized by the Government of Kosovo and the donor community. The PAD Project stands out among other donors as a provider of both financially and technically significant assistance in the activity areas included within it.

Given the depth of Kosovo's problems in the public and private sector, it would be unreasonable to say that the results achieved are sufficient. However, it is reasonable to say that they are adequate given the constraints facing the beneficiaries and the budget limitations of the PAD implementers.

An assessment of the constraints on further development identify numerous opportunities in the areas covered by PAD, some of which would be tackled under a follow-on PAD if they cannot be tackled under the existing one.

RECOMMENDATIONS

There are a significant number of important challenges that could be addressed in future projects, and USAID should look into those identified to assess whether they have the potential of achieving good results over the duration of follow-on activities. These include continued WB Doing Business coordination and reform support, including legalization and construction reform; trade policy and implementation support; establishment of effective inter-governmental coordination mechanism; further reforms in the area of public financial management; tax policy reform; investment promotion; strengthening business associations; workforce development; and continued efforts to improve access to SME finance by developing the Kosovo Credit Guarantee Fund.

3.2 PROJECT COORDINATION AND PRACTICES

3.2.1 CONCLUSIONS AND RECOMMENDATIONS FOR EVALUATION QUESTIONS 2.A/B

Question 2.a. In what ways and how well did USAID's partners/activities under this PAD work together and share information to address noted constraints and/or collaborate to take advantage of interrelated opportunities?

Question 2.b. In what ways and how well have activities funded under this PAD collaborated and coordinated with Government of Kosovo (GoK) stakeholders, as well as related activities funded by other international donors?

CONCLUSIONS

Whether through formal or informal mechanisms, PAD Activities have coordinated and on occasion collaborated with a wide range of stakeholders, whether with USAID implementing partners or with other multilateral or bilateral organizations, thereby avoiding duplication of interventions. PAD activities have excelled at developing good working relationships with Government of Kosovo beneficiaries and stakeholders, with PFD experiencing the greatest exposure to them. AGRO is recognized as the flagship agribusiness-support activity and EMPOWER PS also has received recognition as a key activity providing SME support. Based on information received from the donors interviewed, it appears that the communication between them and PAD Project activities has been open and regular and effective enough to avoid overlap and to align support assistance (to AGRO Strategic Partners and associations, for example) in a manner designed to complement one another.

RECOMMENDATIONS

Future PAD activities should continue to apply a mix of formal and informal mechanisms for collaboration between USAID activities, while continuing to explore opportunities for even more

effective cooperation and collaboration with donors, including the EU, which in the coming years will make available new instruments for enterprise development.

3.2.2 CONCLUSIONS AND RECOMMENDATIONS FOR EVALUATION QUESTION 2.C

Question 2.c. Are there effective mechanisms in place to increase the participation and economic outcomes of vulnerable groups, including women, the rural poor, and other marginalized groups?

CONCLUSIONS

The main PAD Project competitiveness and job-creation activities EMPOWER PS and AGRO implemented were not designed to tackle women or minority enterprise or job-creation challenges, but both activities have either assisted enterprises owned by vulnerable groups or created jobs for people included in them. Importantly, both activities have cooperated with minor PAD Project activities, namely the KCBS activities specially designed to tackle minority business development in North Kosovo, as well as the DOI AKT activities whose mission was to tackle minority community development. Through their actions, the main PAD activities in collaboration with dedicated activities, including KCBS's, have achieved a notable impact in terms of numbers of women- and minority-owned enterprises and participation in the workforce from vulnerable groups. However, as established from our research, there is probably a need for development of improved mechanisms by all donors working in this area to develop long-term solutions that provide these communities with the means to achieve economic outcomes without developing their dependence on handouts.

RECOMMENDATIONS

USAID should consider building a long-term component strategy within the CDCS that would support local organizations working with women, youth, and minorities, to work in concert with the government and other donor programs to act as the 'tip of the spear' in terms of strengthening the support ecosystem facilitating economic growth. As described elsewhere in this report, the current PAD activities collaborated with the AKT Prime and Local projects, which included economic-growth initiatives in their work-plans. Rather than having activities that provide these target groups with economic growth opportunities tangentially (as in the case of EMPOWER PS and AGRO) as well as through collaboration with activities like DOI AKT Prime and Local (which included some economic growth components) a new PAD should consider a specifically targeted, well-resourced activity with a long-term vision for addressing this need.

3.3 LOOKING FORWARD

3.3.1 CONCLUSIONS AND RECOMMENDATIONS FOR EVALUATION QUESTION 3.A

Question 3.a. Are the sectors currently being worked on through the PAD still valid in terms of their potential to drive economic growth and employment? Are there other sectors/opportunities that the current project is missing?

CONCLUSIONS

The PAD Project has successfully targeted a number of sectors in manufacturing, services, and agriculture that include growing enterprises contributing to import substitution (apparel, agricultural products) and exports (IT, furniture). There are opportunities in the development of SMEs in other sectors, such as renewable energy and recycling. Currently, metal-processing competences in Kosovo are not considered to be good, as a result of which companies requiring parts and components outsource supply. Metal processing does not appear to have benefited as greatly as other sectors. It would be worth investigating how this could be improved. As Kosovo becomes more internationalized, it will improve its potential to attract additional tourism, but the improvements made by EMPOWER PS appear to be quite limited. Much still remains to be done in terms of developing the agribusiness value-chains, which should be continued with few exceptions (such as, lettuce and asparagus). New agricultural value-chains have been developed such as raspberries, which are catalyzing development of a much stronger agribusiness industry, for which AGRO is the flagship.

RECOMMENDATIONS

New industries, such as recycling, should be given more prominence in future competitiveness activities, and the ability of start-ups in higher technology sectors (such as IT) in growing and generating jobs should be included as well. Value-chains support, which appeared to have plateaued with few prospects of further growth, should be discontinued, whereas support to relatively well-developed value-chains (e.g., dairy) should be limited and based primarily on self-sustainable support from embedded business support organizations. Tourism could do with further strengthening, but USAID could withdraw from this if it is being tackled better by other donor projects, such as PPSE. Further consideration should be given to metal-processing to investigate prospects for strengthening this industry as a potential supplier of parts and components for domestic industries and export markets if competences can be improved.

3.3.2 CONCLUSIONS AND RECOMMENDATIONS FOR EVALUATION QUESTION 3.B

Question 3.b. Are there other market opportunities (in terms of the geographic end market) with significant opportunities for growth? Is there potential to go directly to these new markets without having to go through Serbia?

CONCLUSIONS

The PAD Project has opened up new opportunities in regional and EU export markets, and much still remains to be done to grow exports to them. This should be the focus of future efforts, and the search for new markets should not eclipse them.

The past problems of selling goods to export markets through Serbian intermediaries mainly affects agricultural products, and this is being successfully tackled, since AGRO is being successful in establishing market linkages with EU and Middle Eastern buyers. Potential problems with transportation can be avoided by use of trucking service vehicles with EU number plates.

RECOMMENDATIONS

There is sufficiently large potential for expanding sales to already identified markets, and these should continue to be the focus of future efforts to expand market linkages.

3.3.3 CONCLUSIONS AND RECOMMENDATIONS FOR EVALUATION QUESTION 3.C

Question 3.c. What is most constraining growth in the sectors/value chains identified? What firm level constraints to growth exist? Which of these constraints are most amenable to change in the next five years?

CONCLUSIONS

Manufacturing companies identify the need for new technologies/equipment, a well-trained workforce, and taxation support (particularly recovery of VAT on purchases of equipment, raw materials, spare parts, services), as the key constraints on growth. For AGRO, the greatest overall constraint for the older, more traditional value chains has been to shift the mindset of the farmers toward growing in newer and more productive ways (technologies and practices). Newer crops have been much easier to tackle as they require entirely new ways of thinking, inputs, technologies, and support systems to get the product to market. Small-land fragmentation and overall outdated farming practices and technologies may continue to hold back progress.

Changing mindsets is a difficult challenge and part of a long process; efforts in this regard need to be continued but change cannot be expected in the next five years. Workforce development is also a long-term process, but considerable change could be achieved in five years with an integrated approach involving teaching establishments and industry. The business environment for improving access to finance is already changing for the better thanks to stricter contract law enforcement; property reforms should also make an important contribution. The Kosovo Credit Guarantee Fund should ease difficulties resulting from insufficient collateral. Significant improvement is achievable in standards and certification, although the challenge of making testing accessible must be tackled. The other problems referred to can be tackled effectively within a short period of time with government reforms.

RECOMMENDATIONS

The future growth of enterprises and their industries, will depend on the development and integration of components of a functioning business support ecosystem, and the following recommendations relate to components of that ecosystem. We believe that considerable progress could be made over five years, given that most of these components exist, though at differing stages of development.

- *Strengthen business associations.* The focus should be on BSOs that will be embedded into the value-chains and work with its members on improving and upgrading them. This means continuing the process of strengthening business associations and helping them to develop fee-based services that will enable a transitioning from donor assistance to self-financing in the longer term.
- *Strengthen innovation support systems.* Kosovo's budding and existing entrepreneurs need to be supported in innovation through a process of trainings, coaching and mentoring, and provision of support building upon the Innovation Center Kosovo and working in close collaboration with other innovation support projects in the region, angel networks, and innovation support services.
- *Access to finance.* Value-chain companies should be assisted through their associations in identifying the best ways of financing investment and working capital given the sources of

financing available in Kosovo, whether in the form of loans from commercial banks or non-bank financial institutions. Where appropriate, support should also be given in accessing EU funding.

- *Food safety/product standards/conformity testing/certifications.* Meeting the technical requirements of target markets is essential, with a focus on developing the capacity of the value chain BSO's in supporting this need.
- *Access to markets.* Enterprises generally view this as one of the best methods of support, as it generally yields positive results. Further support is needed to build upon the achievements thus far by support in targeting marketing opportunities through a combination of trade-flow analysis and in-market research, adapting or developing products to requirements and standards expected in the targeted markets, and organizing events to promote Kosovo products to these markets and establish B2B contacts with foreign buyers. This approach is currently being developed by the EU ICEP project, which is supporting sectors in formulating and implementing sector export strategies.
- *Workforce skills development.* The work on developing skills to match value chain needs must be continued, which means a joint approach involving the public and private sector, including public and private educational & VET institutions, and with the involvement of the BSOs representing enterprises to define industry requirements and to build upon value-chains' own efforts at training the workforce (e.g. the IT industry).

3.3.4 CONCLUSIONS AND RECOMMENDATIONS FOR EVALUATION QUESTION 3.D

Question 3.d. Who are key proponents and opponents of private sector growth in Kosovo?

CONCLUSIONS

The proponents and opponents of growth may be divided into internal and external. Political stability is a key determinant in creating a stable environment for growth, and this is affected inter alia by effective tackling of minority inclusion. Kosovo businesses need to work together and must develop a cooperative approach. External threats to growth include regional conflict and competition.

RECOMMENDATIONS

The next PAD should continue to support the process of stabilizing the situation inside the country through the integration of activities aimed at tackling the Rule of Law, Human Capital, and Economic Growth objectives. This will help mitigate or eliminate the influence of internal factors that could stifle growth and facilitate the achievement of stability and good governance of public institutions, development of an educated population and skilled workforce, and support the process of inter-enterprise cooperation through associations and clusters. As discussed in the section on support mechanisms for minorities and vulnerable groups, future assistance should be built on a solid foundation that has a long-term outlook and will support the development of sustainable outcomes for youth, women, and minorities.

3.3.5 CONCLUSIONS AND RECOMMENDATIONS FOR EVALUATION QUESTION 3.E

Question 3.e. Are there modalities of investment (private equity, mobilization of diaspora resources, PPP structures, bond markets, etc.) that could be explored in the face of the known binding constraints to investment?

CONCLUSIONS

Kosovo and Kosovo enterprises do not have a risk rating, and it is unrealistic to expect significant equity investment or investment in bonds until there is a significant improvement in the business environment, economic performance of the country, and perceptions of outsiders. Kosovo's capacity to carry out public private partnerships is weak and in these circumstances, PPPs could only be a solution for strengthening SMEs in the medium to long term. It is unlikely that the diaspora would wish to invest in SMEs other than those owned by relatives; expatriates, too, are aware of the risks of investing. However, there is potential in exploring opportunities for B2B collaboration with diaspora businessmen.

RECOMMENDATIONS

In addition to the ongoing activities to strengthen the rule of law and improve the business enabling environment and economic governance, the following activities would improve the prospects of attracting both domestic and external investment:

- Capacity building of public sector institutions at the national and local levels to tackle public private partnerships
- Improving capacity for FDI in cooperation with the government of Kosovo country promotion
- Development of a road-map for obtaining a country risk rating
- Support on strengthening B2B links with diaspora businesses, since these can be an avenue to attracting investment as well as increased exports and business projects with foreign partners

4. LESSONS LEARNED FROM PAD EVALUATION

The lessons from the PAD activities are included in the report and included mainly in the recommendations. However, given that this PAD Evaluation is the first under a new requirement for such evaluations, the following section summarizes key lessons learned by the evaluation team in undertaking the PAD Project Evaluation.

Inception phase. Doing the inception phase in-country provides evaluators with direct access to key stakeholders to develop an initial understanding of a Project consisting of many activities. This enables better prioritization of key informant interviews, the documents that need to be explored in growth, and the importance of looking into related activities that are external to the PAD (i.e. activities designed under another DO).

Survey instrument. The survey instrument(s) for collecting data/information from key stakeholders and beneficiaries is best designed after the completion of the inception phase, which provides sufficient insight to ensure that the most important aspects of a PAD evaluation are included within it.

Duration. The PAD evaluation is not an in-depth evaluation of several activities but rather focused on how all activities come together to meet Mission goals, as well as the IRs of the Project under evaluation. However, the evaluation should be longer than one involving a single activity, to allow for a clear strategic overview and understanding of the interactions of the USAID activities and their stakeholders, as well as to look at their relationship to development initiatives being undertaken by other members of the donor and development community.

Evaluation phases. A PAD Project consists of many activities and will require more data to look through than is the case with evaluation of a single activity. The evaluation process should therefore be divided into an in-country inception phase followed by an in-country implementation phase. That is, instead of carrying out the inception phase outside of the beneficiaries' country, it should be based within. This would provide evaluators with a sufficiently accurate knowledge of the span of the Project, interactions between components, and identification of the most important stakeholders. It would also enable a much more effective process for collection of data and fact-finding.

Focus of fact finding and data collection. The majority of effort should be directed to examining the key PAD activities, with relatively few linked activities covered by different DOs, unless it is known that the interaction of the two had a direct influence on the results of the PAD under evaluation.