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MID-TERM EVALUATION OF THE KOSOVO CLUSTER AND BUSINESS SUPPORT PROJECT

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EXECUTIVE SUMMARY

PURPOSE: USAID/Kosovo requested SEGURA IP3 Partners LLC to conduct a mid-term evaluation in May and June 2006 of the Kosovo Cluster and Business Support Project (hereinafter the "Project"), implemented by Chemonics International Inc. since late September 2004, in order to provide feedback for any necessary mid-course corrections and to help guide future planning.

PERFORMANCE HIGHLIGHTS: Project implementation at mid-term is generally on-track, with the most important targets being met. However, results have varied among components, with cluster activities generally making good progress, but with general business support activities falling behind some targets, particularly for business associations. The Project is ahead of target on five overall indicators including: total sales among targeted enterprises; increased capital investment among targeted firms (from end 2004 through March 2006); labor productivity among targeted firms; number of registered firms; and number of associations employing volunteer staff. However, the Project is behind target on other indicators: the number of full-time jobs created in targeted clusters (close to meeting target); increased financing among targeted enterprises; exports as a percentage of imports; number of business associations with strategic plans; and percentage of non-donor revenue generated by associations.

CONCLUSIONS

Impact: Sales by client companies have exceeded targets significantly, an important achievement of the Project. There has been less impact in creating jobs, due to relatively modest targets set at Project start, particularly compared to Kosovo-wide needs. Although the project design did not emphasize strong export results, any competitiveness project must address the need to increase the export readiness of companies. The Project is making good progress in import substitution. There has been less impact in expanding sales in minority enclaves, despite strong efforts, due to restricted access to other markets in Kosovo.

Efficiency: Overall management has been strong, with supportive administrative, technical and head office supervision. However, frequent turnover of expatriate personnel has complicated implementation, particularly for the Livestock and Fruit & Vegetable Clusters, and for Business Environment activities. Cost effectiveness appears positive when the total annual cost of Euro 4,000,000 is compared to the increased value of client company sales (Euro 10.6m. since Project start-up). Yet, when measured against the relatively low number of both client companies and new jobs created, costs per beneficiary appear higher. An alternative approach at a more acceptable cost is to continue focusing on expanding the number of client companies with the strongest potential for expanding domestic and particularly export sales through production of higher value niche products.

Sustainability: The activities of the Project will only be partly sustainable unless the Project clearly builds sustainability into the project by strengthening the associations relevant to each cluster. However, sustainability depends on key external factors beyond the control of the Project, including the pace of privatization, effective implementation of key laws already passed or yet to be passed, and clarification of the final status of Kosovo.

Relevance: The interventions of the Project are highly relevant to achieving the goals of USAID Strategic Objective No 1.3, However, Project activities alone cannot ensure that Kosovo meets these goals. The Government must still adopt many important pieces of legislation and effectively implement the laws that are already on the books. Above all, business associations and government should both be strengthened to ensure an operating environment that supports business creation, market expansion, and productive investment.

BUSINESS ENVIRONMENT RECOMMENDATIONS

Reduce the total number of cluster associations that the Project should support from the planned 20 to about 6 – 10 and include a target relating to a member satisfaction survey.

Ensure that associations increase the range and quality of services they provide to member companies, with Project services channeled directly through associations, in order to better integrate cluster companies and associations.

Eliminate actions that have only a public benefits' aspect. Associations have been pushed to meet difficult targets in this area; put more focus on providing member benefits.

Review strategic and revenue generation plans. The Project should not intervene in day-to-day operations of the associations. As there are no clearly demonstrated benefits to using management companies, at the end of the first grant contract year, the associations should be allowed to make a decision on how to proceed.

Show flexibility on targets for sustainability and help well functioning associations, even if they cannot abide by the 60-40-20 maximum. Also, welcome other donors' funds, if this leads to more and higher quality services or long-term sustainability.

Review public-private dialog activities. Present key issues to government directly rather than continue the more comprehensive public-private dialogue. Expatriate and local staff should together try to foster a dialogue about key issues for their clusters and associations.

CLUSTER RECOMMENDATIONS

Livestock Cluster: In dairy production, focus additional help mainly on improving milk quality. Rather than continuing a focus at the level of micro and small dairy farmers, support testing facilities/labs at key processors, who will then source from producers willing and able to meet standards. Continue focusing on new product development by helping to introduce higher value dairy products with strong potential (new cheese products and flavored/fruit yoghurts; poultry broilers (as avian flu threat recedes). Consider cutbacks in activities including: the sheep sub-cluster, beef, small dairy processors under 5,000 liters per day; micro dairy farmers with less than 5 – 10 cows in their herds, under 2 hectares of land, and producing only for home/village consumption, Focus on integrating livestock associations and cluster companies by providing increased member services and coordinating activities with the Project.

Construction Cluster: Focus on the major constraint of limited access to financing and new investment. Continue current work with companies and banks to apply more flexible criteria to assess applications. Assist in and help speed up privatizations. Continue to diversify cluster clients beyond road construction / asphalt firms. Assist more companies to produce higher value construction materials such as porous concrete blocks and wood parquet flooring, both now with excellent export prospects due to strong marketing efforts. Encourage the Road Construction Association, currently among the most well managed and effective associations, to pursue policy advocacy more actively. As recently decided, focus less on sub-clusters with lower potential,

and those assisted by other donors, e.g., decorative stone, supported increasingly by European Assistance for Reconstruction.

Fruit and Vegetable Cluster: Continue to increase the number of client companies assisted by recruiting medium and larger companies with high potential in the sector. Target firms in high-value processed niche products for imports substitution and exports. Keep focusing on post-harvest handling, and marketing, rather than focusing on production as in the past. Develop closer contacts and cooperation with the Ministry of Agriculture and related Government agencies. As agreed, postpone previous work plan activity to assist a Kosovo-wide Association, until later in the project if appropriate.

GENERAL CROSS -CUTTING RECOMMENDATIONS

Integrate cluster and associations more effectively. This is critical for improving efficiency, effectiveness and sustainability.

Focus on high potential, larger enterprises. Reduce assistance to small enterprises/farms without substantial growth potential.

Increase the project's reach to include more enterprises with growth potential. This can help make the overall project more cost effective. The Project can identify additional enterprises by including more steps in the value chain or by redefining clusters to be broader and more inclusive. Also, identify new clients among companies that are being privatized.

Hire a new association adviser with substantial experience from successful association programs in the Balkans or the Commonwealth of Independent States.

Start planning future strategy now by identifying new clusters to support. As there are few obvious clusters and intervention areas, the sooner this process starts the better.

SPECIFIC QUESTIONS AND RECOMMENDATIONS

Should there be any programmatic shifts due to Kosovo's potential change of status? If accomplished in a smooth and stable manner, there may be an overall change for the better in the business environment. However, unless it is accompanied by significant government reforms in programs and policies, the change of status may have only a marginal impact.

Is KCBS working in clusters with the greatest potential for growth? There are few additional clusters in Kosovo with promising growth prospects, but some rebalancing is needed: Cut back support for meat (beef, poultry and lamb), for small/medium dairy processors and for small dairy farms. Continue focusing on high value processed food and further focus on the construction cluster. Conduct diagnostic studies to identify new clusters, such as niche tourism (adventure, backpacking, skiing); wine production (assuming USAID waivers); automotive recycling/scrap metal exports; and information technology as a cross-cutting cluster that can serve a range of other sectors.

How is the matching grant support for associations working? 90 percent of Strategic Activities Fund resources are used for livestock and associations, and the Project should distribute them more evenly. The matching grants are not working well in all associations, as some of the associations have less income than assumed in their plans, and their strategic plans are too ambitious.

How effective is the approach to the private-public policy dialogue component? The government seems to be an ineffective partner in developing a better business environment. Any policy intervention should target and focus on issues of substantial importance to either clusters or associations, rather than a general public-private dialogue.

Is it likely to be too costly to bring more long-term staff? There is likely to be no substantial difference in the cost of long- and short-term staff. The key issue is to distribute the short-term assistance more evenly over the clusters to target key market opportunities.

What has been learned from other USAID projects elsewhere? A key lesson is that the current project is appropriate, given the level of economic development. One caveat is that policy-level interventions are difficult in post-conflict economies, so the Project should reduce support for general policy making in favor of practical, direct enterprise development.

How can the Project's performance monitoring system be improved? Conduct Client Satisfaction Surveys using independent contractors; measure the value of exports by cluster, with targets set annually; report Kosovo-wide indicators by cluster (currently limited to jobs, sales, financing); and include female employment data.

MID-TERM EVALUATION REPORT FOR THE KOSOVO CLUSTER & BUSINESS SUPPORT PROJECT

I INTRODUCTION

The Kosovo Cluster and Business Support project (herein after the “Project”) has been under implementation since late September 2004, or for just over 1½ years. The contractor for the Project is Chemonics International Inc. In May 2006, USAID/Kosovo requested SEGURA IP3 Partners LLC to conduct a mid-term evaluation of the Project, which was conducted during May and June 2006.

The purpose of this mid-term evaluation is to provide USAID/Kosovo with an objective external assessment of the appropriateness and effectiveness of the Project. USAID has tasked the evaluation team with assessing the efficiency, impact, sustainability, and relevance of the Project. The results of this evaluation are intended to provide feedback to USAID/Kosovo and the Project for any necessary mid-course corrections, and to help guide future planning for USAID/Kosovo.

We have structured this evaluation of the Project in the following five sections

- (i) Context, issues and evaluation methodology
- (ii) Performance at mid-term
- (iii) Improving the business environment: findings, conclusions, recommendations
- (iv) Analysis and conclusions – clusters
- (v) Summary and recommendations

II CONTEXT, EVALUATION ISSUES AND METHODOLOGY

II.1 THE PROJECT AND ITS CONTEXT

II.1.1 Description of the Project

The Kosovo Cluster and Business Support Project is a US \$20 million dollar program, implemented over four years, combining two major components with activities addressing three industry clusters and related business environment improvements.

The cluster component addresses the livestock, fruit and vegetables, and construction materials sectors. In livestock, the most important product is milk, and in the construction materials sector, the most important product/service is road construction. The Project works with the most of the value chain in its clusters to improve performance. There are about 59 active client companies participating in the cluster program plus a number of primary producers, e.g. milk farms, vegetable growers, sheep farms, etc.

The business environment component addresses associations and government advocacy in general. The project is supporting 8 associations, of which 6 associations are directly related to the clusters referred to above, and as such are industry associations. The remaining two associations are engaged in improving the business environment in general. The Project helps conduct advocacy in general by endeavoring to remove business constraints imposed by the government and others, e.g. import restrictions in European Union countries, either directly or through the associations that it supports.

In addition to technical assistance, the project has a Strategic Activities Fund ("SAF" in the following) of US \$ 2 million, which is used to support the two main components of the projects by awarding grants and subcontracts to project-related activities.

II.1.2 Economic and Political Context in Kosovo

The project is being implemented in a difficult environment characterized by adverse macro economic indicators, a poor micro economic enterprise growth climate and a government with limited ability to implement an effective private sector policy.

The macro economic environment in Kosovo is characterized by stagnating economic growth, a significant trade balance deficit, and very high unemployment (some reports indicate that unemployment is as high as 60 to 70 percent).

The micro economic enterprise growth climate is characterized by an inadequate banking and financial sector with poor legal framework conditions for lending, no equity market, an uncertain framework for foreign investment, inadequate and expensive utilities, inadequate and costly transport for exports, a delayed privatization program and generally uncertain legal conditions with ineffective recourse to courts.

The government is characterized by indecisiveness and a lack of ability to implement private sector policy in an effective and consistent manner. This may be partly attributed to the division of political responsibilities between the Provisional Institutions of Self-Government (PISG) and the United Nations Interim Administration Mission in Kosovo (UNMIK).

II.2 USAID/KOSOVO STRATEGIC PLAN (STRATEGIC OBJECTIVE AND INTERMEDIATE RESULTS)

The Project is designed to contribute toward accomplishing Strategic Objective 1.3 – Accelerated Private Sector Growth, and the following Intermediate Results:

- IR 1.3.1 Increased competitiveness of the agriculture sector
- IR 1.3.2 Improved capacity of private enterprises
- IR 1.3.3 Improved business operating environment

II.3 EVALUATION ISSUES & METHODOLOGY

II.3.1 Evaluation Issues

In the statement of work for this evaluation, USAID/Kosovo specifically requested that this report address the following priority and subordinate questions:

- **“Priority Questions:**
 - **Impact:** What has been the quantitative and qualitative impact of USAID-funded activities in the clusters where is working? How has the Project made a difference in the development of the private sector? Has Project assistance made a difference in those enterprises’ ability to compete? What effect did the approach adopted by the Project have on the impact achieved? Is the cluster approach working in Kosovo?
 - **Efficiency:** Are the results being obtained by the Project being produced at an acceptable cost compared with alternative approaches to accomplishing the same objectives?
 - **Sustainability:** As currently implemented, are the Project’s activities likely to have a sustainable development impact after USAID funding has stopped? Will the organizations supported under the Project, whether farmers, enterprises, and processors or business support organizations (e.g., associations, business service providers) have the capacity to provide future support to the private sector when USAID funding has stopped?
 - **Relevance:** As the flagship, project in the private sector, how relevant is the Project toward achieving USAID Strategic Objective 1.3 “Accelerated Growth of the Private Sector?” Will these goals in the private sector be met by the Project alone?
- **Subordinate Questions:**
 - Should there be any programmatic shifts with the potential change of status? Will there be new opportunities for the private sector with this change?
 - Is KCBS working in the clusters/sectors with the greatest potential for growth?
 - How is the matching grant support for associations working? What about subcontracting arrangements with business service providers?

- Is there an appropriate balance between enterprise, association, and policy-level support? How effective is the approach to the private-public policy dialogue component?
- Are the numbers, quality, and relative cost of long-term and short-term technical staff generally appropriate?
- Is there potential for greater KCBS collaboration with other USAID projects?
- What has been learned from other USAID competitiveness/enterprise development projects in other countries? Are any of these lessons applicable to Kosovo?¹

We have also added a few subordinate questions that emerged during our discussions with USAID/Kosovo.

II.3.2 Evaluation Methodology

SEGURA IP3 Partners LLC conducted extensive document reviews and about 80 interviews with project personnel, project clients (both associations and enterprises) and government officials to form a basis for the evaluation. Please see attachment D for a list of the persons interviewed and attachment E for a list of the documents reviewed.

The two evaluators and authors of this report, Michael B. Dan and Richard Lindsey Wellons, used 26 and 23 days respectively to conduct the evaluation and write this report. They spent 19 days in Kosovo between May 24 and June 15, 2006.

¹ This is directly quoted from the statement of work. Only the formatting has been slightly changed to conform to the general formatting of this report.

III PERFORMANCE AT MID-TERM

As the Project approaches mid-term, in general it appears to have performed well in meeting its most important targets. However, results have varied among components, with cluster activities generally making good progress, but general business support activities, particularly for business associations, falling behind some targets.

III.1 Overall Results

The Project is ahead of target on the following overall indicators set out in its Annual Goals and Results, as indicated in the Project's Performance Based Management System, (Attachment A), based on data available through March 2006²:

- Total sales among targeted enterprises
- Labor productivity among targeted enterprises
- Increased capital investment among targeted enterprises
- Number of registered companies
- Number of associations employing volunteer staff

KCBS is behind target on the following overall indicators:

- Number of full-time jobs created in targeted clusters (close to meeting target).
- Exports as a percentage of imports (value of transactions).
- Increased financing among targeted enterprises.
- Number of business associations with strategic plans.
- Percentage of non-donor revenue generated by associations
- Value of company profit taxes collected (n.a.)
- Number of PPP recommendations implemented (target TBD).
- Number of companies using business-consulting services (target TBD)
- Number and type of quality standards approved by targeted associations (target TBD).

The Project's awards of subcontracts and grants through SAF include 37 fixed price subcontracts and 15 simplified grant agreements through March 2006. The total value of signed subcontracts, grants and procurement of goods is Euro 735,368, or about 35 % of the total amount budgeted, an appropriate level with the Project that is about one-third through its four-year period. However, the distribution of grants and subcontracts has been highly uneven through March 2006, with about 90% awarded to the livestock cluster and for general business support, about equally, and the remaining 10% awarded to construction and fruit and vegetables cluster activities.

In addition to the Project's overall indicators, the USAID/Kosovo Mission has adopted several common performance indicators since Project start-up, to permit comparisons across USAID

² In this evaluation report, performance assessment is based on data provided in the most recent Quarterly Report through March 31, 2006, and measured against targets for end of Year Two (September 30, 2006). Performance related to enterprise indicators (jobs, sales, production, financing and investment) is measured over the period from the first Quarterly Report (end-March 2005) through the most recent Quarterly Report available (end-March 2006), as baseline data that KCBS had intended to collect in late 2004 did not begin to collect until the second half of February 05 due to changes in the work plan approach following project start-up.

programs globally. The project is on target on most of its common indicators, listed in Attachment B.

III.2 Performance Highlights

The most important achievement of the Project to date has been in helping generate increased sales among client companies, up Euro 3.6 million from March 31, 2005 to March 31, 2006, a 68% increase to date, and well above the end-2006 target of 10%. Another important area is job creation, which is on track to meeting the end-2006 target. However, the number of new full-time equivalent jobs created by cluster companies (295 by March 31, 2005, and an additional 262 new jobs in the following year through March 2006) is relatively modest. Project targets ramp up more rapidly over the next two project years, but still total a relatively modest 1,700 at the end of the project in year four. Rather than being a result of Project implementation, the modest achievement in job creation is due more to initial Project design, to realistic limitations on project impact, and to constraints of the environment.

Another important area where the Project has had a good start but where improvement is needed is in the number of client companies assisted. The Project has assisted a steadily growing, yet relatively modest, number of client companies at mid-term. The total number of client companies assisted through March 2006 was 59 active and 8 non-active companies³, up from March 2005, at 38 active and one non-active⁴. The largest number of active companies was in Livestock (30, up from 18), followed by Construction (18, up from 13) and Fruit and Vegetables (11, up from 7). The total of 59 is a relatively modest number of firms assisted given the size of the project budget totaling about \$ 20,000,000 over four years, even taking into consideration the assistance provided to more than 200 farms (sub-suppliers). However, USAID designed the Project to provide a high quality of service. A major focus should be on increasing the number of beneficiaries where appropriate, while still maintaining this high quality of service.

However, the definition of a Project client is considerably more precise in terms of actual assistance provided and implementation than under its predecessor Kosovo Business Support project, which counted up to 800 client companies assisted generally during the initial reconstruction period in Kosovo following the war. Moreover, the Project quarterly results do not include output or employment multipliers or indirectly employment generated, which, if included, based on generally accepted formulae, would considerably enhance overall Project results.

The main areas where achievements have lagged behind targets are in general business support particularly to business associations. Two out of the three overall indicators measuring business association progress are behind target, due to various factors (see Section IV below). These factors also include external constraints, over which the Project has less control, such as the lack of Government initiative taken in public-private dialog activities, as well as to possibly overly optimistic assumptions made during the initial project design regarding association development and progress toward sustainability.

³ Active companies are those to which KCBS provides services regularly each quarter, to which frequent site visits are made, and which have indicated their interest in utilizing assistance often through signed agreements for assistance

⁴ In addition to the 59 companies, 9 farms were also assisted.

III.3 Project Design and Cluster Competitiveness Approaches

The Project is beginning to make a positive difference in the development of some key private sector industries, mainly by helping to improve production techniques, an area on which it has focused, and to a lesser extent by assisting on post-production and marketing assistance. A number of client companies have improved their competitiveness because of improved product quality, with increased sales resulting, both domestic and for export.

As to whether the cluster approach is working in Kosovo, to some degree, yes, but a few caveats are in order. First, this Project is not a classic cluster competitiveness project in the full sense of the Michael Porter approach. The Porter focus is predominantly on actively bringing together all stakeholders, including public sector, private sector, and all value chain linkages, with the primary goal of cooperating to compete.

Rather, this Project is a more narrowly focused SME/business association support project. It was designed more as an extension of its predecessor Kosovo Business Support project, than as a Cluster Competitiveness project. A major difference is that the Project's three clusters were effectively pre-selected well before project start-up. In cluster theory, the most appropriate clusters meriting support are meant to emerge during the initial implementation phase, based on diagnostic and market studies, the emergence of cluster champions and the demonstrated commitment of key stakeholders. Nevertheless, the Project appears to be relatively successful to date, mainly because it has adapted cluster theory to fit local Kosovo economic and resource limitations, as well as taking into account the local uncertain political environment. As such, the Project appears to be setting appropriate foundations, mainly through production assistance and should continue its recent focus on post-production and marketing assistance, to be determined as USAID's strategic plan evolves.

IV IMPROVING THE BUSINESS ENVIRONMENT: FINDINGS, CONCLUSIONS, RECOMMENDATIONS

As described above, the component to improve the business environment consists of the following three sub components:

1. Cluster related associations.
2. Non-cluster related associations.
3. Public private dialogue and interventions to improve the business environment

We will discuss each of these subcomponents in the following.

IV.1 C CLUSTER RELATED ASSOCIATIONS

There are currently 6 cluster related associations, i.e. associations that are directly related to the activities in the clusters. They are the Kosovo Association of Milk Producers, the Kosovo Dairy Processors Association, the Kosovo Poultry Producers and Feed Millers Association, the Alliance of Kosovo Agribusiness, the Association of Wood Processors of Kosovo and the Road Construction Association of Kosovo. The Project is considering including or forming several other associations related to the construction materials cluster.

IV.1.1 Findings

During our evaluation process, we made the following findings:

- **USAID Targets.** The USAID targets for the association component are the number of associations with approved strategic plans, percent of non-donor revenues generated by the associations and the number of associations employing non-volunteer staff. The Project is not currently meeting all these targets. The Project plans to support 20 associations during its implementation.
- **Integration of work with cluster companies and cluster related associations.** The project has only recently started to integrate association activities with cluster companies. Most associations do not yet provide any effective services to their member companies, largely because the Project has established the cooperation with the associations only recently, earlier this year. Among associations, providing the most effective services is the Road Construction Association, which offers assistance on privatizations and marketing. It has the advantage of serving a relatively small, more easily manageable group of about 22 members, with relatively large sales, enabling them to provide more financial support to the association. Interviews in the field with client companies indicated that the large majority of firms seen reported receiving virtually no services from associations. With the Project, there is also a lack of coordination between the cluster staff and the association staff, which up until recently had required all cluster staff input regarding associations to be provided only through the Project's association staff.
- **Maturity or status of associations.** Most of the associations reached a comprehensive grant agreement late last year or early this year. Therefore, they have not been operating pursuant to their grants for more than roughly 5 to 7 months. Some have formally been operating for longer. However, many associations suspend most of their activities when donor funding is not available, so effectively the project revitalized these associations.

- **Focus of the associations.** The Project has told the cluster related associations to focus on the public good rather than that of their members.
- **The Project's management approach to the cluster related associations** . Germane aspects of the project's management of the associations are as follows:
 - Strategic and revenue generation plans. KBCS has directed most of the cluster associations to adopt very ambitious plans in terms of both strategic plans and revenue generation.
 - Involvement of the Project in day-to-day operations. The Project gets too involved in the day-to-day management of the associations in too direct a manner, i.e. the projects orders the associations to make certain decisions.
 - Use of Management Companies. The Project has strongly encouraged the associations to use association management companies. The associations are currently managed as follows:
 - *An association management company model* has been adopted by the Kosovo Poultry Producers and Feed Millers Association and the Kosovo Association of Milk Producers
 - *A mixed management model* has been adopted by the Kosovo Dairy Processors Association, where the board has appointed an executive director, but the remainder of the management is undertaken by a management company
 - *A traditional management model* has been adopted by the remaining associations, the Alliance of Kosovo Agribusiness, the Association of Wood Processors of Kosovo and the Road Construction Association of Kosovo, where the board appoints an executive director, who then hires personnel and contracts for the needs of the association.
- **Management of the associations.** As far as can be ascertained from mostly 2-hour meetings with the associations, all of them appeared ably managed by presidents and executive directors who were sincere about the work of the association and the cooperation with the Project.
- **Financial self-sustainability** . All of the associations put a strong emphasis on sustainability. The Project and the associations have agreed on a specific plan of reduced grants to the associations over time. In the first year, the Project covers 60 percent of the agreed costs of the associations, in the second 40 percent, and in the third year 20 percent. Most associations are clearly concerned about revenue generation, particularly for the next years, where the grants from the Project will decline as a percentage of agreed operating costs. In interviews, several of the associations have expressed concern that it will be difficult to reach the targets set by the Project. The Project has multiple times emphasized that it will terminate grants to associations that cannot abide by the targets.

IV.1.2 Conclusions

- **USAID Targets.** The Project cannot effectively work with 20 associations in the remainder of the project period. Certainly, they cannot become self-sustainable. The association targets relate to inputs and not to the performance of the associations in assisting their members.
- **Integration of work with clusters and cluster related associations.** A major concern is the lack of integration of association work with cluster companies. There are very few substantive services yet provided by associations to member firms. Most services that client companies in the field report receiving are considered by firms to be from the Project, rather than from the associations. Moreover, within the Project, there has been a distinct separation between the activities of the business environment/association component staff and the cluster staff, which must be addressed.
- **Maturity or status of associations.** Given the difficulty and required elapsed time to develop associations, the Project is unlikely to be successful in trying to develop 20 associations. The project is half way completed, and presumably, it chose the best associations at the outset. Most likely, therefore, it will take even more time to develop additional, likely weaker associations. Given the issues outstanding with the current associations, there is a substantial workload involved in supporting them.

As in other emerging economies, the most successful associations are those with few relatively affluent members. Such associations generally have more resources, and each of the members feels that he has influence on the policies and programs of the association in question.

- **Maturity or status of associations.** The relative immaturity of the associations makes it difficult to arrive at firm conclusions at this point. The project should probably have started up the association development component earlier.
- **Focus of the associations.** It is difficult for nascent associations to keep and build their membership. To do so, they must focus their strategies on tangible benefits for their members. The focus on the public good is an issue for much more mature associations. In certain, well-defined cases, a focus on the public good is also relevant for less mature organizations where this is in the explicit interest of the members. An association can focus on the public good to build their credibility with the public to help its members. For example, a poultry association will focus on its effort to eradicate avian flu or ameliorate its impact on consumers to encourage the public to continue buying broilers and eggs.
- **The Project's management approach to the cluster related associations.**
 - Strategic and revenue generation plans. The strategic plans and revenue projections do not seem realistic for all associations, as they are the result of a strong direction from the Project for performance. The strategic plans and revenue targets must be realistic, as it is not encouraging for a nascent, struggling association to fail in achieving its plans, as the members may then conclude that the association and its management are ineffective.
 - Involvement of the Project in day-to-day operations. From a management point of view, a key objective in assisting associations is to build management capacity or

management sustainability. The Project compromises the autonomy of associations and the responsibility for building by intervening in day-to-day matters.

- Use of Management Companies. There appears no clearly demonstrated benefit to using association management companies for the following reasons:

- *They blur responsibilities between the association board and the management company.*
- *Their use assume a strict separation between board and management tasks, i.e. between policy making and implementation, which usually do not obtain in associations in their early stages of development.*
- *They may not be cost effective* – generally, in less developed economies, services cost relatively more than in more developed economies. Some of the associations indicate that they could provide the services less expensively themselves. The associations have also appropriately suggested that they might realize higher cost savings by sharing offices and staff directly either with other associations or one of their members. Sharing offices with one member might give rise to conflicts of interest, but could be appropriate if the associations properly manage this issue, and the members agree on it.

Moreover, the two business service providers, which provide the association management services, are relatively small. One, REA, manages two associations, and another AFAS manages one association. With so few associations under management, these two companies cannot develop the economies of scale and scope that makes association management companies an effective model in highly developed economies such as the United States

- *They weaken the ability of the board to execute policies, as the board has not recruited the Executive Director, and may impede the emergence of industry champions from association management.*

- **Financial self-sustainability.** Financial self-sustainability based on membership dues and fees for association services is important for associations in mature economies, as there are few other ways of survival for most associations. However, in an economy such as Kosovo's, which is likely to continue to receive relatively large amounts of technical assistance for an extended period, this may not be realistic or in the interest of the members of the associations. In fact, we argue that the members should expect effective association management to seek to attract donor funds to provide valuable services for their members.

The Project should put emphasis on each of the associations becoming financially self-sustainable in the sense that they can provide a core set of services to their members without further subsidies and will not go into hibernation at the end of the Project, as seems to be the norm for many associations in Kosovo. At the same time, the project and USAID should welcome additional donor funding to expand services.

In addition, the financial self-sustainability is not a goal per se. The key goal of building associations is to put together organizations that can provide valuable services for their

members. If the associations cannot do that, they do not provide any value. Towards the end of the Project, if associations cannot become completely self-sustainable, but provide highly valued services to the members and build private sector development, in general, and have the promise of becoming self-sustainable given some more time, the project should actively seek the support of donors to continue the work of the associations.

Finally, the Project states that it will cut off associations that cannot follow their plans and become self-sustainable. However, for the cluster related associations, there are few, if any, alternative associations to support. As the project is constructed, ideally, the cluster-based associations should take over many of the activities of the Project, when the Project ends. Therefore, the Project must work constructively with these associations rather than just cutting them off.

IV.1.3 Recommendations

- **USAID Targets.** Revise the current targets and include a target relating to a member satisfaction survey to be undertaken by a third party. Reduce the total number of cluster associations that the Project should support from the planned 20 to six to ten. If the Project decides to support additional associations, these should have a relatively small affluent membership to maximize the potential for them becoming self-sustainable while still providing relevant services. This is an important point, since the Project can only support new associations for a shorter period, i.e. the remaining project period.
- **Integration between cluster companies and cluster related associations.** The most effective way to address the lack of integration is to ensure that associations increase the range and quality of services they provide to member companies. The Project should ensure that all services that it provides should be channeled directly through Associations, that association staff be trained to take over providing these services, and the members see the assistance as coming from associations. Within the Project, remove restrictions on cluster staff interaction with associations and improve communication and coordination on all related activities among the staff of the two Project components.
- **Focus of associations.** Focus on actions with clear and concrete benefits to the membership.
- **The Project's management approach to the cluster related associations.**
 - Strategic and revenue generation plans. The Project should initiate a review of the strategic and revenue generation plans to ensure that these reflect a focus on the benefits for members and are realistic and implementable.
 - Involvement of the Project in day-to-day operations. Set a clear line between the project and the associations. The project should not intervene in day-to-day operations of the associations. The associations must have freedom of management.

At the same time, if there are key management issues, where the Project believes that the associations could improve, the Project should naturally engage in a dialogue with the associations, but this should not result in direct orders as to how an association should manage.

- Use of Management Companies. There seem no clearly demonstrated benefits to using management companies. At the end of the first grant contract year, the associations should assess the costs and benefits of using a management company vs. using their own staff and be allowed to make a decision how to proceed. The project should assist the associations develop an overview of the benefits and financial costs.
- **Self-sustainability.** Self-sustainability and revenue maximization are appropriately the project's goals and should continue to be. However, the Project should be flexible with the path towards sustainability and help well functioning associations, even if they cannot abide by the 60-40-20 maxim. In addition, the Project should welcome other donors' funds, if this leads to more and higher quality services for the members or long-term sustainability.

USAID and the Project have informed us that the project will replace the Senior Competitiveness & Association Advisor, who recently left, with an advisor whose key responsibility will be to advise and conduct policy advocacy with the government, while the local staff will take over the association management tasks. In view of the associations issues discussed above, we recommend that the Project hire an expatriate advisor with proven experience in developing associations in the Balkans or the CIS either instead, or if budget allows, in addition to the adviser that the Project plans to hire. However, while making this clear recommendation, we do realize that the project may find other ways of supporting the associations more effectively. If the Project decides for another approach, we believe that the association's component will require closer and continuous supervision from the Chief of Party.

IV.2 NON-CLUSTER RELATED ASSOCIATIONS

These include the association Center for Association Development (under the Chamber of Commerce), and BCC (the Association of Business Consultants). These activities are well implemented with good cooperation between the Project and the associations in question.

IV.3 PUBLIC PRIVATE DIALOGUE AND INTERVENTIONS TO IMPROVE THE BUSINESS ENVIRONMENT

IV.3.1 Findings

- **In general, the public private dialogue was well received.** One of the most beneficial outcomes was that donors, consultants, local advocacy groups and persons know each better and can now discuss issues directly.
- **The constraints study, to some extent, the basis of the Private Public dialogue was done well.**
- **The project does not seem to have much impact on the business environment through direct negotiations**, even if the local staff of project has good connections to government.

IV.3.2 Conclusions

- **The public private dialogue is not an effective path to promulgate further change in government policy.** At any rate, it is not certain that the Provisional Institutions of Self-Government can implement substantial change. The Provisional Institutions of Self-Government should initiate any further broad comprehensive public-private dialogue.
- **The expatriate staff does not participate enough in discussing changes in the business environment with the government.**
- **The Provisional Institutions of Self-Government have very limited ability to implement decisions**, and for this reason, even substantial efforts with the self-government are likely to result in quite limited improvements in the business environment.

IV.3.3 Recommendations

- **The project should focus on presenting key issues for their clients to government directly** rather than continue the more comprehensive public-private dialogue.
- **The expatriate and local staff should together try to foster a dialogue with the government about key issues for their clusters and associations.**

V IMPROVING THE ECONOMIC PERFORMANCE OF CLUSTERS: FINDINGS, CONCLUSIONS, RECOMMENDATIONS

The evaluation team based its review of cluster performance on a thorough review of project reporting documents, on field interviews with 23 client companies drawn from all three project clusters in the major regions of Kosovo, including minority enclaves, and on interviews with the project international and local cluster staff and available short-term technical assistance.

The evaluation team conducted field interviews with each client company using a questionnaire for a Client Satisfaction Survey to ensure common, practical data collection, which the team recommends that the Project also adopt over the next two years to more carefully monitor how well the project is responding to client needs.

For all three clusters combined, performance highlights covering the period from the first quarterly report of March 31, 2005 (first two quarters of the baseline year 2004/05) to the most recent quarterly report through March 31, 2006 (first two quarters of 2005/06) include:

- An increase in the value of the sales of Euro 10,615,581.
- An increase in employment of 145 new jobs
- A decrease in capital investment of Euro 279,035
- An increase in the value of financing of Euro 805,275

V.1 Findings by Cluster

V.1.1 Livestock Cluster

Implementation of activities in this cluster is generally on track with good results. The Livestock cluster has:

- **The largest number of active client companies**, with 30 at March 31, 2006
- **The strongest growth in new clients**, from 18 at March 31, 2005 to 30 in March 31, 2006
- **The highest sales** (Euro 9.2m at March 31, 2006), and the second best improvement, after the Fruit and Vegetables Cluster)
- **The second largest number of new full time equivalent jobs created** with 77, (492, up from 415).
- **Sub-cluster achievements (in descending order of success) include the following:**
 - Dairy: Production and processing are both on track and generally doing well throughout the value chain.
 - Poultry: Also on track, with local egg production and consumption reviving (although imports have been restricted); some recovery initial consumer cutbacks due to the avian flu scare; and broiler production now starting
 - Crops: Doing decently, with new varieties now starting
 - Sheep: Not on track. Issues include old breeds, relatively low quality wool, inadequate quality of meat produced, low local consumption of lamb, which appears difficult to increase, and certification of lamb exports according to European Union norms stalled in the Ministry of Agriculture.

- Associations in the Live stock sector (Kosovo Association of Milk Producers, Kosovo Dairy Producers' Association) do not yet provide many effective services to members, as indicated in field interviews with most client companies.

Table 1: Livestock Cluster Performance
March 31, 2005 - Mar. 31, 2006

As of	No. of active Client Companies	Sales (Euro '000)	Full-time Employment	Financing (Euro '000)	Investment (Euro '000)
Mar. 31, 2005	18 7,569		415	536	1,638
Mar. 31, 2006	30	9,232	492	516	88
Change	+ 12	+ 1,663	+ 77	(20)	(1,550)

Source: Project Database, Performance-Based Management System

V.1.2 Construction Cluster

Implementation is also on track generally, but with mixed results due in part to external constraints related to limited government support for new and improved infrastructure. This cluster has:

- **The second largest number of client companies**, with 18 as of March 31, 2006, up from 13 in March 31, 2005.
- **The lowest increase in sales** (Euro 203,000 over the period), due to low budget funding for road construction in Kosovo in 2004 and 2005.
- **The lowest level of financing** (Euro 900,000 lower over the period) and investment (Euro 2.5m) although recent privatizations are providing increased investment.
- **One of the more effective associations** (Road Construction Association of Kosovo) with strongest membership base in cost contributions from relatively larger and more profitable member companies.

Table 2: Construction Cluster Performance
March 31, 2005 - March 31, 2006

As of	No. of active Client Companies	Sales (Euro '000)	Full-time Employment	Financing (Euro '000)	Investment (Euro '000)
Mar. 31, 2005	13	851	438	970	2,799
Mar. 31, 2006	18	1,054	585	72	289
Change	+5	+ 203	+ 147	(898)	- (2,510)

Source: Project Database, Performance-Based Management System

V.1.3 Fruit and Vegetable Cluster

Implementation of many activities is delayed with generally weak results. The cluster has:

- **The lowest number and growth of client companies** (11, up from 7 over the period)
- **The lowest number and increase of jobs** (60, up from 22)
- **The highest increase in sales**, (Euro 1.7m to March 31, 2006), due to the high value export sales)
- **Positive financing, but declining investments**
- **Activities on track are limited to forward contracts** (although no harvesting yet) and blueberry variety test plots, packing and grading assistance, and orchard production equipment.
- **Work plan activities behind schedule**, include market price tracking, new varieties, Eurepgap assistance (HAACP being done instead), improved packaging, assistance in cold chains and new processing lines, and promoting branding.
- **Products dropped from assistance include tomatoes, onions.**
- **No active associations**

Table 3: Fruit and Vegetable Cluster Performance
March 31, 2005 - Mar. 31, 2006

As of	No. of active Client Companies	Sales (Euro '000)	Full-time Employment	Financing (Euro 000)	Investment (Euro '000)
Mar. 31, 2005	7	229	22	0	92
Mar. 31, 2006	11	1,956	60	15	34
Change	+ 4	+ 1,727	+ 38	+ 15	(58)

Source: Project Database, Performance-Based Management System

V.2 CONCLUSIONS BY CLUSTER

- **Clusters overall have generated relatively strong sales**, with an increase of nearly Euro 3.6m over the period, the most important achievement of the project
- **Clusters as a whole have generated relatively few jobs**, with an increase of just 262 from Mar. 31 2005 to Mar. 31. 2006, indicating that more client companies with high potential for increased domestic and export sales, and job creation, must be assisted.
- **Overall, both financing and investment in all three clusters face problems**, with limited credit access and low investment due to concerns over future political and economic scenarios.
- **The Livestock cluster is the strongest performer in sales value and second in total number of jobs**, indicating that this sector should be an area of future focus in all sub-clusters except sheep.

- **The Construction cluster is strong in job creation, but highly variable on sales,** indicating that diversification is needed within the sector to avoid the negative impact of public sector budget cuts for road improvements (70% of construction clients depend on public sector contracts). Problematic financing and investment remain priority constraints. Privatization, although slow and uneven, offers opportunities for increased investment mechanisms, including joint ventures.
- **The Fruit and Vegetables cluster is strong in sales increases (although largely due to potato sales of a single major client company) but lowest in number of jobs.** Results of activities have been limited due in part to high Project cluster staff turnover (2 short-term and 2 long-term international advisors in 1 ½ years) and an initially narrow focus on production rather than on achieving market-driven sales through a focus on post-harvest, quality and marketing.

V.3 RECOMMENDATIONS BY CLUSTER

Implement the actions below, many of which the Project has already started.

V.3.1 Livestock cluster

- **In dairy production, focus additional help mainly on improving milk quality.** However, rather than continuing a focus at the level of micro and small dairy farmers, support testing facilities/labs at key processors, who will then source from producers willing and able to meet standards. Focus on enforcement of dairy standards as government adoption of standards nears, if possible.
- **Focus on new product development by helping to introduce higher value dairy products with strong potential**
 - New cheese products and flavored/fruit yoghurts.
 - Poultry broilers (as avian flu threat recedes).
 - Sheep cheese (if sheep not dropped).
- **Consider cutbacks in activities including:**
 - The sheep sub-cluster, as the sheep herd in Kosovo has decreased since the 1990s by over 80%, local consumption has dropped, exports are likely to be only marginal and the industry generally has not proven to be competitive. However, make a decision following results of current initiatives to export sheep to Bosnia based on results.
 - Beef, drop it from work plan for 2007 as it is generally not price competitive compared to imports particularly from Latin America.
 - Smallest dairy processors, under 5,000 liters per day, will increasingly be less competitive, especially as large dairies consolidate into a few big dairies in the next 5 years.
 - Micro dairy farmers with less than 5 – 10 in herds, under 2 hectares, and producing only for home/village consumption, that are not likely to take initiatives to develop as entrepreneurs.

- **Focus on integrating livestock associations and cluster companies** by providing increased member services and coordinating activities with the Project.

V.3.2 Construction cluster

- **Focus on the major sector constraint, limited access to financing and new investment**, by continuing current activities to work with companies and banks in applying more flexible criteria in assessing applications; assist in and help speed up privatizations.
- **Diversify cluster clients beyond road construction / asphalt firms**, which will continue to be constrained by uneven public sector budget allocations
- **Assist more companies in higher value construction materials** such as porous concrete blocks and wood parquet flooring, both now with strong export prospects due to strong marketing efforts.
- **Encourage the Road Construction Association, currently among the most well managed and effective associations, to pursue policy advocacy more actively** with the Government, where potential exists for near-term results, e.g., a doption of standards now stalled in Government ministries and improved procurement transparency. The Project is exploring establishing a contact point in the office of the PM to address enterprise concerns faster and more effectively.
- **Consider focusing less on sub-clusters with lower potential, and those assisted by other donors**, e.g., decorative stone, increasingly supported by European Assistance for Reconstruction.

V.3.3 Fruit and Vegetable cluster

- **Increase the number of client companies assisted** currently at just 11, up from 7 in 2005. Focus on recruiting medium and larger companies with high potential in the sector.
- **Target firms in high-value processed niche products for import substitution and exports**, e.g., frozen French fried potatoes, dried mushrooms, and wild berries, already identified the Project, and related high value processed foods with good potential.
- **Meet priority needs of clients, e.g., in post-harvest handling, including grading, sorting, packing, cold chain, and in marketing**, rather than focusing on production as in the past
- **Develop closer contacts and cooperation with the Ministry of Agriculture and related Government agencies.**

- **Limit trade fair participation to the most relevant trade fairs** (regional, and functional, e.g. FruitLogistica) rather than larger general shows (Anuga, Germany; Sial, France; NY Fancy Food Show).
- **Postpone previous work plan activity to assist a Kosovo-wide Association, until later in the project, if appropriate**, which the Project's cluster team has indicated it plans to do.

VI SUMMARY & RECOMMENDATIONS

Most of the Project client companies, donor organizations and other parties interviewed had an overall positive impression of the project, a perception shared by the evaluation team. However, there are several key areas where fine-tuning activities with tactical adjustments appears necessary. We have suggested many activity-specific adjustments in the sections above. These and related findings, conclusions and recommendations for the various components are summarized below in the following general recommendations and in analyzing the four main cross-cutting categories of impact, efficiency, sustainability and relevance of the Project:

VI.1 GENERAL RECOMMENDATIONS

We make the following five important recommendations:

1. Integrate cluster and associations more effectively. This is key to efficiency, effectiveness and sustainability.
2. **Focus on high potential, large enterprises,** and reduce assistance to small enterprises/farms without substantial growth potential.
3. **Increase reach of project to more enterprises with growth potential to make the overall project and its outcomes more cost effective.** The Project can identify additional enterprises by including more steps in the value chain or by redefining the clusters to be broader and more inclusive. Moreover, the project can identify new potential clients among the companies that are being privatized.
4. **Hire a new association adviser with substantial experience from successful association programs in the Balkans or the Commonwealth of Independent States**
5. **Start planning now for the future strategy by identifying new clusters and intervention areas.** There seem to be few obvious clusters and intervention areas, so the sooner this process starts the better it is.

VI.2 IMPACT, EFFICIENCY, SUSTAINABILITY & RELEVANCE

VI.2.1 Impact

- **Revenue:** Client company sales have exceeded targets significantly, and are the most important achievement of the Project
- **Job creation:** There has been less impact in creating jobs, due to relatively modest targets set at project start, particularly compared to Kosovo-wide needs, due in part to the relatively small number of active clients, particularly those in high-potential, high-value niche products. There has also been relatively limited impact in increasing female employment.

- **Exports /export readiness preparation:** Although the project design did not emphasize obtaining strong export results, any competitiveness project must address the need to increase the export readiness of companies. The Project has achieved positive overall results in exports, but most to date have been overwhelmingly in exports of raw consumer potatoes to the region (Euro 1,500,000 out of total exports of Euro 1,645,000 through March 31, 2005). There have only been relatively marginal exports of construction materials, mainly porous blocks, and in horticulture, exports of dried mushrooms. Still, production and marketing assistance has been provided by the project that may soon result in significantly higher exports particularly in the wood sub-cluster, where there is strong potential for exports of up to Euro 2,000,000 p.a. in parquet flooring to the US/Canada (although with inputs of hardwood mainly imported from Romania and Bulgaria).
- **Import substitution:** Good potential exists for certain processed foods, e.g., frozen fries, cheeses, particularly if foreign direct investment in fast food outlets is attracted; also in agricultural inputs, e.g., plastic sheets for greenhouses, now imported.
- **Minority area impact:** There has been less impact in expanding sales in minority enclaves due to their restricted access to other markets in Kosovo. This is particularly the case for consumer goods clients, where packaging of cheeses, yoghurt, etc. indicates the origin of the product in minority areas. Origin is less a constraint for producers of asphalt and other building materials. In fruits and vegetables, the impact may be limited as assistance in minority areas is mainly just for wild berries, generating mainly seasonal employment, although with potentially good export prospects.
- **Public-private dialog:** Although the initial impact of activities in late 2005 was encouraging, in terms of raising public and private consciousness of key business environment initiatives that are required in Kosovo, questions remain as to priority issues to focus on and the best approach to policy advocacy in future.

VI.2.2 Efficiency

- **Management**
 - Overall management has been excellent, with strong administrative and technical supervision provided and strong head office support.
 - However, a significant factor that has disrupted project implementation in several activities and clusters has been the high turnover of expatriate personnel:
 - The initial *Chief of Party* was replaced after the first three months
 - The position of *Fruit and Vegetable Cluster Advisor* has been filled by two short-term expatriate staff, and two long-term staff in just 1 ½ years.
 - The *Livestock Cluster Adviser* was recently replaced in midterm.
 - The *Senior Competitiveness & Association Adviser* left in mid-term, and his replacement has yet to arrive.

As such, Project management, both in the field and at home office, appears to have scope for improvement in personnel selection issues.

- The Project management should take advantage of the current opportunity to adopt appropriate adjustments to project strategy and activity implementation in the second half of the project, now that major staff transitions are in the process of being completed,
- **Cost efficiency**
 - Are the results being obtained by the Project being produced at an acceptable cost? When project costs of about Euro 4m per annum are compared to increased value of sales of client companies (Euro 10.6m. since project start -up, or Euro 3.6m. from March 31, 2005 to March 31, 2006, the benefits appear positive. Yet, when we measure costs against other indicators, such as the relatively low number of client companies (59 to March 31, 2006) and the number of new full time equivalent jobs created (262), costs per beneficiary appear higher.
 - An alternative approach to accomplishing the same objectives at a more acceptable cost would be to focus closely in the second half of the project on further expanding the number of client companies with the strongest potential for expanding domestic and particularly export sales through production of higher value niche products. This would generate higher sales, incomes and jobs and help reduce costs per beneficiary. Rather than considering these as opportunistic sales, or as favoring large companies, this approach, if implemented on a sustainable basis, will help generate a much more outward-oriented, competitive, perspective among all Kosovars. This is critically needed for an economy of limited scale and resources.

VI.2.3 Sustainability

- The activities of the Project will only be partly sustainable, unless The Project clearly builds sustainability into the project. Even at the micro level, the Project advisers agree that it must be remind farmers about good milking practices every few months in order for benefits in productivity to continue. In the processing and manufacturing clusters, good practices may be easier to sustain, but are by no means certain. To better build in sustainability, the Project must strengthen the associations associated with each cluster so that they can take over the project quality focused and lobbying activities, when USAID funding stops.

However, sustainability depends on key external factors beyond the control of the project. As acknowledged in the USAID strategy, these include the completion of privatization, effective implementation of key laws yet to be passed, and clarification of the final status of Kosovo.

VI.2.4 Relevance

- **The interventions of the Project are highly relevant to achieving the goals of USAID Strategic Objective No 1.3, Accelerated Private Sector Growth, including the Intermediate Results of increased competitiveness of the agricultural sector, improved capacity of private enterprise, and improved business operating conditions.** However, the Project activities alone cannot ensure that Kosovo meets these goals.

- **To significantly improve the business and investment environment, additional efforts in cooperation with the government, and by the government, are necessary.** In particular, significant additional assistance is required to attract investment capital, both domestic and foreign, on an efficient scale. The Government must still adopt many important pieces of legislation and effectively implement the laws that are already on the books. Above all, business associations and government both must be significantly strengthened to ensure an operating environment that adequately supports business creation, market expansion, and productive investment.

VI.3 SPECIFIC RECOMMENDATIONS

Question	Answer
<p>Will there be new opportunities for the private sector with this change? Should there be any programmatic shifts with the potential change of status?</p>	<p>The potential change of status for Kosovo, if accomplished in a smooth and stable manner, may result in a substantial overall change for the better in the business environment. But, unless it is accompanied by significant government reforms in programs and policies, the change of status may have only a marginal impact.</p> <ul style="list-style-type: none"> • Programmatic shifts. A change in status accompanied by improved political and economic stability may stimulate investor interest in Kosovo. If so, the Project should broaden support for business environment improvements to help attract investors, in collaboration/coordination with the Foreign Investment Agency in the Ministry of Trade and Investment currently supported by the European Agency for Reconstruction. • Opportunities for private sector. A change in status resulting in increased stability will likely stimulate economic activity. Assuming this scenario, this is now a propitious time for USAID to conduct a private sector review of new strategies, clusters and activities on which to focus future assistance.
<p>Is KCBS working in the clusters/sectors with the greatest potential for growth?</p>	<ul style="list-style-type: none"> • There are few additional clusters in Kosovo with promising growth prospects. In general, the Project is addressing some of the most important ones. We conclude that some rebalancing is required, specifically: <ul style="list-style-type: none"> - Cut back on support for meat (beef, poultry and lamb). - Cut back on support to small/medium

Question	Answer
	<p>dairy processors and dairies. Focus released resources on larger units.</p> <ul style="list-style-type: none"> - Cut back support to small dairy farms. - Focus on high value processed food. - Stress further building materials and construction cluster. - Set up feasibility project to assist new clusters, such as <u>niche</u> tourism (adventure, backpacking, skiing); table grape and wine production (assuming USAID waivers to permit assistance) which has received only limited EU assistance in recent years; automotive recycling/ scrap metal exports; and information and communications technology as a cross-cutting cluster that can serve a range of other sectors.
<p>How is the matching grant support for associations working? What about sub-contracting arrangements with business service providers?</p>	<ul style="list-style-type: none"> • 90 percent of SAF funds are used for livestock and associations. Most likely, the SAF funds could be used better if distributed more evenly. • The matching grants are not working well in all associations, as some of the associations have less income than assumed in their plans, and their strategic plans are too ambitious. Generally, associations with large memberships with limited individual resources do not provide significant benefits to their members and can therefore not collect much in terms of fees. • The sub contracting arrangements for business service providers work well and the Project should increase the use of them.
<p>Is there an appropriate balance between enterprise, association, and policy-level support? How effective is the approach to the private-public policy dialogue component?</p>	<ul style="list-style-type: none"> • Policy support. The government seems to be an ineffective partner in developing a better business environment. Accordingly, any policy intervention should clearly target and focus on issues of substantial importance to either clusters or associations. Apparently, generalized policy components like the public private dialogue are not cost effective. • Enterprise and association support. The balance seems appropriate, but the

Question	Answer
	Project must integrate the enterprise and cluster approaches better to make them a cohesive approach.
Are the numbers, quality, and relative cost of long-term and short-term technical staff generally appropriate?	<ul style="list-style-type: none"> • It is likely to be too costly to bring more long-termers, given the relatively late phase of the project. Given the structure of benefits and payment, there is likely to be no substantial difference in the cost of long-termers and short-termers. Moreover, five expatriates are already working on the project, and to create a new position, the project must clearly identify a specific need and specific scope of work to deploy another long-term advisor. As seen by the evaluations team, the key issue is to distribute the short-term assistance more evenly over the clusters to target key market opportunities.
Is there potential for greater KCBS collaboration with other USAID projects?	<ul style="list-style-type: none"> • The Project works well with other USAID projects, particularly BearingPoint to the extent that this is relevant.
What has been learned from other USAID competitiveness/enterprise development projects in other countries? Are any of these lessons applicable to Kosovo?	<ul style="list-style-type: none"> • A key lesson is that the current project is appropriate given the level of economic development. Only caveat is that policy level interventions are very difficult in post conflict economies, so, possibly the Project should reduce the support for general policy making in favor of practical, direct enterprise development.
What improvements should be made in the KCBS performance monitoring system?	<ul style="list-style-type: none"> • Conduct Client Satisfaction Surveys semi-annually using independent contractors. • Add an indicator to measure the value of exports by cluster, with targets set annually. • Consider breaking out and reporting Kosovo-wide indicators by cluster (currently limited to jobs, sales, financing). • Include female employment data, now only in database, in Quarterly Reporting.

Attachment A

Summary of the Performance of the Kosovo Cluster and Business Support Project - Dec. 2004 – March 2006

SO# IR#	SO Name	Unit measure	2004 Actual	2005 Actual	2006 Target	2006 to date (Q2)
1.3	Accelerated Private Sector Growth					
1	Value of company profit taxes collected	Euros	42,840,000	39,228,497	40,500,000	-
2 (AR)	Exports as a percentage of imports	Percent	4.90%	5.59%	8.00%	4.78%
1.3.1	Increased Competitiveness of Targeted Clusters					
1	Total sales among targeted enterprises	Euro	35,755,626	19%	10%	68%
2 (AR)	Jobs created within targeted clusters	Number	0	295	600	262
3	Labor productivity among targeted enterprises	Number	0	-11%	10%	60%
1.3.1.1	Improved Productive Capacity of Private Enterprises					
1	Increased capital investment among targeted enterprises	Number	0	2,341,908	3,000,000	977,245
1.3.1.2	Improved Quality Control					
1	Number and type of standards approved by target associations	Number	0	0	TBD	-
1.3.1.3	Strengthened Capacity to Access Credit					
1	Increased financing among targeted enterprises	Euro	0	2,081,375	6,000,000	851,300
1.3.2	Improved Business Operating Environment					
1 (AR)	Number of companies registered - two quarters	Number	40,703	48,497	47,000	52,913
1.3.2.1	Strengthened Business Consulting Services					
1	Number of businesses using business consulting services	Number	0	N/A	TBD	-

SO# IR#	SO Name	Unit measure	2004 Actual	2005 Actual	2006 Target	2006 to date (Q2)
1.3.2.2 Improved Capacity for Policy Dialog						
1	Number of Private-Public Task Group recommendations implemented	2004	0	N/A	TBD	-
1.3.2.3 Business Associations Responsive to Client Needs						
1	Number of associations with approved strategic plans	Number	0	7	10	-
2	Percent of non-donor revenues generated by the associations	Percent	0	4>50%	7>70%	2>50%
3	Number of associations employing non-volunteer staff	Number	0	7	5	9

Attachment B

Status of the New Common Indicators, March, 31, 2006

Indicator: Total number of enterprises benefiting from USAID business development assistance

The actual number of USAID–assisted enterprises for Q2 – 2006 is 59 and in addition there are 9 farms; so the total number of the active clients of the project is 68.

Indicator: Number of entrepreneurs receiving services supported by USAID

The actual number of entrepreneurs for 2006 is the same with the number of active Project clients.

Indicator: Number of firms using improved accounting and reporting as result of USAID assistance

The total number of these enterprises is 31 in the second quarter 2006 based on the number of companies attended SCAAK’s accounting training through service provider Piramida in minority areas.

Indicator: Number of people trained

- Number of participants in USAID-assisted presentations was 55.
- Number of participants in USAID-assisted seminars was 145.
- Number of participants in USAID-assisted trainings was 290.
- Number of participants in USAID-assisted training workshops was 433.
- Number of participants in USAID-assisted both seminars and workshops were 12.

Number of people attending other activities through USAID assistance:

- Number of people attending USAID-assisted conferences was 117.
- Number of people attending USAID-assisted roundtables was 17.
- Number of people participating in USAID-assisted study visits was 11.
- Number of people attending USAID-assisted demo presentations was 172.

Total number of participants in these activities was 1,252.

Indicator: Number of full time jobs in excess of two weeks

The number of full time jobs of 262 is related to the IR.1.3.1 (2) Jobs created within targeted clusters.

Indicator: Number of USAID-assisted transactions completed by local firms with US and other foreign firms.

- Number of importing transactions

- From US firms 8
- From other foreign firms 215

- Number of exporting transactions
 - To US firms 0
 - To other foreign firms 22

Indicator: Total annual value of transactions of USAID-assisted firms with US and other foreign firms.

- Value of importing transactions
 - From US firms 210,000
 - From other foreign firms 2,438,762

- Value of exporting transactions
 - To US firms 0
 - To other foreign firms 1,645,160

Attachment C

Project Clusters – Sample Client Satisfaction Survey - Interview Guidelines

We would be grateful if you would provide the following general information about assistance your company has received through the Kosovo Cluster & Business Support (KCBS) Project funded by USAID. All individual responses will be kept strictly confidential. Your responses will help us to evaluate the impact of the services, and to improve them in the future.

I. Contact Information:

Company : _____
Address : _____
Telephone: _____ Fax: _____
E-Mail : _____
Contact person: _____ Title: _____ Tel: _____

II. Services Received:

What services has your firm received through the KCBS project in the following areas, and how satisfied were you with them:

	<u>Market Information</u>	<u>Training A</u>	<u>Technical assistance</u>	<u>Human Resources</u>	<u>Quality/Standards</u>	<u>Other</u>
Type	_____	_____	_____	_____	_____	_____
Highly Satisfied?	_____	_____	_____	_____	_____	_____
Partly Satisfied?	_____	_____	_____	_____	_____	_____
Unsatisfied?	_____	_____	_____	_____	_____	_____

Have you received services through projects of other donors?:

EU: _____ GTZ: _____ SWISS : _____ Other: _____

Are you a member of any Business Association? Which? _____

Have you received any services from them? _____

Are you satisfied with their services? _____

III. Company Background Information:

a. Main products/services of your company: _____

c. Domestic and export markets, as a percentage of total sales :

Kosovo	Serbia/ Montenegro	Macedonia	Albania	European Union	Other
_____ %	_____ %	_____ %	_____ %	_____ %	_____ %

d. Company size: This data is intended to evaluate the scale of your firm's operations.

		<u>2004</u>	<u>2005</u>
-Employment (number of employees)	Total	_____	_____
	Male	_____	_____
	Female	_____	_____
-Gross sales/revenue	Euro	_____	_____
-Export sales	Euros	_____	_____

e. Private/public ownership: _____% privately-owned
_____% publicly-owned

We would appreciate it if you would kindly fax this background information to our office in Pristina: Fax: +381 38 244 278.

Thank you for your kind assistance in providing us with information that will help us improve our services to your company.

Attachment D

Interview List

First Name	Last Name	Organization	Title	Address	Tel.	Fax	Cel	Email
Lumnije	Ajdini	Alliance of Kosovo Businesses	Office Manager		+381 (38) 54-1683			[REDACTED]
Skifter	Ajvazi	Rona, Dairy Processor	Manager	Prizren			[REDACTED]	
Flora	Arifi	USAID	CTO/ Development Program Specialist	Ismael Quemali St. No. 1, Pristina, Kosovo 10130	+381 (38) 24-3673, ext. 143	+381 (38) 24-94-93	[REDACTED]	farifi@usaid.gov
Gursel	Arifi	USAID KCBS	Meat Specialist	Arberia (Dragodan) Str. 24 Maji No. 116, Pristina, Kosovo	+381 (38) 24-3664, 24-4278	+381 (38) 24-33-65	[REDACTED]	[REDACTED]
Saqip	Berisha	Silcapor, Porous Concrete Blocks Producer	Director	Doganaj, Kacanik			[REDACTED]	
Ymer	Berisha	Bylmeti	Director	Miradi e Eperme, Fushe			[REDACTED]	[REDACTED]
Ismet	Bojku	Devolli Company	General Manager	Fusha e Pejes p.n., Peja	+381 (39) 33-540, 34-591, (38) 24-6866			[REDACTED]
Ross	Bull	Agricultural Master Plan for Kosovo - EAR Project	Team Leader	Ministry of Agriculture, Forestry & Rural Development, Rooms 211-212, 35 Mother Theresa Street, Pristina, Kosovo	+381 (38) 21-1606	+381 (38) 21-16-05	[REDACTED]	[REDACTED]
Ardiana	Bunjaku	Society of Certified Accountants & Auditors of Kosovo	Executive Director	Rruga Sylejman Vokshi No. 14, Pristina	+381 (38) 24-9043		[REDACTED]	ardiana@scaak-ks.org
Roy	Chapin	USAID KCBS	STTA Cattle Feed Nutrition Expert	Arberia (Dragodan) Str. 24 Maji No. 116, Pristina, Kosovo	+381 (38) 24-3664, 24-4278	+381 (38) 24-33-65	[REDACTED]	[REDACTED]

First Name	Last Name	Organization	Title	Address	Tel.	Fax	Cel	Email
John	Clifford	Institutional Support to the Ministry of Trade and Industry	Regional Development Adviser	Ministry of Trade and Industry, New Economic Faculty Building, Room 10, Pristina,	+381 (38) 20-03-6049	+381 (38) 21-25-05	[REDACTED]	john.clifford@ks-gov.net
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Don	Davis	EU Rural Advisory Services Project	Team Leader	Ministry of Agriculture, Forestry & Rural Development, Rooms A-13, 35 Mother Theresa Street, Pristina, Kosovo	+381 (38) 21-2236	+381 (38) 21-19-51	[REDACTED]	[REDACTED]
Muhamet	Dervishi	Pappenburg & Adriani, Asphalt Producer	C.E.O.	Sojeve			[REDACTED]	
Hashim	Deshishku	Lesna/AWPK	Chairman/President of AWPK	Rr. Zona Industriala p.n.	+381 (38) 54-8125	+381 (38) 53-13-44	[REDACTED]	[REDACTED]
Peter	Duffy	USAID	Program Officer	Ismael Quemali St. No. 1, Pristina, Kosovo 10130	+381 (38) 24-3673, ext. 152	+381 (38) 24-94-93	[REDACTED]	pduffy@usaid.gov
Isa	Dukaj	Ministry of Trade and Industry	Chief of Division for Technical Standards and Industrial Property	Old Eximkos Buliding, Office 02, Pristina	+381 (38) 200-36015		[REDACTED]	[REDACTED]
Paul	Forrest	USAID KCBS	Fruit & Vegetable Specialist Adviser	Arberia (Dragodan) Str. 24 Maji No. 116, Pristina, Kosovo	+381 (38) 24-3664, 24-4278	+381 (38) 24-33-65	[REDACTED]	[REDACTED]
Alajdin	Fusha	ABI, Dairy Procesor	Manager	STr. Tirana 9, Prizren			[REDACTED] 2	
Hafiz	Gara	Ministry of Trade & Industry - Kosovo Standards Agency	Executive Head of KSA	Zahir Pajaziti SQ, Old Emimos Building, 2nd Floor	+381 (38) 21-3085	+381 (38) 21-28-07	[REDACTED]	hafiz.gara@ks-gov.net.com

First Name	Last Name	Organization	Title	Address	Tel.	Fax	Cel	Email
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Hamza	Gashi	Association for Finance and Accounting Services	Executive Director		+381 (38) 55-5012		[REDACTED]	[REDACTED]
Adem	Jdetishi	Simenthal Dairy Farm, nr. Gjakova	Owner	Gjakova				
Besim	Beqai	Kosovo Chamber of Commerce	Chairman	20 Mother Teresa Street, Pristina	+381 (38) 22-4741	+381 (38) 22-42-99		[REDACTED]
Zijadin	Gojnovici	USAID KCBS	Dairy Production/Processing Specialist	Arberia (Dragodan) Str. 24 Maji No. 116, Pristina, Kosovo	+381 (38) 24-3664, 24-4278	+381 (38) 24-33-65	[REDACTED]	zgojnovci@usaidkpbs.com
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Sarah	Hackaj	Institutional Support to the Ministry of Trade and Industry	Public Relations Advisor	Ministry of Trade and Industry, New Economic Faculty Building, Room 10, Pristina,	+381 (38) 21-2507	+381 (38) 21-25-05	[REDACTED]	[REDACTED]
Veton	Hajdini	KTA	Head of Agriculture & Forestry Unit	8 Illir Konushevc Street,	+381 (38) 50-004-00, ext. 115	+381 (38) 24-80-76	[REDACTED]	vatos.hajdini@eumik.org
Sharon	Hester	USAID	Office Director, Economic Growth Office	Ismael Quemali St. No. 1, Pristina, Kosovo 10130	+381 (38) 24-36-73, ext. 149	+381 (38) 24-94-93	[REDACTED]	Shester@usaid.gov
Eric	Howell	USAID KCBS	Project Director/Acting COP	Arberia (Dragodan) Str. 24 Maji No. 116, Pristina, Kosovo	+381 (38) 24-3664, 24-4278	+381 (38) 24-33-65	[REDACTED]	[REDACTED]
Diturie	Hoxha	Kosovo Bankers' Association	Manager	Josip Relat Street 29	+381 (38) 24-6171	+381 (38) 24-61-72	[REDACTED]	[REDACTED]
Pleurat	hundozi	EAR	Economic Development	1 Kosova Street, P.O.Box 200, Kosovo, UNMIK	+381 (38) 51-31-267	+381 (38) 51-31-302	[REDACTED]	pleurat.hundozi@ear.europe.eu
Bojan	Jakovljevic	Kamilja Concrete Producer	Manager	north of Mitrovic			[REDACTED]	

First Name	Last Name	Organization	Title	Address	Tel.	Fax	Cel	Email
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	DkaJini	Beda Dairy Farm nr. Peje	Owner	nr. Peje				
Mustafe	Korenica	Korenica Wood Manufacturer	Manager	Rahovec, Kosovo				
Bedri	Kosumi	Pestova, Potato Producer & Processor	Owner	nr. Vushtrria	(38) 54 89 03			
Edvin	Kotherja	Poultry Association	Executive Director	Rruga UCK, Pn. Pristina	+381 (38) 24-4952	+381 (38) 24-49-52		
Kemajl	Hoxha	Sheep Farming, Restaurant	Owner	Ferizaj				
Mirlinda	Kusari	Women's Business Association	SHE-ERA President	Tirana St., Gjakova, Kosova	+381 (390) 23-194	+381 (38) 54-18-31		
Dragisa	Kuzmanovic	Lahor-Sara, Dairy Processor	Manager	Brezovica				
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Arben	Musliu	USAID KCBS	Milk Production Specialist	Arberia (Dragodan) Str. 24 Maji No. 116, Pristina, Kosovo	+381 (38) 24-3664, 24-4278	+381 (38) 24-33-65		
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First Name	Last Name	Organization	Title	Address	Tel.	Fax	Cel	Email
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Bekim Osm	ani	Dika Dairy Farm nr. Peje	Owner	after Peje				
Richard	O'Sullivan	USAID KCBS	Senior Competitiveness & Association Adviser	Arberia (Dragodan) Str. 24 Maji No. 116, Pristina, Kosovo	+381 (38) 24-3664, 24-4278	+381 (38) 24-33-65		[REDACTED]
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Ganimette	Salihu	AKA	Manager	Dardani SU 1/3	+381 (38) 55-5012			[REDACTED]
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Martin	Wood	USAID KCBS	COP	Arberia (Dragodan) Str. 24 Maji No. 116, Pristina, Kosovo	+381 (38) 24-3664, 24-4278	+381 (38) 24-33-65	[REDACTED]	[REDACTED]

First Name	Last Name	Organization	Title	Address	Tel.	Fax	Cel	Email
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Agim	Zajmi	Ministry of Agriculture	Adviser to the Prime Minister, Dr. Professor	Mother Teresa Str. 36	+381 (38) 21-1828, 21-2598		[REDACTED]	[REDACTED]

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