

Catalyzing Growth

Kosovo Business Support Program

FINAL
REPORT
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Kosovo Business Support
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OVERVIEW

Catalyzing Growth

Kosovo's private sector faced a host of challenges following more than 40 years of communism and a brutal war in 1999. Albanian Kosovars were systematically excluded from socially owned enterprises in former Yugoslavia during the 1990s. As a result, business management skills were in short supply.

USAID responded with Kosovo Business Support, a two-year project to nurture businesses with the greatest potential for investment and job growth. The emphasis on dynamic firms remained even as the project grew in size and complexity to keep up with changing realities. The initial contract was extended twice, and funding was increased from \$8.7 million over two years to more than \$15 million over four years.

Early Priorities

The initial focus was on improving business planning, operations, accounting, and marketing in enterprises chosen for high growth potential. Kosovar consultants and institutions played a key role, providing training and institutionalizing high standards through certification programs.

While the program exceeded early targets for helping Albanian Kosovar businesses, it became apparent that Serbian Kosovar businesses, increasingly isolated after the war, also required assistance. Just 18 months into implementation, the project opened a new office in an ethnic minority area, staffed by Serbian Kosovar professionals, and added two more offices later.

Prime contractor	Chemonics International Inc.
Associated firms	Citizens Development Corps, Crimson Capital Corporation, Institute for Public-Private Partnerships, The Recovery Group, Winrock International
Value of services	\$15,462,121
Duration	October 2000 - September 2004
Objective	Generate employment by helping small and medium enterprises revitalize and improve operations

Intensive work to institutionalize training in a partner organization yielded outstanding results with creation of the Society of Certified Accountants and Auditors of Kosovo in 2001 and initiation of certification training by the society a year later. By late 2003, this self-regulatory organization had trained more than 700 professionals and certified more than 75 accountants to international standards. Additional training enabled a group of accountants to become

The program helped the owner of H&H dairy farm in Shtime develop a business plan, secure a loan, improve feed for her herd, and connect with new equipment suppliers.



licensed auditors providing services to companies required to submit financial statements. Training for entrepreneurs in accounting standards helped them manage their businesses more effectively.

Creating a cadre of local consultants proved easier than promoting their services to businesses struggling to survive and compete. Gradually, the project shifted to a strategy of providing targeted consulting assistance to top-tier companies in selected sectors while continuing to serve non-client companies on a fee basis.

New Opportunities

One objective was to help Kosovar businesses integrate into the regional economy. The goal was to spark private investment and revive trade linkages severed by war. The project organized networking events and trade fair participation to help firms locate raw materials, purchase technology, and enter new markets. These events often brought entrepreneurs together across ethnic lines for the first time in years. As a result, cross-border deals worth more than 7 million euros had been concluded by mid-2004.

In mid-2002, USAID provided additional funding to assess agribusiness opportunities and work with subsector clusters to develop competitive advantage in dairy, poultry, potato, and herb products. The results in dairy and poultry were remarkable. Dairy processors introduced popular new products and began implementing international standards, with the goal of exporting regionally. Poultry processors improved operations and inputs, bringing down costs to make their products more competitive with imports. Marketing wild mushrooms to European gourmet consumers showed great promise, and a new association began promoting 10 herbs with strong production and sales potential.

A competitiveness component added in early 2003 created working groups in the construction and wood processing industries with the twin goals of introducing international standards and influencing policy. A dynamic group of architects, engineers, and contractors guided the Law on Standardization through implementation and provided input on building codes, materials testing standards, and



Brovina, a wood processing firm in Gjakovë, began standardizing windows to make them more competitive with imports.

Kosovo Business Support by the Numbers: Results after Four Years

Business development services and training

- More than 1,000 businesses assisted
- Sales at 718 firms increased by 20 percent or more
- Operational profitability at 1,675 firms increased by 5 percent or more
- 2,701 businesspeople trained
- 503 managerial and financial systems installed
- 660 strategic plans implemented
- 1,410 operational improvement strategies implemented
- 8,160 business resource materials disseminated

Training and certification of auditors and accountants

- 763 accountants completed preprofessional certification training
- 158 accountants completed professional certification training
- 11 auditors trained for licensing by the Kosovo Financial Reporting Board
- Auditor and professional accountant certification exams developed and administered

Trade and investment

- 712 trade and investment linkages worth 12 million euros facilitated
- 22 business-to-business meetings and 12 trade fairs held, with 893 Kosovar firms attending
- More than 13 million euros of investment facilitated in 238 client companies
- 15,000 enterprises listed on trade and investment database

Competitiveness

- 8 percent import reduction worth 3 million euros achieved in 3 subsectors (cumulative)
- 1,651 jobs created
- Sales of new dairy products competing with imports increased by 475 percent
- Local production of day-old chicks for local egg producers enabled
- Egg production increased by 37 million in 2003, valued at 2.1 million euros
- Sales by wood processing clients increased by 23 percent; employment increased by 24 percent; more than 3 million euros invested by owners
- Revenues for local construction services increased by 179 percent over one year

certification criteria for construction industry professionals. Wood processors moved gradually toward lobbying for better forest management and sawmilling — the main determinants of quality. Meanwhile, individual firms built more doors, windows, and kitchen systems to European quality and size standards.

Measuring Success

The project's contribution to economic growth is demonstrated by substantial improvement in the competitiveness of many client enterprises. Besides increasing sales and profitability, these companies learned to manage their businesses more professionally and make decisions based on a better understanding of their markets, costs, and competition. New techniques they applied include strategic planning, managing by objectives, and utilizing timely and accurate market information. Many owners transformed “one-man shows” and family businesses into professionally run organizations with empowered middle managers, clear reporting lines, and specific job responsibilities for each employee.

The project provided direct consulting services to more than 900 companies in 28 of Kosovo's 30 municipalities, including 150 minority-owned companies. Client companies added more than 1,600 new jobs, and more than 1,500 firms received training. The project generated more than 116,000 euros in fee income between January 2003 and September 2004. Success in attracting foreign investment was demonstrated by a 1.15-million-euro deal struck between an Austrian-based venture capital firm and a Kosovar company building the region's first pharmaceutical plant to comply with international standards. Project-facilitated relationships between clients and financial institutions led to loans worth more than 12 million euros.

Future Directions

Targeting assistance to fewer companies in a narrower range of sectors offers the greatest potential to improve Kosovo's economic future. The project's successes in agribusiness, construction, and wood processing provide a framework for future assistance.

Kosovo's private companies face enormous constraints every day — enough to make most entrepreneurs give up. Not in Kosovo. The business community continues to break down barriers and pave the way for future growth. The Kosovo Business Support team had the good fortune to work with some of the most forward-looking companies in Kosovo and help them open the door to a better future.



At a project-sponsored event, Prizren construction firm Egi Bau landed a deal to export polystyrene slabs to Albania for an 18-story building.

CHAPTER ONE

Strengthening Businesses

The project offered comprehensive management consulting services to clients through teams specializing in business development, marketing, accounting, and trade and investment. Companies joined the program and remained active until graduating. The average engagement was nine months, but some clients continued to receive assistance for two years or more. Kosovar professionals on each team served as “relationship managers.” They were responsible for client recruitment, business analysis, strategy development, taking corrective action, and linking clients to other project services. An expatriate member of each team served as a technical resource and also helped relationship managers develop their capabilities as consultants.

Business Development

Clientele. Initially, clients were recruited directly or referred by partner institutions. Later, clients approached the project for assistance after learning about it from other entrepreneurs or the project Web site. To qualify for assistance, firms had to be 100 percent privately owned, already operating (not start-ups), and registered with the government. Additionally, they had to be potential job creators and making products that could be exported or sold locally, replacing imports.

More than three-quarters of all companies assisted were sole proprietorships, by far the predominant form of business in Kosovo. Partnerships represented 22 percent of clients; less than 3 percent were corporations.

Over four years, the project assisted more than 900 companies and trained more than 2,700 businesspeople in 28 of Kosovo’s 30 municipalities. More than half the companies were in four municipalities: Pristina (27 percent), Prizren (9 percent), Gjakovë (8 percent), and Gjilan (6 percent). This pattern of coverage approximates the relative contribution of each municipality to Kosovo’s GDP.

Nearly 4 in 10 companies assisted worked in food processing (17 percent), construction (14 percent), or wood processing (8 percent). Agribusiness companies — those engaged in food processing and agriculture/livestock — represented nearly a quarter of the overall portfolio.

Strategic planning. Once a new company entered the consulting process, a relationship manager carried out a company assessment to establish a baseline. Assessment data included financial, employment, and physical plant information; the Standard Industrial Classification (SIC) code, which identifies industries by type; and an analysis of strengths, weaknesses, opportunities, and threats (SWOT

analysis). Based on this information, the relationship manager worked with key client personnel to develop a strategic action plan articulating:

- The company’s vision
- Realistic, quantifiable objectives against which to measure progress
- Main strategic issues
- Strategies to build on strengths, take advantage of opportunities, tackle weaknesses, and address threats
- An action plan with deadlines and specific personnel assigned

Follow-up. Relationship managers conducted periodic follow-up meetings with each company to review and refine the action plan. They used the “key monitoring ratios” (KMR) methodology to measure the company’s financial health. KMRs are tracked over time, and the trends provide valu-

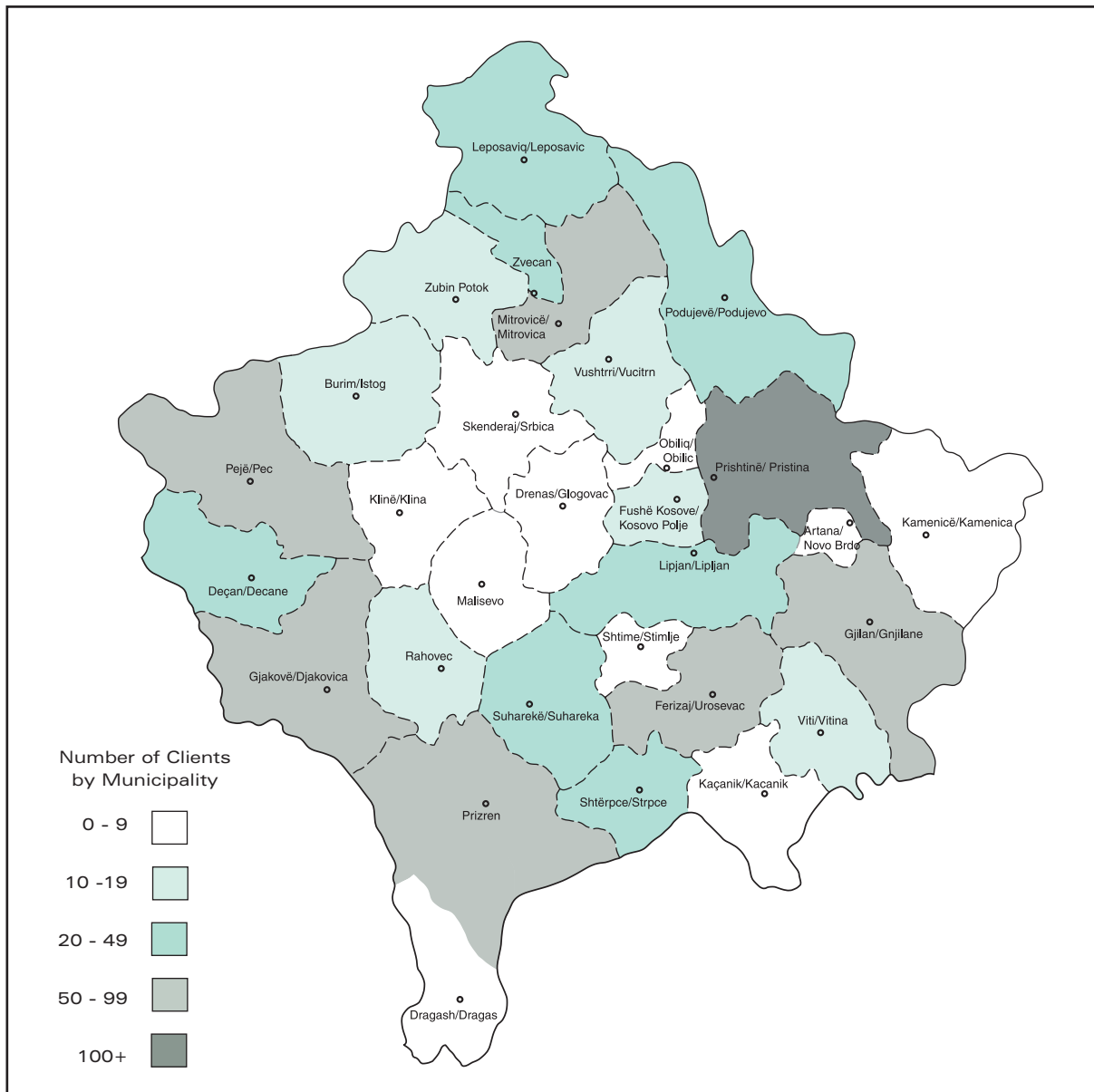
able information to management, enabling sound decision making. KMRs make it easy for entrepreneurs to understand what is happening in their company even if they lack a strong financial background.

Turnaround services. Initially, it was envisioned that the project would provide turnaround services to companies that had borrowed funds from a “sister” project, the Kosovo Business Finance Fund (which later became the American Bank of Kosovo), but had difficulty repaying their loans. Turnaround assistance would help companies streamline operations, sort out their finances, and renegotiate loan terms. Due to the very low delinquency level in the KBFF portfolio, only one company required turnaround assistance.

Fee-based services. Beginning in 2003, the project began requiring a copayment from clients for services that were previously free. The idea was to enhance client perception of the value of the

Business Development by the Numbers

- Facilitated 240 linkages valued at 5 million euros and 332 loans valued at 12.7 million euros.
- Completed 66 contracts and earned 32,233 euros in fees.
- For client Antika, facilitated an exclusive distribution agreement with Kodak for its photography and medicinal product lines, creating 6 new jobs. Expected first-year sales were 1 million euros.
- For client Shendi, facilitated a contract with Dutch company Haffmans B.V. to purchase equipment worth more than half a million euros for a food-grade carbon dioxide recovery plant, creating 40 new jobs. Carbon dioxide is used by the beverage industry and by mechanical workshops for welding.
- For client Shkambi, facilitated an agreement with Trimet Aluminum in Germany to export manufactured aluminum ingots from Kosovo using recycled aluminum. Facilitated a 110,000-euro loan for the company to purchase recycling equipment and a contract with U.S. peace-keeping forces in Kosovo to receive waste aluminum cans from military bases at no charge except for transportation.
- For client Nera Impex, facilitated trade linkages valued at 900,000 euros to import raw materials for a new snack food line. Consolidated sales increased by 97 percent in 2001 and by 95 percent in 2002, enabling the company to retain 130 jobs that otherwise would have been lost.



assistance they received and test the market for a for-profit spinoff consulting group. Fees were applied flexibly and not required in minority areas.

Business plans became, by far, the best seller. The project prepared 29 business plans, earning more than 11,000 euros. Most clients needed business plans to qualify for investment capital loans from international lenders. Relationship managers worked intensively with clients to elicit and develop the client's own ideas.

Marketing

The marketing team began its program with a three-day workshop to introduce clients to basic concepts such as segmentation, target marketing, positioning, and the four Ps (product, price, place, and promotion). The team helped clients draft marketing plans and design brochures, catalogs, business cards, corporate logos, and Web sites. As the economy picked up in mid-2003, clients realized they faced competition and needed to expand their markets.



Marketing and accounting training helped Slatka Tajna, a tiny bakery in the Strpce minority area, keep costs down and find new customers.

The team began offering new services, such as branding, customer service improvement, sales management, competitive analysis and benchmarking, advertising, and trade fair participation.

Trade fairs attracted the most interest from clients. Companies began using local and regional events to expand market share. The project facilitated participation by 19 Kosovar companies in the Skopje International Trade Fair in June 2003. To get ready, companies attended a workshop that showed them how to design marketing materials and prepare booth displays.

Accounting

Based on initial client needs, the accounting team began by developing basic training in Western-style bookkeeping. Team members traveled to

client sites to review their bookkeeping systems, assess company needs, and work with clients to install updated systems. As regulatory structures evolved and clients' needs became more sophisticated, project services kept pace. Consultants reviewed company accounting systems with clients to ensure they had suitable financial reporting systems in place, with information entered properly and promptly. The team trained clients to prepare and use financial reports to manage the company's financial health.

In early 2003, the project instituted fees for many of its accounting services. Clients included private companies, a joint venture, a local audit firm, and several nonprofits. Accounting consultants also developed new financial management tools for agribusiness clients to guide investment deci-

Marketing by the Numbers

- 571 marketing plans developed and implemented.
- Helped client Devolli launch Vita, Kosovo's only UHT (heat-treated) milk. By July 2004, Devolli had sold 6.8 million liters of Vita milk in Kosovo for 4.1 million euros.

sion making, such as spreadsheets that calculate egg and potato production costs, poultry feed production costs, and product costs for different chicken varieties. These tools enabled companies to make informed decisions on a financial cost/benefit analysis basis, contributing to profitability.

Trade and Investment

The trade and investment team worked with clients in all sectors to enable them to export to new markets, integrate into the regional economy, and purchase new technology and raw materials to improve operations.

Business-to-business events. Business-to-business (B2B) events enabled Kosovar companies to interact with buyers and suppliers to conclude deals. Initially focusing on Macedonia and Montenegro, B2Bs eventually included almost all the countries of Southeast Europe. Participants hailed them as an effective business forum and a means to renew relationships in a region recovering from war. The project collaborated with numerous international and local groups to ensure the widest participation by companies.

B2Bs helped companies reestablish contacts severed as a result of ethnic conflict. In August 2002, the project sponsored the first inter-ethnic B2B

in the Confidence Zone in Mitrovica for Albanian and Serbian Kosovar clients. The event attracted 44 companies. Six months later, a similar event in Shtrpce was attended by more than 100 companies. A groundbreaking regional B2B in Belgrade, Serbia, in October 2002 brought together companies from Kosovo, Serbia and Montenegro, Bosnia-Herzegovina, Bulgaria, Macedonia, Albania, and Croatia for the first time since the 1999 war. These events demonstrated that people were willing and able to put aside politics to do business.

As clients matured, broader opportunities emerged. In November 2003, more than 60 clients participated in a Balkan and Black Sea Partnership buyer-seller meeting in Thessaloniki, Greece. Seven months later, clients attended a similar meeting in Sweden. In all, client participation in 22 B2B events under project auspices resulted in business deals worth more than 4 million euros.

Investing in the Future. Early on, the project published the first trade and investment guide for Kosovo. It contained basic statistics of interest to a potential investor and comprehensive information on the legal and regulatory environment. After an initial printing in English, the guide was translated into Albanian and Serbian and

B2B by the Numbers

- Construction firm Minel Enim established a relationship with land developers in Montenegro that resulted in a joint venture to design and construct an office complex valued at 700,000 euros. A later contract was concluded for constructing apartment buildings in two cities in Montenegro valued at more than 4 million euros.
- Solid Shoes established a relationship with an Albanian/Italian company in Albania and began exporting shoes to Albania, working with the foreign company to develop new products. The company exported more than 39,000 euros worth of shoes.
- Oferta, a manufacturer of industrial paper sacks, negotiated a contract to supply a company in Albania with product worth 11,400 euros each month.



Pharma Maker Replaces Homemade with Hi-Tech

PRISTINA — “This one is my favorite,” says Nexhdet Kondirolli. He flips a switch and the little pill bottle-filling machine, about the size of a toaster oven, whirs to life. He sets the timer, puts his fingertip on the conveyor belt, and with whiny efficiency, the machine carries his finger along until it stops, ka-chunk, under the filling point. The machine thrums. Imaginary pills pour in.

“This machine bottles 2,500 pills every hour. The new one will bottle 200 pills every minute,” says Kondirolli. His voice startles the museum hush of these white-tiled rooms, where nine employees mixed and packaged generic pharmaceuticals — creams, syrups, drops, gels, liquids — using machines cobbled together from imported components and old computer parts after Kondirolli’s old factory burned down in the 1999 war.

“I’ll take them with me to the new plant,” says Kondirolli with affection, referring to both his workers and his homemade machines.

Production at Kondirolli’s company is on hold while the owner pours all his energy — and 1.15 million euros of venture capital from Horizonte Venture Management, based in Austria — into building the first pharmaceutical plant in the region to comply with European quality standards. The intended market is 10 million customers in Kosovo, Albania, Macedonia, and Bosnia-Herzegovina.

Kondirolli’s ambitious plan took a huge leap forward when the project connected him with Horizonte and helped him obtain a manufacturing license, develop a solid business plan, and close the deal in January 2004. The project provided business and technical support as Kondirolli scrambled to meet the deadline to bring his first products — infusions, syrups, and creams — online. Eventually, he plans four production lines and two shifts, with an annual output of 5 million units per year. The new plant will employ around 75 people.

At the construction site 4 miles from the capital, Pristina, a dozen workers from Siborra Panelli, another project client, are erecting a framework for the concrete floor. The site engineer will select a local firm to pour and laser-level the concrete floor — vital to ensure airtight operations in the sterile “clean rooms” where medical infusion bags will be produced and filled. Siborra will erect the 3,000-square-meter steel shell, then a separate crew will build the interior honey-

comb of labs, airlocks, and clean rooms required for compliance with Good Manufacturing Practices, a quality control regimen that guarantees the safety, purity, and effectiveness of drugs and other products. GMP certification is essential for gaining entry into regional export markets.

What convinced a foreign investor to take such a significant risk in Kosovo, with its undecided political status and simmering ethnic tensions? "Horizonte understands the Balkan mentality," says relationship manager Valdete Stubila. "They have investments in Bosnia, Slovenia, and Croatia. They have experience with war-affected countries. And labor is very cheap," she adds sagely.

Albanian Kosovar entrepreneurs also know how to stretch their cash, schooled by 10 years of forced exile from the formal sector under former President Slobodan Milosevic's regime. Kondirolli has crisscrossed Europe since January 2004 in search of a bargain. At the project

office, he slips a small string of disposable eyedrop vials out of his wallet and holds them up, admiring them. If he can save enough on construction of the new plant, he'll buy Italian equipment to manufacture these.

Kondirolli earned a pharmacy degree in Belgrade in 1983 and worked as a sales representative for one of Europe's largest pharmaceutical firms before opening Yugoslavia's first private pharmacy in 1989. Three years later, he bought machinery for a small production plant. That business employed 23 staff and made 9 products before war reduced it to zero. Between 2001 and 2004, Kondirolli rebuilt his business and brought production back to one-third of prewar levels. "We learned from that experience," says Kondirolli of the Milosevic years. "It taught us to improvise and survive." Now the challenge for Kosovo's entrepreneurs is to think beyond improvisation to standardization, beyond survival to growth and prosperity.

Trade Shows by the Numbers

- Clients purchased more than 4 million euros worth of equipment and technology at trade shows.
- Clients exported products worth more than 800,000 euros after participating in the Skopje event.
- At the the Xylexpo Machinery Show in Milan, wood processor Gacaferi negotiated contracts to purchase kitchen system components valued at 480,000 euros.
- Ben Com, a manufacturer of polystyrene bathtubs, exported more than 50,000 euros worth to Macedonia after participating in the Skopje trade fair.
- Hit, a fruit juice manufacturer, won a monthly contract worth 11,000 euros to export fruit juice to Macedonia.
- ABI dairy exported products worth more than 50,000 euros to Macedonia.

posted on the project Web site. A second edition updated the guide.

International trade shows. The project helped clients prepare for and attend international trade shows to introduce them to new technologies, help them source raw materials, and provide a venue for displaying their products.

At the Nurnberg ReSale Trade Fair in April 2002, clients purchased high-quality reconditioned equipment worth more than 2 million euros — much cheaper than new equipment. More than 60 client companies attended. Sold on the value of the event, they attended again in 2003 and 2004 without project assistance.

At the Xylexpo Woodworking Machinery Show in Milan in May 2004, 14 wood processor clients got a chance to see to the latest equipment. Shortly afterward, changes in Kosovo's duty structure made it easier for manufacturers to import this type of equipment. Several clients seized the opportunity. For example, Wood Combine New sourced finger joint equipment worth 178,000 euros to manufacture window components previously imported from Slovenia.

Exports represent only 3 percent of Kosovo's GDP. To promote exports by client companies, the project displayed a range of their products at the Skopje International Trade Fair in June 2002. The response was positive, and in 2003, the project helped 19 food processing, building materials, and home furnishings companies participate, each with its own booth. On a fee basis, project teams worked with clients to prepare marketing materials and price their products competitively. Clients also paid the full cost of trade show participation.

Other activities. In 2003, workshops in three cities introduced companies to the public procurement process. Organizations wanting to purchase goods and services from Kosovar companies explained their procurement procedures to project clients. In 2004, customs representatives met with clients to explain the free trade agreement between Albania and Kosovo, in place since October 2003. The project also prepared a comprehensive export-import roadmap in English, Albanian, and Serbian, with detailed information about duties and tariffs applied to goods exported to neighboring countries. The guide was printed and also posted on the project Web site.

Trade and investment activities helped client companies integrate into regional markets, develop new export markets, and identify better quality and less expensive sources for raw materials. Clients and their regional partners proved they could set politics aside to conduct business. And clients became increasingly aware of and responsive to the demands of foreign customers, leading them to introduce improvements to meet high quality standards. Their new attention to quality, price, and timely delivery improved their competitiveness.

Operations

To address highly technical operational issues in some client companies, the project accessed expert volunteers from the Citizens Development Corps. They worked with companies on plant layout, process flow, capacity planning, capacity usage optimization, inventory management, logistics, quality control, and new product development. Client companies provided lodging, transportation, and translation assistance. Some examples of successful collaboration:



Project client Sibora Panelli is erecting the steel superstructure and managing three crews constructing a pharma plant for project client Kondirolli.

- A volunteer worked with pharmaceutical maker Kondirolli on a technical needs assessment, helped the company develop a strategy for compliance with European quality standards, and provided advice on selecting equipment for a new manufacturing facility being constructed with a 1.15-million-euro investment from Horizonte Venture Capital of Austria.
- A volunteer developed training materials on the Kosovo Accounting Standards (KAS), new regulations applied since 2002, for use in training courses for nearly 300 participants.
- A volunteer drafted corporate by-laws, an employee manual, and more than 20 legal templates for an Internet service provider client, Ipko Net. The company became one of the first in Kosovo to have a complete set of corporate governance documents. The templates were made available to other client companies converting to limited liability status.
- Volunteers and Kosovar professionals from the project completed studies in five sectors: wood processing, transport, doors and windows, construction (in cooperation with the USAID-funded Kosovo Construction and Employment Program), and textiles.

Building Consulting Capacity

To build the capacity of Kosovar professionals to provide consulting assistance to companies, expatriate experts and guest lecturers delivered 131 weekly 2-hour training sessions to project staff in Pristina and Zvecan. Topics included preparing and analyzing financial projections, customer service, grades and standards, and business ethics. After two years, the project administered a comprehensive exam based on the materials presented. Thirteen Kosovar professionals passed the exam and became certified management consultants. In September 2004, at the close of the project, two of these consultants started their own firm.



Gacaferi, a kitchen cabinet maker in Pejë, reduced costs by improving production, inventory control, and maintenance.

CHAPTER TWO

Developing Institutions

Business begins to influence policy when firms join forces, develop a shared agenda, and lobby for change that fosters growth. The project worked with client businesses to create or strengthen five industry associations. Two of these — for accounting professionals and exporters — achieved major gains for members, as detailed below. To widen impact, the project reached out to the general business community, sister organizations, and government agencies with training in management, accounting, and marketing.

Accountants and Auditors

Trained and certified accounting professionals provide an essential service in a market-based economy and send a strong signal to potential investors that local business practices are ethical and sound. The project was instrumental in helping to develop and establish the accounting profession in Kosovo.

Two team members served on the initial advisory council of the Society of Certified Accountants and Auditors of Kosovo (SCAAK), established to deliver continuing professional education and certification to accounting professionals. SCAAK was also charged with ensuring that qualified professionals were available to help the private sector meet newly established statutory filing requirements.

It soon became evident that although Kosovo's accounting professionals were highly skilled, they were unfamiliar with Western accounting principles. In 2001, the government established new certification requirements for accountants that included university education, examinations, and continuing professional education. Candidates were required to complete two stages of training and exams to become certified as accountants. SCAAK was licensed to conduct exams, issue certification, and provide continuing education.

Preprofessional training required 166 hours of instruction in financial accounting, management information systems, cost accounting, and commercial regulations. Professional training required 147 hours in accounting standards, business case studies, business ethics, and auditing. The project developed training materials and exams for both stages in English, Albanian, and Serbian. Expatriate professionals launched the program and were able to hand leadership over to Kosovar professionals in less than a year. Training reached into ethnic minority areas in 2003.

New regulations in 2002 required certain businesses to submit audited financial statements, but there were no licensed auditors in Kosovo. The project devel-

oped a two-stage training program to enable a group of auditors to qualify for a one-time, “fast-track” auditing license. First-stage training focused on Kosovo Accounting Standards; second-stage training covered International Standards on Auditing. Subsequently, the project developed training materials for SCAAK to deliver a full audit licensing program.

Exporters

By mid-2002, it became apparent that the needs of exporters were not being addressed by existing business associations. To focus attention on their needs and provide support, the project organized a group of local companies to establish the Kosovo Exporters Association (KEA). Nine manufacturing, financial, and service companies became founding members. The project helped the group elect a board of directors, establish goals, develop a strategic plan, and build membership. The association has since joined the Alliance of Kosovo Businesses, an umbrella organization that promotes private sector interests.

The project team worked closely with the association to co-sponsor regional B2B events and carry out export trials to document constraints on the Macedonian border. By early 2003, a number of companies had reported complaints about unfair treatment of their goods by Macedonian customs authorities. Although there was a reciprocal agreement allowing goods from Kosovo and Macedonia to cross the border with a zero duty rate and a 1 percent administrative fee, Macedonian customs officials were not abiding by the agreement. The project and KEA carried out a trial export of products from several Kosovar companies to document

specific abuses. The team provided the documentation to United Nations and Kosovar authorities, who were able to resolve most issues through discussions with the Macedonian government.

In all, the project helped establish five new organizations that became actively engaged in advocating changes to benefit their industries. Besides SCAAK and KEA, these organizations included KOMAPA, the Kosovo Medicinal and Aromatic Plants Association; LINK, an association of civil engineers; and the Wood Processing Association of Kosovo.

Training

To support the growth of Kosovo’s business community, the project trained clients, the wider business community, and local and international organizations on a wide array of topics.

Partners. Project training-of-trainer workshops helped develop the skills of staff working on other business support programs. Courses on general management, accounting and finance, and marketing topics were organized throughout Kosovo, including minority areas. Workshops were participatory and delivered in Albanian, Serbian, English, or a combination. On average, sessions ran 4 hours per day, and participants paid 150 euros per session. More than 1,000 participants received training under these programs. Institutional partners included:

- Society of Certified Accountants and Auditors of Kosovo
- Ministry of Finance and Economy
- American Bank of Kosovo

- Business Club Prizren
- American Refugee Committee International, interethnic group
- Care International
- United Methodist Committee on Relief
- Women for Women International Kosova
- International Fertilizer Development Center
- IPKO Institute's management program
- Mercy Corps
- ABS Këshillimorja

Staff from the Kosovo Chamber of Commerce, the Kosova Development Agency, Riinvest, and the Interim Credit Union also participated in training sessions on how to provide business consulting services. Topics included preparing and analyzing financial projections, customer service, grades and standards, and business ethics.

Businesses. In late 2001, the project began offering four one-day workshops to clients. Each workshop was offered independently so that compa-

nies could select courses offering the greatest value to them. In 2003, these workshops were opened to the larger business community and advertised in Kosovo's main daily newspaper. Most workshops were held in Pristina, with a few in Gjakovë. In 2003 and 2004, several companies asked the project to design and deliver customized financial management training to staff. Companies paid a small fee for these workshops.

The project also provided free business plan assistance to the Riinvest Institute for Development Research and free organizational development assistance to the Kosovo Chamber of Commerce.

Government. In late 2002, USAID agreed that under certain circumstances, the project could provide fee-based services to public entities. In response to a request from the Ministry of Finance and Economy, the project began training tax inspectors in Western-based accounting principles in 2003. The training enabled inspectors to review company financial statements submitted to the regulatory authorities. The project carried out six programs throughout Kosovo on behalf of the ministry. More than 200 tax inspectors received training in Kosovo Accounting Standards and financial and managerial accounting.



The project helped Progres, a fruit and vegetable processor in Prizren, improve technology and connect with new markets in Serbia.

CHAPTER THREE

Building Competitiveness

Assessments carried out over the course of the project revealed opportunities for Kosovo’s agribusiness and construction firms to displace imports and even compete regionally. USAID launched an aggressive program of interventions in these two sectors to build competitiveness, expand markets, improve quality, and introduce international best practices in manufacturing and processing.

USAID provided a dynamic package of assistance that addressed constraints all along the agricultural production chain. Kosovo Business Support worked with processors from the top of the chain downwards, while the Small Farm Support program worked with farmers up the chain to raise quality, improve technologies, and boost production. Save the Children coordinated the Small Farm Support program, working in close collaboration with CARE (dairy products), the International Rescue Committee (fruit production), Land O’Lakes (sheep production), the Canadian Centre for International Studies and Cooperation (vegetable production), and the International Fertilizer Development Center (feed for poultry – maize soybean and sunflower).

Agribusiness

In July 2002, the project team undertook a two-month assessment to determine which products offered the greatest opportunity to improve competitiveness. They identified seven products in four subsectors:

- Dairy — processed milk and yogurt
- Poultry — eggs
- Processed vegetables — potatoes
- Specialty products — mushrooms, essential oils, and medicinal herbs

Dairy: Competing Against Imports

Imports account for around 90 percent of Kosovo’s dairy market. To compete, the local dairy industry made three major changes. First, farmers worked to improve the quality of raw milk. Second, dairy processors began implementing in-plant programs to improve product quality and safety. Third, processors took steps to differentiate their products from those of competitors.

Improving raw milk. The highest quality raw milk has a low bacterial count and a high percentage of butterfat. These qualities depend on milking hygiene and animal nutrition. At the start of the project, some farmers weren’t cleaning the animals’ stalls or udders properly. Many didn’t have double steel sinks for washing

and rinsing milk cans, or the right type of brushes for cleaning the cans. Some had cooling tanks for raw milk, but no thermometers to determine whether the milk was being sufficiently chilled.

To reduce bacterial contamination, project experts helped farmers select the right equipment and showed them how to keep cows and equipment cleaner, and raw milk colder. To improve milk quality — and, as a result, production and profits — experts worked with farmers to improve animal nutrition. The project identified three commercial feed mixers who began making custom vitamin-mineral supplements for dairy cows. Using the new feed improved milk output at five dairy farms, serving as a model for other farmers. To raise productivity, experts connected dairy farmers with an international supplier of high-quality bull semen for artificial insemination to improve herd genetics.

Improving quality and safety. As the farmer's customer, dairy processors

can influence quality at the farm gate. Working with project experts, dairy processors introduced six new quality tests for raw milk and used an incentive system to reward farmers who brought in the best product (see box). Then, they began implementing a series of product quality and safety improvement regimes.

At the start of the project, dairy processors were using old or secondhand equipment that did not comply with international standards of “cleanability.” Project experts introduced dairy processors to suppliers of testing, processing, and cleaning equipment and supplies that would meet European Union standards. For instance, a Macedonian supplier provided “Lactoscan” equipment to test raw milk for fat content, acidity, proteins, adulteration, contamination by solids, and lactose levels. Lactoscan testing equipment performs six tests simultaneously in a fraction of the time it takes to perform each test separately. Staff needed less than an hour of training to perform the tests. Other companies from Macedonia,

Six Tests for Raw Milk

Raw milk quality determines the quality of the finished product. To improve the chemical, physical, and microbiological quality of raw milk, the project developed a testing program. Project experts explained the importance of each test to processors, helped them purchase testing equipment, and trained plant personnel to perform the tests. Kosovo's dairy processors now use up to six tests to determine raw milk quality and set payment rates for farmers:

- Butterfat content, an indicator of quality
- Titratable acidity, an indicator of storage temperature
- Bacterial quality, an indicator of hygiene
- Specific gravity, an indicator of purity or adulteration
- Antibiotic residue, which can cause allergic reactions or drug resistance if too high
- Sediment, an indicator of hygiene that tests for extraneous material

The tests are performed at random at least once a month. Farmers who bring in the highest quality raw milk earn a premium. Milk that fails to meet the minimum grade is rejected. The lowest grade milk receives the base price, the next higher grade receives a 5 percent premium, and the highest grade receives a 10 percent premium.



Dairy Farmer Has Drive — and a Long Wish List

SHTIME — Julja Idrizi locks her arms around the calf’s middle, and a white-coated student grabs it by the horns, buying just enough time for another student to stick its hindquarters with a needleful of vaccine. The student recoils as if he’s the one who’s been stuck. Idrizi laughs, and the curly black-and-white bundle squirms out of her grasp.

“It takes six months of practice before they can do everything right,” says Idrizi of the farmers and students she trains to take care of dairy cows. She has good reason to help them: her business depends on farmers doing things right. Idrizi buys 600 liters of milk from local farmers, tests it for quality, then pours it into the cooler along with 1,000 liters of milk from her own 38-cow operation, H&H Farms in Shtime, in central Kosovo. She sells the milk to Devolli, a long-life milk processor

50 miles to the northeast that accepts only quality-tested milk.

Processors like Devolli are driving the pace of change in Kosovo’s dairy sector. If they can bring down costs and raise quality, they can displace imports — currently 90 percent of the domestic market — and eventually compete in regional markets. But they need the cooperation of producers like Idrizi.

She’s on board, but her wish list is long. She wants to increase her herd by 30 cows every 4 months, she says, passing around a steel plate piled high with chunks of homemade white cheese. (A dairy cow generally calves three times before going to slaughter, so the herd needs constant renewal.) She wants automated milking equipment, high-quality bull semen for artificial insemination, alfalfa seeds with a high germination rate. She wants an 80,000-euro loan.

USAID is working to connect farmers like Idrizi with the resources they need. A project consultant worked with H&H to improve feed for the herd. Under project auspices, Idrizi traveled to Albania and Macedonia in search of equipment, spare parts, and the daily cleaning supplies that help ensure milk safety. And the project helped her develop a five-year business plan, essential for securing the loan she needs to double the size of her farm. Such loans are hard to get, but Idrizi is determined to keep trying.



For Dairy Processors, the Future is Now

PRIZREN — Safety is the watchword at ABI, a dairy processor in Prizren, in southern Kosovo. Visitors don white lab coats and white galoshes, swishing the footwear around in a tray of disinfectant before being allowed in.

Everything is bright and clean. In a corner lab, a Turkish-trained technician tests incoming milk for bacteria and other contaminants before accepting it into the system. The milk travels through pipes along the ceiling and is pasteurized before being processed as yogurt or cheese. A technician climbs a ladder, peeps under a conical tank lid, and checks a culture for progress.

Large, open trays of soon-to-be-cheese wait for their time to come. A refrigerated room houses neatly stacked rounds of cheese stamped with expiration dates. At the end of

the line, a driver loads cups of yogurt and buckets of white cheese onto a truck.

In his office, decorated with product packages and a small U.S. flag, owner Irfan Fusha credits USAID with helping his company develop and market new products, such as flavored yogurt and whey. Now, USAID is helping ABI undertake an ambitious program to implement two international food safety protocols, GMP and HACCP. “We’re not waiting until we’re required,” says Fusha. “Our children consume these products. We want them to be safe.” Once ABI has put the prescribed practices in place, the plant can be audited and certified as compliant by a licensed quality inspector. Then ABI can export to the European Union.

Fusha's son drifts in. “Now he goes to Gjakovë in 20 minutes in his Mercedes,” his father jeers gently. “We used to ride horses — it used to take all day.” His son lowers his head and smiles sheepishly. His three sons are working their way up the family business ladder. The one who manages the dairy had to learn the production line jobs first. “It’s like an army,” declares Fusha.

Fusha would like to expand production, but it’s complicated. “Everything is linked,” he says. “If you buy more equipment, you have to hire more employees, arrange for more incubation and storage space, increase marketing and distribution.” He churns his hands, conjuring the future. “Everything needs to happen at the same time.”

Bulgaria, Serbia, and Sweden supplied cheese-making equipment, cleaning agents, freezers, packaging machines, and materials to test for antibiotics.

The project worked with dairy processors to identify potential hazards within their systems. Clients introduced changes to milk testing procedures, plant design, layout, and personnel management. For example, drivers responsible for milk collection were trained to test milk and check its temperature before adding it to a bulk collection container. Processing plant staff were trained in Hazard Analysis Critical Control Points (HACCP) and Sanitation Standard Operating Procedures (SSOP) — international protocols to reduce microbiological, chemical, and physical hazards in food items.

Better processing has produced superior products and helped Kosovo's dairy processors compete more effectively against imports. Some are even pursuing export opportunities: for instance, ABI dairy in Prizren exported products worth more than 50,000

euros to Macedonia after taking part in a trade fair in Skopje.

Differentiating products. At the start of the project, Kosovo's dairy processors supplied just two products: fresh pasteurized milk and plain yogurt. After studying the market, project experts saw an opportunity to compete successfully with imported fruit-flavored yogurt and flavored milk. Managers of forward-thinking dairies like ABI, Golaj, and Kabi made it happen. With project assistance, they added sweetening, flavoring, and coloring agents to their cold milk after pasteurization. Processors were able to produce the new products using their existing equipment.

The key was marketing. Project experts determined that none of the imported yogurt brands contained live cultures. They worked with processors to introduce live cultures imported from Sweden into their products and mounted a marketing campaign to let consumers know about the health benefits of bioactive cultures. The result: Yogurt sales more than doubled.

Dairy by the Numbers

- All client dairy processors increased production capacity and output. Together, they increased the value of their products by 475 percent over two years of competitiveness assistance.
- Devolli, the first company in Kosovo to produce long-life milk, replaced imported milk powder with 30,000 liters of fresh, grade-A milk from local farmers for a portion of its production.
- ABI, a Prizren dairy that manufactures processed milk and milk products such as yogurt, cheese, and whey drinks, is now able to detect and prevent antibiotic contamination and no longer discards a 1,000-liter batch of yogurt every week, saving 15,000 euros per year.
- ABI earned an additional 740,000 euros by introducing new fruit-flavored yogurt products; Kabi earned 189,000 euros with similar products; and Bylmeti earned 100,000 euros from the sale of new whey drinks.
- ABI improved milk quality by 50 percent and reduced total bacteria counts by 94 percent over a one-year period.

Project advisors also noticed that some dairy processors were discarding whey, a protein-rich by-product of cheese-making. They suggested bottling whey as a health drink and marketing it to younger consumers by adding fruit flavors, colors, and sweeteners. The product was an instant success for ABI, the pioneer for this product. A month later, three local competitors entered the market.

Moving the industry forward. Besides working with individual farmers and dairy processors, the project encouraged collaboration throughout the sector. Assistance included seminars for leaders of AMPKO, an association of producers and processors that lobbies the government on tax, quality control, credit, and import issues affecting the dairy industry, and field trips to Macedonia, where ten years ago, the dairy industry overcame some of the same constraints Kosovo faces today.

Working with government. The project worked with government agencies to update laws and standards affecting the dairy industry. For instance, when the European Union recommended replacing animal health laws enforced by the government of former Yugoslavia with new legislation, the project team helped draft a new vet-

erinary law that was later passed by parliament. The project helped draft a law on importing live animals and dairy products; created a Food Law Working Group to streamline and rationalize confusing, overlapping, and contradictory food safety regulations; and worked with the National Health Institute to help dairy processors apply laboratory test results to improve their products.

Important partnerships. KBS worked with many other donors and partners to improve the competitiveness of Kosovo's dairy industry, including Care International (raw milk testing), the Swiss Dairy Improvement Project (finished product testing), and Land O'Lakes (training and equipment sourcing).

Poultry: Reducing Costs

The project's objective was to increase egg production in Kosovo, which imports up to 50 percent of its eggs from neighboring countries, depending on the season. Project advisors worked with millers to improve feed; with farmers to improve flocks and brand their products; and across the industry to link suppliers, producers, and processors.

Improving feed. The cost of feed represents up to 80 percent of the cost of

Poultry by the Numbers

- Production rose by 37 million eggs in 2003, valued at 2.1 million euros, substituting for imports.
- Poultry farm clients reported up to 20 percent lower feed costs, up to 10 percent lower feed consumption, lower mortality, and higher egg output.
- In 2003, feed miller Tusha sold 5,000 tons of high-quality feed worth 1.25 million euros to local poultry and dairy farmers, helping them raise production and lower costs.
- Linkages between Kosovar firms selling and buying poultry industry inputs, such as day-old chicks, milling equipment, and feed additives, generated business worth 500,000 euros.



Feed Formulation is Critical for Poultry Farmers

FERIZAJ — In a cloud of sweet-smelling dust outside the barn at Tusha, a poultry farm in Ferizaj, farmhands drag sacks of maize off a truck, pour the yellow kernels into a bin, and watch them whoosh up a long tube and into a silo, clattering all the way. Inside the barn, everything shakes profoundly as big blue machines mix and grind the ingredients for chicken feed under the watchful eye of the owner's brother, who catches, bags, and labels the feed at the other end.

He proudly displays the label, designed with the help of project

marketing experts. It depicts a chicken and shows protein, calcium, phosphorus, lysine, and other nutritional content by percentage.

It's a critical equation for Kosovo's poultry industry, where feed accounts for up to 80 percent of the cost of doing business. Most feed ingredients are imported and taxed, so productivity must be high to keep local eggs competitive with imports.

Next door, in their dimly lit barn, several hundred hens burble peacefully, laying brown eggs that roll obediently down wire chutes into waiting trays. The eggs will go to market, but the hens' real job is to test the yellow feed in front of them. What's wanted is a mix of grains and nutritional supplements that yields the highest number of healthy, nutritious eggs at the lowest possible cost. Using software provided by the project, Tusha calculates the optimum mix of grains and nutrients based on breed and stage of life.

At present, Kosovo's consumers have no way of knowing the difference between fresh, locally produced eggs and imported eggs that have been refrigerated, sometimes for long periods. To remedy this, the project works with policy makers and industry representatives to develop food safety protocols and educate consumers about egg grades, which are based on age.

"We look for people who accept new ideas," says project expert Ilir Zenelaj. "We call the farmer the producer, but the real producer is nature. In agribusiness, processing is the key."



The project helped Jeta e Re hatchery in Gjakovë calculate costs and improve invoicing for day-old chicks sold to other poultry operations in Kosovo.

egg production. The feed has to meet the hen's daily nutritional needs, yet still be affordable — a delicate balance. Before the project began, feed millers followed basic formulas, weighing the ingredients on small platform scales and hand-feeding it into grinders. Project advisors developed a software program to calculate variable feed formulations based on available inputs and compute the correct mix to maximize egg production at the least cost.

Improving flocks and management. The ideal “layer” hen is highly productive — one egg a day — yet economical to feed. The project connected several client farms with Hy-Line International, a U.S. producer of layers with extremely high yields, to negotiate exclusive rights to produce chickens for the Kosovar and Albanian markets. Project experts also demonstrated how to match a hen's molting period — when it does not produce — with the time of year when egg prices are lowest.

Branding products. The project worked with producers on egg washing, grading, standardization, and labeling.

Clean, graded eggs were matched with the consumer needs — for instance, by developing different cartons for a dozen or half-dozen eggs. Project experts helped clients install equipment to stamp the company name, logo, and production date on each egg. Some solutions were even simpler: For instance, a laser printer enabled one company to label its products and stamp the production date on egg cartons, allowing consumers to distinguish between fresh, local eggs and imported eggs that might be weeks old.

Linking suppliers, producers, and processors. After helping restart a defunct hatchery, the project linked this operation with companies producing eggs and “pullets” — 18-week-old hens ready to begin laying. Egg producers were introduced to a local packaging firm that makes egg cartons, replacing cartons imported from Macedonia. Another poultry farm began using waste from the layer operation to produce compost for sale to vegetable and mushroom growers.

Moving the industry forward. The project worked with SHPUK, the local asso-

ciation of animal feed producers, to train staff on feed formulation and poultry health and management. Topics included nutritional diseases, climate control, and breeding. As feed ingredient prices changed, project experts showed feed millers how to alter the make-up of feed while maintaining nutrient integrity.

Working with government. The project worked with several ministries to reduce tariffs on imported equipment and other inputs. It cooperated closely with the Customs Veterinary Unit, responsible for the import and export of live animals and animal products, on cross-border food safety issues and facilitated the import of live chicks and eggs to produce laying stock.

Important partnerships. The project worked with the International Fertilizer Development Corporation to link feed millers with producers of new feed crop varieties; with Mercy Corps to provide U.S. feed meal to project clients and farmers willing to grow feed crops on a commercial scale; with GTZ on a feasibility study on investing in broiler operations for export to the German market; and with the U.S. Department of Agriculture to organize a U.S. study tour for poultry industry professionals.

Potatoes: Setting the Price

The project identified potatoes as offering Kosovo a competitive advan-

tage in the processed vegetable subsector. The local market is large enough to support substantial sales, and there is export potential. Potatoes are planted on very small areas, but potato crops have a much higher yield per hectare than alternative crops, and soil and water combinations are favorable for expanding production.

Two companies expressed strong interest in capitalizing on this opportunity. The project worked with Delta Pomfrit and Pestova to get their processed potato plants into operation. Delta Pomfrit, a subsidiary of a large local retailer, produces frozen french fries for the local market. Pestova is an integrated operation that raises, buys, sells, imports, and exports potatoes; it represents Agrico, a well-known Dutch potato seed company. Pestova was set to begin producing french fries and potato chips when the project intervened to help both companies resolve technical, standardization, and management issues.

Pricing is the major issue for potato processors. In recent years, rising wholesale and retail prices led producers to sell their potatoes on the fresh market, leaving processors empty-handed. Project advisors worked with the industry to develop a realistic pricing structure based on raw potato composition and supplies. They also drafted a model contract between processors and farmers.

Essential Oils by the Numbers

- Various companies purchased juniper oil, juniper berries, rose hips, and wild apples from project client Juniper Fructus for more than 70,000 euros.
- Project client Agrofarmacija purchased 400 kilograms of bitterroot and 300 kilograms of nettle root from Juniper Fructus for export to Macedonia. The companies also signed an agreement for Juniper Fructus to gather 16 types of herbs for Agrofarmacija's tea production. This contract displaced herbal raw material imports worth 60,000 euros.



Juniper Fructus, an herb processing firm in Dragash, was able to export 400 liters of juniper oil to Serbia and link up with new markets elsewhere in Europe.

The best potato-chip potato is not the best potato for fresh consumption or french fries. Likewise, a french-fry potato is not the best for potato chips or fresh consumption. Project experts helped processors identify the right potato varieties for their needs, realize the efficiencies of modern processing, and keep costs down. Processors also needed help in preparing, cooking, packaging, and storing processed potato products, and in testing raw and finished products for moisture content.

With project assistance, the two plants introduced Good Manufacturing Practices, an international quality protocol that governs inventory control, processing systems, equipment repair and maintenance, and quality control. Consultants helped processors ensure their finished products met industry standards for color and size.

On the production management side, clients were supported in equipment design and layout, transportation, short-term and long-term storage, cleaning, quality control, weighing, and inventory management. Project experts helped clients understand how

a continuous supply of potatoes helps lower production costs and worked with them to develop appropriate production schedules.

Moving the industry forward. Working with industry principals, the project helped develop standards for high-quality raw and processed potato products. It coordinated four industry-wide seminars on the production cycle, from sourcing to processing. Project experts helped determine the legal requirements for certifying imported seed potatoes and developed food safety standards for potato processing plants.

Important partnerships. The project worked with the Canadian Centre for International Studies and Co-operation on selecting potato varieties and sourcing agricultural inputs; with the Kosovo Development Center on training and information for producers; and with the Institute of Pejë on developing new potato varieties, especially those approved on EU and U.S. lists.

Specialty Products

Essential oils are complex and valuable liquids extracted from plants. About 300

essential oils are in general use today. Kosovo's flora, comprising approximately 1,500 plant species, offer rich potential for essential oil development.

The project had an ambitious goal in this subsector: to establish the essential oils industry in Kosovo by working with a single company. If Juniper Fructus could export its product — juniper oil — other companies would be encouraged to enter the essential oils business.

Juniper Fructus originally invested 60,000 euros, including a 45,000-euro loan from an EU-funded program. The company collected juniper berries from the mountains in southern Kosovo, then crushed and distilled them to produce the oil. The company can also produce oils from other wild plants, such as pine and birch. When it became a project client, the company had an inventory of 400 liters of juniper oil and 40 metric tons of raw juniper berries, used as a flavoring agent for gin. It had no marketing plan and no idea how to sell its inventory.

Project experts identified and contacted potential buyers and sent a sample of the product for testing by the Josif Pancic Institute in Belgrade. Nine samples were sent to potential buyers in the United States, Germany, France, Austria, India, and Romania. Eventually, Juniper Fructus sold its oil and most of its berries to a Belgrade pharmaceutical company. As a result, Juniper Fructus repaid its loan. Later, a U.S. company and a

British company expressed interest in the oil as an ingredient for aromatherapy products.

Mushrooms. The wild mushroom industry in Kosovo is relatively mature. Almost all wild mushrooms growing naturally are being harvested. Consequently, industry growth depends not on expanding supply, but on enhancing the value of exported mushrooms.

The project goal was to diversify the wild mushroom export market instead of relying exclusively on bulk shipments. Tactics included packaging the product for consumers, linking exporters with new customers in Europe, and opening new markets in the United States.

Most local companies were exporting to a few suppliers in Italy and Germany, increasing their business risk and restricting their power to negotiate price. Mushrooms were shipped in small quantities to traders in neighboring countries at a considerably lower price than they could command by exporting directly to end users.

Project advisors helped clients expand their client base in Europe and assemble export documentation. An initial trial shipment of dried Porcini mushrooms to the United States ran up against a 45 percent duty on imports from Serbia and Montenegro. After trade relations between Serbia and Kosovo were normalized, import

Mushrooms by the Numbers

- The project linked Fungo FF, a company that grows button mushrooms for the local market, with a supplier of mushroom compost in Hungary. The company previously purchased compost from Serbia at a cost of 125 euros per ton, while compost from Hungary costs only 100 euros per ton.

duties fell to 3 percent, and four exporters shipped samples to a U.S. importer. Two exporters developed individual consumer packages for distribution at U.S. retail stores.

Local mushroom companies were using their production facilities for only 100 days a year, during the mushroom season. Project experts worked with local mushroom companies to expand their activities into the medicinal herbs subsector during seasonal down-times.

Medicinal herbs. Wild herbs have been part of life in the Balkans for centuries. Collecting and processing herbs is a longstanding tradition for Kosovo's rural families, and many of the nutritional herbs used in Western Europe and the United States are native to the Balkans. Before the breakup of Yugoslavia, approximately 25,000 rural dwellers collected wild herbs for pharmaceutical companies in Belgrade and Novi Sad. Collection centers accumulated herbs for bulk shipment, and some companies dried, sorted, or distilled herbs to add value. After the 1999 war, relationships among collectors, processors, and distributors were broken. There was little contact between herb collectors in Kosovo and processing companies in Macedonia, Bosnia, Serbia, and Albania. State-owned pharmaceutical companies had been privatized or broken up.

Kosovo's herb industry had enormous potential, but revitalizing it meant reestablishing linkages between collectors and processors, both locally and externally. Well aware of the challenge, project consultants selected two of the top 10 herbs identified during earlier work as having commercial potential: rose hips and juniper berries. The one-year expan-

sion strategy was to develop a value chain for these two products. The value chain included all activities related to harvesting, processing, marketing, and distribution.

Steps in developing a value chain include identifying markets; linking processors to local, regional, and overseas markets; setting product standards; making technology available to processors; organizing producers (in this case, harvesters); and linking all value-chain participants under business arrangements in which they can expect to make a profit. The project helped establish a local institution to support the medicinal herb subsector and establish ties with regional herb organizations.

Organization. After developing marketing and standards profiles for the top 10 herb species, the project worked with industry principals to establish KOMAPA, the Kosovo Medicinal and Aromatic Plants Association (www.komapa.org). To ensure that the industry would operate within accepted norms, the project developed guidelines for good agricultural and collection practices for dried raw herbal materials; provided guidance on the development of a pharmacopoeia for Kosovo; and presented a draft code of ethics. To address sustainability concerns, the project prepared a Harvesters Guide to educate and train wild crafters on the risks to sensitive plant species posed by current practices. To reduce herb drying costs, project experts offered a design for an experimental, inexpensive solar dryer.

Processing. Processors had no locally made herb processing equipment and were unable to afford imported equipment. The project located two companies in Serbia that manufactured low-cost equipment suitable for

processors and exporters in Kosovo. Three clients ordered equipment for their operations, and the project helped one client secure a 50,000-euro equipment and working capital loan.

Marketing. Project representatives visited medicinal herb and berry brokers, exporters, manufacturers, and pharmaceutical companies in Croatia, Slovenia, Bosnia, Serbia, Albania, Macedonia, and Montenegro to become familiar with their requirements and to establish personal contacts. A subsequent buyer-seller meet for the Bosnian herb industry established contacts with European importers and furnished valuable information on how to access the EU market. Next, project advisors accompanied groups of Kosovo herb processors to Albania, Macedonia, and Serbia for face-to-face meetings with buyers, exporters, and processors.

Industry and association development. In March 2004, KOMAPA was fully registered as the representative of the Kosovo herb industry. The association provides members with technical and marketing information and helps them establish contacts with equipment sup-

pliers and herb buyers. KOMAPA has established linkages with other organizations that support the herb industry in neighboring countries, including USAID-funded projects throughout the Balkans.

Important partnerships. The project secured a pledge from GTZ to support and assist the herb industry after the project ended. Mercy Corps offered to train wild crafters in sustainable harvesting practices. The Pejë Institute expressed willingness to serve as a certifying body for herb products. The project established a relationship with the Southeast Europe Enterprise Development (SEED) program to access funding for Kosovo. The Jose Pancic Herb Institute, part of the Serbian Ministry of Environment, a knowledge center for the Balkan herb industry, provided an update on the latest developments in growing and processing medicinal herbs. Two USAID-funded projects in Albania provided information on the herb industry in Albania.

Construction

Before the 1999 war, Kosovo's building industry was solidly professional.

Medicinal Herbs by the Numbers

- Project client Agrofarmacija signed an agreement with Juniper Fructus to organize harvesters to gather 16 types of herbs to be used local tea production. The value of this contract displaced imported raw materials worth 60,000 euros.
- A new company in Pristina, Herbpharma, which manufactures and distributes medicinal teas in Kosovo, was expected to achieve first-year sales of 200,000 euros.
- The project linked the Herbarium Company of Pristina, a company that sells natural food supplements, with Cvet Company of Strpce, a processor of wild herbs in Kosovo's minority Serb area. Herbarium previously imported all its herbal products from Adonis, a processor of medicinal plants in Serbia, while Cvet exported all its medicinal plants to Adonis for processing.
- Four companies — Herba, Fati, Herbarium, and Herbpharma — began buying wild herbs from Kosovo suppliers. Previously, all herbs sold locally were imported.



Minority Leader Believes in Joint Action

MITROVICA — Radomir Rojevic is general manager of Minel Enim, once the largest construction firm in the Balkans and an affiliate of a huge holding company based in Serbia. Expropriated after the 1999 war, the company lost nearly everything — plant, equipment, international contracts worth millions, employee records. Based in Mitrovica in northern Kosovo, a minority area, Minel Enim slowly regrouped and has since won a few large construction contracts in Serbia and Montenegro.

Rojevic is the only Serbian Kosovar board member of the Kosovo Exporters Association, established with USAID project help. As association secretary, he is in contact with senior government officials and representatives of the most influential companies in southern Kosovo, where the majority is ethnic Albanian. Rojevic rattles off a long list of handicaps faced by northern and southern businesses alike: lack of electricity, heavy taxes, conflicting regulations, time-wasting paperwork and procedures. “You have to be a magician to survive.” He believes joint action to promote a common policy agenda will build bridges.

Yugoslav and German standards and building codes were applied and enforced, professional architects and engineers were licensed, and skilled tradespersons were certified. Architectural, design and engineering professionals held university degrees and served relevant internships. Construction firms were licensed, registered, and engaged in ethical business practices.

The war damaged or destroyed many private homes, apartments, commercial and government buildings, and large industrial facilities. International organizations rushed to help with reconstruction, but planning and zoning regulations were seldom applied or enforced. Unlicensed businesses, unqualified contractors, substandard construction materials, and unregulated construction overturned formerly sound professional practices. It would take an industry-wide reeducation process to bring regulation and enforcement back into practice.

Based on the needs of the sector, the project team focused on recruiting industry working groups, building relationships with government to advance construction-related legislation, and activating associations to lead the development of standards. They also worked with individual firms on technical, marketing, accounting, and training issues to improve competitiveness.

Building relationships. The construction industry working group comprised professionals in architectural design, urban planning, and engineering, as well as business owners and general, financial, and technical managers. Their task was to address materials standards, materials testing requirements, and construction practices. The group worked closely with the

public sector to help develop and pass legislation to regulate and standardize the industry. This group helped establish two professional industry associations and continued to nurture a strong working relationship between public and private sector construction professionals. The Ministry of Trade and Industry relied on the group for expert advice and designated its Technical Support Group an official advisor to the new Agency for Standardization.

At the government's request, the project reviewed and suggested amendments to legislation regulating construction, building materials, licensure and certification, and urban and spatial planning. Five laws on standardization, metrology and measurements (to define norms), precious metals production (to regulate construction metals), construction (to regulate industry procedures and practices), and urban and spatial planning (to establish zoning criteria and a Kosovo Master Spatial Plan) were all enacted. Technical Support Group members also helped draft a zoning plan for the municipality of Pristina.

Activating associations. The project helped establish and organize the Association of Civil Engineers of Kosovo (LINK) and the Mechanical Engineers Association of Kosovo. Along with the Association of Electrical Engineers and the Kosovo Architectural Association, these core members of the Technical Support Group were the primary drivers for development, adoption, implementation, and enforcement of construction standards. The Technical Support Group comprised industry leaders, professional architectural and engineering associations, university architecture and construction faculty, and public sector representatives. It pro-

vided technical assistance and advised ministries on building codes, construction practices, and licensing and certification of construction professionals, tradespersons, and businesses. For instance, when the government asked the Kosovo Architectural Association to develop criteria for licensing and certification of engineers and designers, the project supplied model criteria and sample examinations from U.S. and British organizations. The Technical Support Group also promoted standards and a common nomenclature for products used in the construction industry.

Improving competitiveness. When Kosovar construction companies consistently failed to win bids for large contracts, the project organized a seminar for 16 companies on the bid and tender process. The project helped local firms bid for work as subcontractors to the Bechtel Corporation on a \$1.9 billion

reconstruction contract in Iraq by organizing a registration seminar that explained the requirements and offered a walkthrough of the online registration process. Several companies registered to bid for work with Bechtel and listed themselves with Dunn and Bradstreet, an important step toward qualifying for international subcontracts.

The construction industry working group stimulated creative interaction among companies, industry associations, and government to improve the technical and professional expertise of association members and develop strategies to increase the overall share of Kosovar construction firms and building materials producers in regional and export markets. Construction professionals began cooperating in project bidding and implementation, including joint bids with Serbian and Albanian companies.

Construction by the Numbers

- Project client Sibora Panelli, affiliated with one of the world's largest steel building designers, secured a contract with another project client, Kondirolli, to build a 2.5-million-euro pharmaceutical plant, including a 260,000-euro superstructure erection contract.
- Lin Project, an architectural design, engineering, and construction company in Mitrovica, constructed a 280,000-euro, six-story end apartment building in Mitrovica. The project also helped Lin source construction materials worth 60,000 euros from Lindi, another project client.
- Proterm, one of the largest mechanical engineering HVAC design and construction firms in Kosovo, developed a 1.5-million-euro proposal for a technical institute to certify tradespeople and test construction materials. The project identified equipment suppliers and helped Proterm prepare a loan application.
- The project facilitated a 32,000-euro structural integrity test subcontract for Pro Ing, a bridge designer and structural engineering contractor, in connection with reconstruction of a 20-story building in downtown Pristina.
- The project helped minority client Minel Enim, a large general contractor affiliated with a Belgrade holding company, identify subcontractors for a 1.8-million-euro contract with the municipality of Mitrovica to design and construct regional sanitary landfill, wastewater collection, and environmental recycling operations.



Wood Processors Work Smarter to Compete

PEJË — The sweet, clear air of this city, tucked beneath the Albanian Alps in western Kosovo, mixes with the fragrance of cut lumber on the top floor of the Gacaferi family's wood shop. Shafts of light from ample skylights paint stripes on white wooden beams as workers crisscross the spacious floor, carrying kitchen cabinet elements from station to station for sanding, drilling, assembly. Short bursts of noise from machinery briefly disturb the peace.

"It's good to work with wood," says a man in cargo pants as he drills holes in a kitchen cabinet unit. He has been here 12 years — one of 40 workers rehired when Naim Gacaferi rebuilt his business after the 1999 war. His workshop was looted and burned, but left standing. He rented it to a nonprofit organization and used the money to restart the business his father had begun 40 years before.

With 60 percent of its houses destroyed, Pejë wasn't ready for Naim Gacaferi's doors, windows, and staircases, so he sold them in Gjilan, 80 miles to the east, importing raw materials from Turkey. Today, business is better, but still far below prewar levels. Gacaferi's markets in Macedonia and Serbia are gone, and in Kosovo, his main product — kitchen systems — must compete with higher quality, and sometimes cheaper, imports from neighboring countries, especially Slovenia.

The project provides Gacaferi's company, *Fabrika e Mobiljeve Gacaferi*, with intensive operational and marketing assistance. Gacaferi makes frequent trips to Italy to stay on top of technology and design. His string of showrooms display kitchens ranging from simple to stunning. And under project auspices, Gacaferi met equipment suppliers at a major trade show in Milan and swapped showroom space with other Kosovar firms that make non-competing products. He looks like a survivor.

In Gjakovë, some 20 miles to the south, down a highway that races past thickly forested mountains, another family firm, *Brovina*, is also struggling to recover. Owner Florin Brovina says production of windows and doors is only 10 percent of capacity; he can't compete with Slovenian imports because he pays six different taxes on equipment and raw materials even before they're used.

His firm is a member of the project's wood processing working group. Brovina believes this group can push policy in the right direction.

Wood Processing

After the 1999 war, Kosovo's wood processing industry stepped up activity to meet the demands of reconstruction. The breakup or demise of many large state-owned enterprises created an opportunity for the revival of traditional workshops run by family units in different localities. Individuals with technical expertise gained while working for state-owned firms began establishing small wood processing businesses in villages and towns. Equipped with ingenuity and a strong desire to achieve, these entrepreneurs transformed their small businesses into larger enterprises. They enjoyed a period of healthy growth until early 2003, when demand slowed, competition from imports increased, and export markets were still closed.

Project intervention in two promising subsectors — doors and windows, and furniture and cabinetry — helped establish a working group to address common issues and identify voluntary standards to be adopted by wood processors. With intensive technical and management assistance from the project, the most entrepreneurial companies worked hard to make their products more competitive with imports.

Developing a working group. The working group for wood processing brought together independent-minded entrepreneurs accustomed to working on their own. An early achievement was fostering cooperative networking that created new linkages and niche production opportunities. For instance, Lesna, a maker of standard windows in Pristina, stopped building custom arched windows and began buying them from Brovina, a Pejë firm that reciprocated by buying standard windows from Lesna. Further discussions led the working group to identify

industry-wide obstacles to sector competitiveness: high taxes and fees, transportation concerns, unreliable electricity supplies, and limited knowledge of the market. By the time the project ended, working group members had established the Wood Processors Association, with the goal of representing the industry with a single voice and influencing policy in its favor.

Applying standards. Worldwide, standards in building construction are mandatory, but in wood processing, they are voluntary. While Yugoslav and German standards still applied in Kosovo, many companies did not comply or understand the value of standards. Through working group meetings and best practices training, the project demonstrated how adherence to standards improves competitiveness and increases market penetration. Forward-looking firms began striving to meet regional standards for size and quality.

Improving processing and management. Wood processing companies discovered common business concerns: rising input costs, diminishing sales, and increasing customer demand for imported quality at local prices. Clients also expressed a need for management training. The project helped client firms improve their products, reduce costs, and develop marketing strategies ahead of the busy spring and summer season. Assistance addressed production flow, equipment maintenance, worker health and safety, inventory control, and cost analysis. To improve managerial skills, the project developed training in processing, manufacturing, and worker safety best practices. Clients implemented improvements in air-drying, production control, inventory control, order processing, shipping, and housekeeping.

Wood Processing by the Numbers

- Between September 2003 and August 2004, wood processing clients made capital investments of 3.6 million euros in their companies.
- Wood Combine New Company, a recently privatized state-owned enterprise in Pejë, convinced investors to purchase equipment worth 178,000 euros to modernize this combined sawmill, dry kiln, and remanufacturing facility, set to employ 600.
- Brovina, a window and doormaker in Gjakovë, constructed a glass-enclosed onsite showroom worth 20,000 euros to attract customers and improve sales.
- The project connected Pristina company Lesna with suppliers at a trade show in Milan, where Lesna purchased finishing room equipment worth 200,000 euros. The company planned to invest another 800,000 euros to develop furniture production operations.
- With project assistance, furniture maker Mobileria Djellza in Gjilan participated in a trade fair in Skopje, where they negotiated contracts worth 4,500 euros with a Macedonian company and 9,000 euros with a Serbian company.
- With project help, Pristina company Molika obtained three loans: 24,000 euros for a machine to manufacture briquettes for heating and cooking; 30,000 euros to import lumber from Bosnia; and 70,000 euros to import and resell roof tiles. The project also helped Molika identify construction lumber from Montenegro for resale in Kosovo, a contract worth nearly 200,000 euros monthly.
- The project helped Pejë kitchen maker Gacaferi secure four loans totaling 184,000 euros to purchase raw materials and equipment, enabling an increase in production.
- Based on an operational control system developed by project experts, chairmaker Ukaj, in Pejë, was able to cost its products more accurately and rationalize production scheduling. As a result, production increased by 20 percent per shift. Instead of buying green lumber and drying the material, the company began purchasing kiln-dried lumber, raising output from 30 units per cubic meter to 50 units per cubic meter — a 67 percent increase.



DTS Kondi, a confectioner in Gracanica, is gearing up operations with two new stoves to meet high demand from Serbia. The project helped establish the link.

CHAPTER FOUR

Serving Minorities

Although the project was initially intended to reintegrate Albanian Kosovar businesses into the formal sector, by early 2002 it was clear that Kosovo's minority community also required assistance. After the 1999 war, Kosovo's ethnic minorities were increasingly isolated, hindering their ability to find markets and source raw materials and equipment. And like their ethnic Albanian counterparts, they needed operations and management training to help them compete under new economic circumstances.

Just 18 months after start-up, the project opened a new office in Zvecan, in northern Kosovo. One expatriate and five Serbian Kosovar professionals began serving minority clients throughout the province. Bolstered by strong support from the minority business community, the project opened two more offices in Strpce, in the south, and Lapje Selo, in central Kosovo.

Although they were engaged in a broad range of business activities, only two clients had more than 50 employees; the remainder had 10 or fewer. Since most minority-owned businesses were small, no fees were charged for general consulting assistance. Minority clients paid only for extra services, such as business plan preparation or participation in trade and investment activities.

Minority clients soon recognized the project as one of the few organizations to follow through on promises. As a result, it had strong credibility in minority areas and was able to facilitate the entry of other groups into these areas to deliver services and information to minority clients. For instance, the project:

- Worked closely with banks to extend financing to minority clients, in some cases for the first time.
- Cooperated with UNMIK on a survey of market demand for space in a proposed industrial park in Zvecan and helped screen applicants.
- Worked with government and UNMIK authorities to organize seminars on regulations.
- Assisted Avenija, a nonprofit promoting women-owned businesses in Serbian enclaves, with association development.

- Prepared business plan templates for use by the International Organization for Migration with minority microenterprises and start-ups.

The project provided opportunities for cooperation across ethnic lines and served as an impartial intermediary, facilitating contacts that would be difficult for entrepreneurs to undertake on their own. For instance, minority clients in the medicinal herbs and mushroom portfolio were linked with Pristina companies to explore import substitution and

export opportunities, and one minority client was represented on a technical support group advising the government on building codes and standards, thanks to project efforts.

An outbreak of ethnic violence in March 2004 dealt a setback to these efforts. While progressive Kosovars recognize the need to create a viable economic future for all, the barriers between communities are still significant. Resolution of major political issues — and more time — may be needed before Kosovo’s citizens can lead a normal life.

Minority Business Growth By the Numbers

- Provided consulting assistance services to 177 private companies and training in marketing, accounting, management, and business planning to almost all active clients.
- Tracked almost 1 million euros in business deals resulting from participation by minority clients in trade shows and B2B events.
- Helped confectioner DTS Kondi secure financing to support business growth and develop new markets in Serbia, increasing sales by more than 300 percent.
- Helped auto repair service Autoelektrcarska Radnja develop a business and marketing strategy, win new clients, and expand its range of services, resulting in sales growth of more than 100 percent.



Confectioner Finds Customers in Serbia

GRACANICA — The siren scent of burnt sugar fills the air around DTS Kondi, a tiny two-room factory perched on the highway running through Gracanica, a Serbian Kosovar enclave just south of Pristina. For 16 hours a day, two stoves ooze thick ropes of Turkish delight and fruit-flavored jelly into large, flat trays. White-clad workers catch the trays and stack them up to cool. In the next room, other workers fill, tape, and pile boxes of candy into neat stacks.

Business is booming now, but it wasn't always so. After six months of churning out candy it couldn't sell, DTS Kondi was on the brink of failure when it was rescued. The project linked the company with

Delta Holding, a large supermarket chain owner and distributor in Serbia. Since then, production has increased fivefold, to 15 tons per month, and demand has grown beyond the company's current capacity. Now 80 percent of orders come from Serbia, the rest from Kosovo.

Owner Sasha Sekulic is gearing up his operation. Two new stoves from Serbia are on the way. They'll be installed where the packers sit now, and they'll run on gas — even with a generator, electricity is in short supply. If he can get a loan, he'll expand the factory, says Sekulic, pointing to a vegetable garden between the shop and his house. If not, he'll have to move the packers offsite.

Workers carry cartons of candy down the driveway, preparing to load the company truck for its weekly trip to Serbia. The truck goes three-quarters full, making stops in Belgrade and Novi Sad. One day a week it travels south to Pristina.

Over a cup of coffee on his sunny porch, Sekulic explains how the project helped him with marketing, accounting, and production improvements. His little boy sits next to him, swinging his feet. Project expert Andrija Mijanovic is clearly proud of his client's achievements. "We provide extra help to those with the will to grow," he says.

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Credits

On the cover

Polyester bathtubs made by Ben Com in Ferizaj compete with imports in Kosovo and are finding buyers in Macedonia.

Inside front cover

Outside Pristina, workers lay the foundation for the Kondirolli pharmaceutical plant — the first in the region to comply with international standards.

Inside back cover

Tools at H&H dairy farm in Shtime.

Photos on pages 28, 31, and 32 by KBS staff. All other photographs by Karen Byrne

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100% Post-Consumer Fiber

