



# USAID | KOSOVO

NGA POPULLI AMERIKAN  
OD AMERIČKOG NARODA

## ANNUAL REPORT YEAR TWO

### KOSOVO CLUSTER AND BUSINESS SUPPORT PROJECT



10 October 2006

This publication was produced for review by the United States Agency for International Development. It was prepared by the KCBS project team of Chemonics International Inc.

# ANNUAL REPORT YEAR TWO

OCTOBER 1, 2005 - SEPTEMBER 30, 2006

---

Kosovo Cluster and Business Support project "Annual Report Year Two"  
Contract No. AFP-I-00-03-00030-00, TO #800

This report submitted by Chemonics International Inc. / 10 October 2006

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

# CONTENTS

EXECUTIVE SUMMARY	1
1.0 PROGRAM DESCRIPTION	4
2.0 LIVESTOCK CLUSTER	5
3.0 FRUIT AND VEGETABLES CLUSTER	18
4.0 CONSTRUCTION MATERIALS CLUSTER	23
5.0 IMPROVED BUSINESS OPERATING ENVIRONMENT	29
6.0 STRATEGIC ACTIVITIES FUND	34
7.0 COMMUNICATIONS	36
8.0 PERFORMANCE MANAGEMENT	38
ANNEXES	49
Annex 1	Financial Data
Annex 2	Performance Data
Annex 3	Short Term Technical Advisors [STTA] Summary of Assignments
Annex 4	Targeted Results 2006
Annex 5	Hierarchy of Objectives
Annex 6	Brochures Produced in Year
Annex 7	Glossary of Acronyms

# EXECUTIVE SUMMARY

In the first year's Work Plan for 2005, KCBS stated we would show tangible progress toward increased jobs, sales, and investment. By the end of the first year, in the main, we believed the project had been successful in achieving these qualitative results. This success has continued throughout the second year. The KCBS Program is well regarded throughout Kosovo. Stakeholders understand the goals of the program, and continue to participate in the activities of KCBS; this program cannot be implemented solely by the efforts of KCBS alone. Stakeholders have bought into the goals of the program and remain keen on ensuring their objectives, and those of KCBS, complement one another.

KCBS has stated that the drivers of the project are increased jobs, sales and imports substitution, and everything we do would contribute directly to those results. Throughout the second year we have adhered to this rule. However, towards the end of Year Two, USAID asked KCBS to give more attention and support to minority regions particularly in the north of Kosovo. It is not certain that such intervention will have a comparative impact to a similar one in the south; however, KCBS has tried to identify the most promising interventions and will address those in our plans for Year Three.

KCBS set a goal for the project that for a given activity for every dollar we spent, at least five dollars of increased sales would result for KCBS clients. In the first two years, we have spent \$10.2 million; and the increase in sales from our clients was approx. \$34.7 million. This gives a direct sales-to-expenditure ratio of nearly 3.5:1. Last year the ratio was 1.9:1, and our belief that the ratio would continue to improve as the project progresses is justified. Furthermore, our sales numbers only come from the companies with whom we work directly; the numbers do not capture the multiplier effect of increased sales by other companies in a cluster with whom our clients do business. Such businesses include veterinarians, feed suppliers, transport companies, business service providers and others, all of whose sales would improve the ratio further.

In last year's Work Plan, KCBS forecast that by the end of Year Two the program would have created 1,615 additional jobs. Records through the end of September 2006 show that the actual total of jobs created is 1,860.

It is noted that much of our expenditure to date, approx. 25%, has been spent on resources used to improve the business operating environment. Although this in the long term will have beneficial effects on the Kosovo economy and lead to greater sales and increased jobs, and in the second year we believe it has had more impact than in Year One, the expenditure on improving the business operating environment still has not had a commensurate impact as direct, hands-on assistance at an individual entrepreneur.

There have been many significant successes in Year Two. To improve the business operating environment, KCBS facilitated the holding of the first ever Finance Fair in Kosovo. We conceived and coordinated the Private Public Dialog task groups through which we encouraged the private sector to take greater ownership of the business environment and demonstrate to the public sector that such a transfer would not reduce its authority. We have supported the Ministry of Trade and Industry's initiative to provide opportunities for businesses to use local business service providers in order to increase the use of better management practices. We have reduced the donor dependency of the associations with which we work by introducing fee-for-service programs and ensuring membership fees are paid. KCBS organized workshops on forming Joint Ventures in the construction industry as a means to engender more investment and rationalize production.

KCBS was in the forefront of Kosovo's planning to resist the possible advent of Avian Flu, and received a commendation for its work from a Food and Agriculture Organization mission to Kosovo. Despite the severe drop in egg consumption at the height of the "panic", KCBS has helped restore production and consumption back to pre-AI levels. In the dairy sector, KCBS has improved both the quality and quantity of milk being produced in Kosovo leading

to significant reduction in imports. We have advised on the local production of new cheeses, which have reduced imports and have the potential for being exported. KCBS advised on new techniques for making quality silage, and have introduced new varieties and hybrids of feed crops, which have improved yields per hectare. KCBS facilitated the first export of live lambs since 1999 in July. KCBS coordinated the collection and sales of wild blueberries resulting the largest harvest since 1989. Over 650 tons were collected valued at €1.5 million.

In the Year Two Work Plan, we listed targeted results for the year and an accounting of these is provided in Annex 4. Most of the goals were achieved. Our quantitative performance against the primary indicators of sales, jobs, financing and investment are summarized on the graphs overleaf. We have exceeded the targets for the end of Year Two, set at the start of the project, for all four indicators. The annualized increase in sales over baseline is 22.2%. A complete report on the performance indicators is included in Annex 2.

In the second year KCBS continued to bring in many short-term technical advisors [STTAs]. In the first two years of the project, KCBS has brought in more than 80 STTAs, providing over 2,000 days level of effort and writing 65 technical reports. The findings and recommendations of these reports have been disseminated by KCBS staff to the Kosovar stakeholders to whom the recommendations are of most interest and who will benefit greatly from their implementation. A summary of the reports issued this year by STTAs is provided in Annex 3. In particular, the recommendations for the milk producing sub-cluster which were prepared on the basis of STTA interventions at KCBS's 18 direct clients – typically the largest commercial farms in Kosovo – have been dispersed with on-farm trainings to over 260 other farms through the KCBS supported Association of Kosovo Milk Producers, KAMP. Much of the STTA advice was incorporated in brochures produced by KCBS for distribution within the clusters and to other stakeholders. A list of the brochures produced in Year Two is included as Annex 5.

In Year Two 19 grants and 25 subcontracts were awarded through the Strategic Activities Fund for a total of \$726,000, a considerable increase on the amounts awarded in Year One. Some 44% has been awarded to local business associations and business service providers in our endeavors to ensure these institutions become self-sustainable before KCBS leaves Kosovo. The number of associations we worked with in Year Two was reduced from that planned as we found the detailed involvement needed for successful results was beyond our resources. Instead, we concentrated on making a success of the eight associations initially selected. All associations reduced their dependency on donors to no more than 60% last year and a level of 40% is targeted for Year Three.

KCBS recognizes that in striving to achieve the primary goals of the project, our activities may give opportunities to respond to USAID's cross-cutting themes of addressing minority and gender issues. In Year Two, KCBS coordinated activities in Northern Kosovo with other donors who are active there, particularly the EAR Business Advisory Services program. The businesses in this area are desperate for capital investment and many of them have plans, which will lie dormant until access to capital is facilitated. In the north, KCBS is developing a demonstration farm with the largest minority farmer, is introducing Good Manufacturing Practices at the principal dairy and has recently started to work with a fruit processor with many tied producers. Three of our client construction companies from the north have joined the Road Contractors Association of Kosovo. KCBS continues to respond to requests for assistance from women's businesses and associations both in and out of our clusters. Generally however, this assistance takes the form of reviewing their needs and then routing them to a donor program whose terms of reference more specifically permit intervention in the donor's field of activity.

In Year Two KCBS continued to work on improving the business operating environment in Kosovo and to ensure that the three clusters selected for attention under the program become competitive and leading forces in the economic recovery and growth of Kosovo. Our Work Plan for Year Three will build on these achievements.

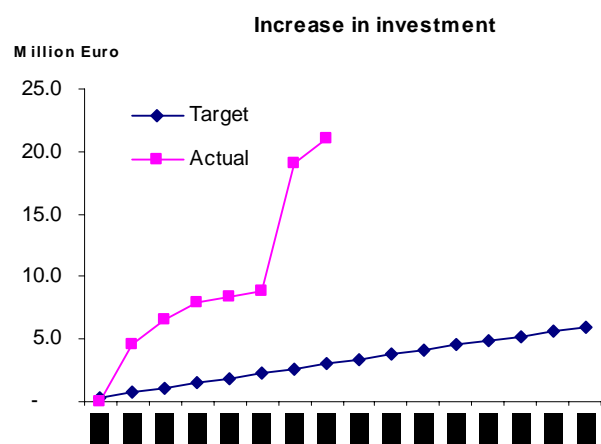
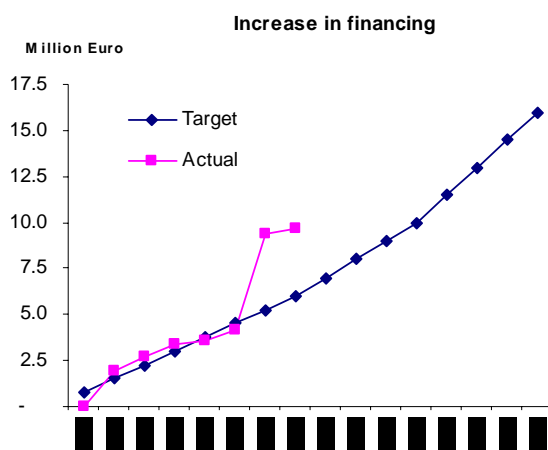
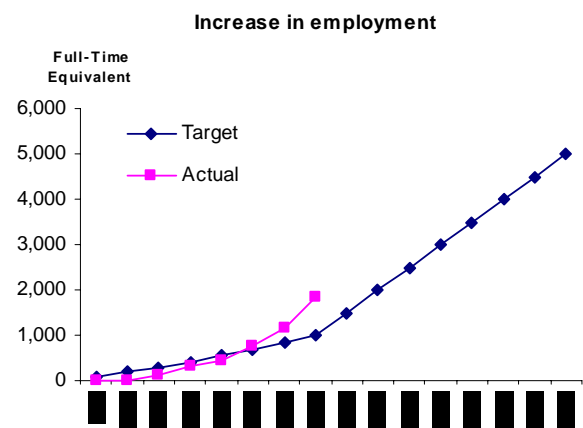
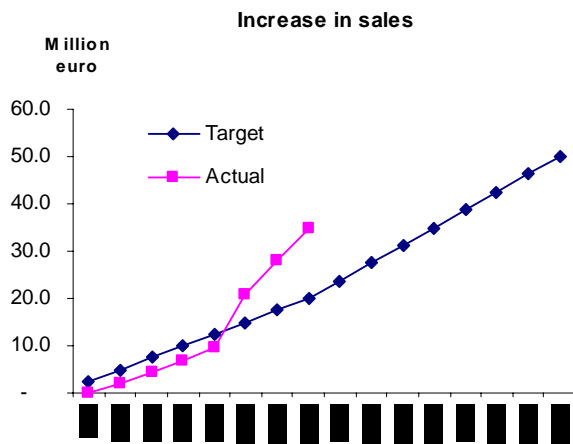
A Glossary of Acronyms is appended in Annex 7 at the end of this Report.

## PERFORMANCE SUMMARY

### Cumulative changes to date in primary indicators

After Two Years

	Target	Actual
Number of companies assisted	n/a	85
Increase in sales compared to baseline – euros (in millions)	20.0	34.7
Increase in sales over baseline - %	10%	44.5% <sup>1</sup>
Increase in FTE jobs	1,000	1,860
Increase in financing – euros (in millions)	6.0	9.7
Increase in capital investment – euros (in millions)	3.0	21.0



<sup>1</sup> Total aggregated sales by companies to date are €12,766,865. The aggregated total of the corresponding baseline figures for the same period during which companies have been KCBS clients is €78,046,227.

# 1.0 PROGRAM DESCRIPTION

## 1.1 INTRODUCTION

This is the second annual report on the implementation of the Kosovo Cluster and Business Support (KCBS) project. The United States Agency for International Development (USAID) awarded KCBS to Chemonics International and its consortium of implementing partners under a Privatization II Task Order on September 30, 2004. This annual report covers the period from October 1, 2005 through September 30, 2006.

## 1.2 PROGRAM GOALS

The goal of KCBS is to stimulate economic growth and improve employment opportunities for Kosovar citizens. The project will strengthen the competitiveness of private sector enterprises through training, technical assistance, and policy advocacy to mitigate detrimental legal and regulatory constraints to business growth.

## 1.3 PROGRAM COMPONENTS

KCBS will be implemented over four years and comprises two distinct but complementary components. The first component is directed toward developing and implementing a program to overcome factors known to be inhibiting economic growth and employment. USAID-financed advisors will serve as facilitators in resolving government-placed constraints to business formation and development. Assistance will also be provided to strengthen indigenous business associations, business service consultants, and business training providers so they can become established in the market, and therefore sustainable. The second component is directed toward working with and providing assistance to specific economic groupings, or clusters, and the individual enterprises that make up clusters. Three clusters have been targeted:

1. Dairy, meat, poultry, and animal feed (the livestock cluster)
2. Fruits and vegetables
3. Construction materials

These clusters were chosen because there is a significant domestic demand for their products; USAID has worked successfully with farms and firms in these clusters; and USAID has identified interest and potential leadership in the clusters.

## 1.4 USAID OBJECTIVES

USAID's Strategic Objective in Kosovo, is SO 1.3 – Accelerated Private Sector Growth. The KCBS program supports achievement of this objective. The KCBS program has strong linkages to other USAID strategic objectives:

- SO 1.2 Improved Policy and Institutional Climate for Productive Investment
- SO 2.1 Civil Society and Government Effectiveness, and
- SO 2.2 More Open and Responsive Government

The major intermediate results for Strategic Objective SO 1.3 are:

- IR 1.3.1 Increased Competitiveness of the Targeted Clusters
- IR 1.3.2 Improved Business Operating Environment

A diagram showing the hierarchy of objectives for the KCBS program is shown in Annex 5.

## 2.0 LIVESTOCK CLUSTER

The Livestock Cluster Team has concentrated on developing four agribusiness sub-clusters. These are dairy, meat, animal feed and eggs. The work done in Year Two and the results achieved in each sub-cluster are set out below.

### 2.1 Dairy Sub-Cluster – Milk Production

In Year Two KCBS focused its efforts on increasing milk quantity and milk quality among Kosovo dairy farms to improve efficiency and incomes while substituting imported dairy products with locally produced dairy products. Dairy farmers experienced many positive results measured by increased milk supplies and improved milk quality. Due to the intervention of KCBS some of the commercial dairy farmers have seen an increase in milk production of 50% and most have averaged over 20% increase in milk production. KCBS has provided on-farm training to over 200 farmers in milk quality improvement, feed management and veterinary health management.

#### 2.1.1 Improved Productive Capacity



The key to a good feeding program for efficient milk production of dairy cows is to feed them forages that are of high quality. A key component to producing high quality forage is the time of harvest. As forages mature the amount of fiber increases and the amount of protein decreases, thus resulting in poor performance from the cows. A substantial increase in the amount of milk produced per cow can be achieved, just by going to the field and harvesting the forage earlier. KCBS focused on improving hay forage by supporting a rotobaling project through KAMP. Better quality hay forage is the most economical way to increase milk production. Dairy farmers who have started to use rotobaled Alfalfa silage to feed their cows realized a milk production increase on average of 2 liters/cow/day or €16/cow/month. KCBS has also supported the use of new improved forage varieties and other better

agronomic practices as well, as described in the Animal Feed section.

KCBS has demonstrated that improved feeding programs will elicit more milk along with a positive economic impact within a week of implementation of the new feed ration. Through the MPIP (Milk Production Improvement Program) project, 120 dairy farmers received training at their farm on how to mix different feeding ingredients. The purpose was to prepare an improved dairy concentrate feed that will meet the nutritional requirements of their cows at least cost. As a result of this training, milk yield increased by 3 liters/cow/day on average or €24/cow/month.

One of the major causes of lost income to the dairy producer is the poor reproductive performance of his dairy herd. Reproductive efficiency and dairy farm profitability are maximized when the average calving interval for a herd is around 13 months. KCBS contracted a cattle reproductive health specialist who examined the reproductive health of dairy cows at 25 commercial dairy farms with 973 cows in total. He conducted rectal pregnancy checks, and inseminated cows that were in estrus utilizing high quality US semen. This assignment was designed to encourage





regular post-partum exams at 10 to 20 days to minimize the frequency of endometritis, which along with other mismanagement is currently devastating the reproduction efficiency in Kosovo dairy herds. It was also intended to motivate farmers to switch from natural service to A.I. because of the greater potential for genetic improvement and the reduced potential of human health hazards. KCBS in cooperation with a contractor prepared a brochure explaining why natural service is not a good option for the Kosovo dairy industry.

Up to now the expansion of the dairy industry has been dependent on imported dairy heifers. None of the commercial dairy farms had facilities or the management expertise to raise even the few calves that were born on their farms. To help promote a sustainable dairy industry, KCBS initiated a heifer-raising program. This program will generate high quality heifers with superior genetic capabilities that are also acclimated to Kosovo at less cost than imported heifers within two years.

KCBS introduced 36 individual calf hutches on 8 farms to demonstrate an economical way of eliminating many of the problems that are obvious at this time. The cow numbers of these farms will contribute to approximately 120 calves. Dr. Roy Chapin formulated rations for successfully raising calves and heifers that will enter the productive milking herd at industry accepted ages of 23 to 26 months. KCBS prepared a brochure on raising calves and heifers, which is being distributed to commercially oriented dairy farmers.



A major cause of the inferior reproduction performance found today is a result of a large number of difficult births that are taking place on the farms. There are several factors contributing to this, but the major factor is failure to select semen from bulls known to sire calves that are delivered easily (calving-ease sires). During this year 14,000 straws of bull semen were imported including 10,000 of the Simmental breed from Swiss genetics and 4000 units of calving-ease semen from World Wide Sires, an American Company, that are now available for sale. With the arrival of the American semen, the farmers now have not only the choice of calving-ease semen, but also a choice of over 30 different body characteristics that contribute to healthy and profitable cows.

Inadequate housing leads to reduced performance of the cow in terms of milk production, milk quality and reproduction efficiency. Most of the cows are kept in stanchion type confinement and most of the barns are of inadequate size for the relevant number of the cows kept. Barn hygiene is generally considered one of the biggest problems in efficient production of quality milk. KCBS has identified two dairy farms that meet most good housing and management standards that will be used as “model” or demonstration dairy farms for how a practice-operated dairy farm should look and function. The KCBS Project has worked with farmers to introduce better milking practices, better farm management and hygiene and improved housing for cows all of which will contribute to a decrease in the spread of infections such as mastitis and an improvement in raw milk quality.

### 2.1.2 Improved Quality Control



Milk Quality is a major issue in the dairy industry in Kosovo. Farmers would like to have a higher price for milk, but processors cannot pay a higher price until the quality of the milk being received in the milk plants increases. The key to improved profits and the survival of the dairy industry in Kosovo is to improve the quality of the raw milk. KCBS contracted “Biolab” a private dairy consulting firm to implement MQIP (Milk Quality Improvement Project). The project goal was to train dairy farmers to understand

procedures that must be applied in order to ensure production of high quality raw milk including the transportation and storage of milk from farm to processor. In this program 100 farmers received on-farm training in producing high quality raw milk. Farmers were trained in barn hygiene, proper milking procedures, and proper milk storage. The “golden rules” for milking starting with preparation of the cows before milking and taking care of cow’s udder and milk after milking were introduced. Monitoring of udder health concerning sub-clinical mastitis was done using the CMT (California Mastitis Test) test.

Milk processors are recognizing training effects provided by KCBS on milk quality improvement at the farm level. One example is Rona dairy processing plant, which has lowered the conversion rate for producing white cheese by 1.5 l of milk. Rona collects on average 4000 liters of milk per day. Prior to KCBS intervention they produced 530 kg of white cheese; after interventions they are producing 650 kg of white cheese. This equates to an annual income increase of €87,600 at zero cost on white cheese production. Similar yield improvements and cost savings from higher quality milk are realized with other types of cheese.

On the legislation side KCBS has helped the Livestock department of MAFRD in drafting a raw milk quality decree that is intended to become effective January 1, 2007. The decree sets quality parameters for different classes of raw milk based on definable criteria such as bacteria count, somatic cell count, residue limits, etc. Over time these parameters will be made stricter until they ultimately reach EU minimum standards. That means licensed dairy processors will not be legally allowed to purchase raw milk that does not meet these minimum standards. Thus in addition to their own preference for high quality raw milk, it gives them a legal basis for refusing to buy low quality raw milk while giving farmers an incentive to improve milk quality.

### 2.1.3 Improved Market Chain Linkages

In addition to improved quality and shelf life of dairy products through improved milk quality at the farm level, better linkages between farms and processors have been established since processors are keen to find and keep suppliers of high quality milk. During year two KCBS was focused on solving the issue of the importation of dairy products below the world market price, which was another constraint to the development of the Kosovo dairy industry. This was caused by subsidies in the exporting countries and the fraudulent importation practices of the Kosovo importers. The issue of under invoicing of imported dairy products has been resolved. Since May 29 UNIMK Customs are no longer using the transaction value for custom valuation of imported dairy products.



In the process of assisting the Kosovo Association of Milk Producers (KAMP), KCBS has contracted Pristina - REA a local service provider, to provide immediate assistance to Kosovo dairy farms and to implement changes currently being proposed by KCBS short-term technical advisors (STTAs) until KAMP builds the capacity to create and manage these programs on its own. Up to now 226 farmers have been visited and delivered different STTA recommendations, which have improved the efficiency and quality of their milk production thus enabling them to sell their milk to interested dairy

processors. In some cases their improved quality rewarded them with a higher price for their milk in addition to a secure market.

Fauna has signed an agreement with suppliers (Cargill International & STR), for high quality low-cost feed ingredients are available to livestock industry, and the monthly quantities are continuously increasing and are placing Fauna in very beneficial situation to negotiate further more appropriate contracts. To date, Fauna has supplied poultry and dairy industries with 800 tons of soybean meal and 250 tons of sunflower meal that represent the value of 350,000 Euro.

#### **2.1.4 Strengthened Capacity to Access Credit**

Records are the road map for successful dairy operations. An excel spreadsheet system was introduced which utilized college students to gather reproduction and production data from 8 dairy farms. The Dairy Herd Improvement (DHI) record software system has been installed at KCBS and data from the spreadsheets is now being transferred to it. A strategic plan for enrolling dairy herds in a DHI pilot project has been prepared. This will be an ongoing dairy enterprise records program that will begin by using students to gather on farm information. The program will expand to cover more farms in the future.



At KAMP's request MTI (Ministry of Trade and Industry) approved through the voucher scheme program to finance the development of a model business plan for commercial dairy operations. This will be provided to dairy farmers on request when applying for privatization of SOE property or when applying for a loan at finance institutions.

## **2.2 Dairy Sub-Cluster – Milk Processing**

The emphasis in Year Two has been on increasing the quality of milk processed at Kosovo's dairies. With better quality milk, new products have been developed, especially in cheeses, and this has served to reduce reliance on imports. The ground was laid for introduction of Good Manufacturing Practices [GMP] at Milk Collection Centers [MCCs] and the dairies in Year Three.

### **2.2.1 Improved Productive Capacity**



More than in any other cluster, improved productive capacity is linked closely to improved quality control. If the farms and MCCs produce better quality milk, and if the processors have better control and testing of the products they process, then the output will increase and reliance on imported milk will decrease. One of the Year Two goals was to double production of "Grade A" milk from 47,000 liters per day in August 2005 to 90,000 liters per day in August this year. This was achieved. "Grade A" last year was somewhat loosely defined. It was the equivalent of what is now covered by the new MAFRD standards for Grade A and Grade B milk. Production of these two grades now exceeds 100,000 liters per day.

KCBS has mainly concentrated its assistance on six dairies - Rona, Ajka, Shala, Lahor, Kabi and Abi. Besides introducing basic hygiene and better practices, KCBS started this quarter with a program for the formal adoption of Good manufacturing Practices [GMP] leading to HACCP certification. We have also assisted in developing new products especially cheeses. The results from KCBS interventions are improving every month: Abi is daily processing 1,000 kg of Mozzarella cheese; Rona is processing 500 kg of white feta cheese; Ajka is processing 200 kg of Gouda and 150 kg of Feta cheese. 25,000 lit/day more milk is being consumed by processing plants to make these cheeses, which have a market value of €169,000 per month.



In addition to cheese production from cows' milk, the same six dairy processing plants with KCBS assistance have started to process products from goat and sheep milk. In the last quarter, these products have realized €36,000 from 70,000 liters. Goat and sheep milk will be collected only seasonally through September. Currently, Kosovars consider this a seasonal production activity lasting about four months; KCBS is looking into extending this period, so that dairy plants have a year round regular supply.

### 2.2.2 Improved Quality Control

Milk processors are seeing the results of training provided by KCBS on milk quality improvement at the farm level. At the same time, KCBS has continued to assist in improving quality at the Milk Collection Centers [MCC]. KCBS has provided specialized trainings at 30 MCC serving five dairies. KCBS project started with training on basic GMP standards requirements at 10 MCCs, and has followed with a second step intervention on ways to improve raw milk collection and storage at MCCs. Specific testing methods and procedures have been presented to MCCs and processing plants. The dairy processing plants have continued with their own direct assistance at MCCs. KCBS advised on new testing systems for raw milk at the MCC's gate. Currently the dairies are implementing quality control before the raw milk reaches the processing plant.

MCC managers were educated on different topics for GMP management such as: good hygiene practice at the dairy plants, management of the MCC, record keeping, cleaning procedures, and ways to minimize possibility of cross contaminations. Four potential MCCs were identified to continue with GMP standards implementation, which has now been started.

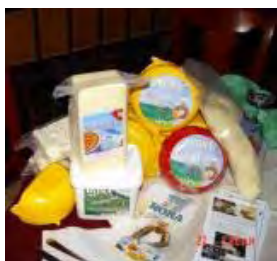


KCBS has completed the dairy laboratory survey and made specific recommendations. KCBS, with KVFA, are working to activate two sophisticated "FOS brand" pieces of equipment for microbiology lab testing for dairy industry needs. Deadline is January 2007 to activate the equipment and to serve for testing dairy products. [This is the date that the MAFRD has set for bringing into force the new Kosovo Milk Quality decree]. KAMP and KDPA have selected a quality control committee to work on quality standards and to improve the quality control of dairy products. KCBS organized

laboratory training for dairy industry on microbiology testing methods and requirements for milk processors, MCCs, institutions, dairy training centers, and MAFRD.

### 2.2.3 Improved Market Chain Linkages

KCBS facilitated linkages between the dairy plants Ajka, Rona, Abi, Devolli with Agro cooperative in Lypjan, and MCCs in Peja, Prizren, Gjakova, which resulted in purchases of more than 6,000 lit/day of raw milk. KCBS improved linkages between Kosovo dairy industry and Bulgarian businesses and service providers. KCBS completed market research on dairy products potential for export to Albania, and prepared dairies to market their new products there.



Dairy Marketing Promotion events were organized around Kosovo to promote the new cheeses and other milk products, which have been introduced with the support of KCBS project. The events resulted in increased sales by the dairies of the new products, which currently are equivalent to €169,000 per month. Specialized buyers like restaurants and pizzerias are becoming regular customers. KCBS assisted on linkages between BAS EAR project and five dairy processors.

### 2.2.4 Strengthened Capacity to Access Credit

KCBS assisted Shala dairy plant on getting a loan in value €20,000. KCBS assisted in preparation of a business plan for Abi dairy plant in order to get financial support on setting up two processing lines: cream cheese and ultra-filtration feta cheese.

## 2.3 Meat Sub-Cluster

Over the years, the sheep flock size in Kosovo was extremely diverse and depended largely on political circumstances in the region. The last fairly large number of sheep was recorded in 1991 with approximately 430,000 head. In the period from 1992 to 1996 due to EU embargo on former Republic of Yugoslavia the significant decline started; the domestic market would not support prices for lamb at levels sought by shepherders. According to Ministry of Agriculture Forestry and Rural Development (MAFRD) the current number of the sheep population in Kosovo is 93,000 head and that is the lowest number of sheep ever recorded in Kosovo history. However, in addition to above reasons the speed of the collapse that happened in marketing channels and with that the change in the competitiveness of the economic environment of Kosovo are the two main obstacles that are maintaining the low number of sheep population in Kosovo. Kosovo has the potential and tradition of producing lambs for export to regional and EU countries; lamb meat produced in Kosovo was for years marketed in ex-Yugoslavia republics (Slovenia, Croatia, and Macedonia) and EU countries, mainly Italy and Greece.

Kosovo has resources to increase sheep population; the sheep industry is the agriculture sector that, by increasing production, could contribute substantially more to the sustainable economy of Kosovo.

During the Year Two, KCBS worked with sheep farmers by providing them assistance in:

- Marketing for lamb and sheep wool
- Farm management
- Improving feed ration for lamb and ewes
- Sheep health management
- Pasture management
- Sheep milk, cheese quality improvements

### 2.3.1 Improved Productive Capacity

Nutrition affects lamb and milk production. Nutrition is a major problem that needs to be addressed urgently if we are aiming to have a sustainable sheep industry in Kosovo. KCBS focused on improving feed rations for dairy sheep and lamb feeding by distributing sheep

and lamb rations to sheep farmers. KCBS formulated and mixed a lamb starter, a lamb grower and ewe lactation ration and distributed to the sheep farmers. Sheep farmers who have started to feed their ewes and lambs increased milk production on average of 0.250 liters/ewes/day (0.4 to 0.65 liter per day). Weight gain for lamb before feed with concentrate was 170 gram/day, and after they start to feed with concentrates weight gain reached 350 gram/lamb/day. If farmers feed their lambs with concentrate and they manage their flock well, lambs will reach 20 kg in 60 days of their life; if they don't feed lambs will reach 20 kg in 110 days.



One of the major causes of lost income to the sheep producers is poor health of their animals. During Year Two KCBS focused on reducing the mortality rate for sheep and lambs. KCBS provided a training program for sheep farmers in regard to health management practices. Five seminars were organized by KCBS on Good Health Management Practice, 100 sheep farmers received training at their farm on how to treat and prevent diseases. Additionally, KCBS has prepared a brochure for sheep farmers regarding sheep health management practices in both the Albanian and Serbian languages. The brochure covers the topics of how to prevent sheep diseases, treat diseases, and recommended annual vaccination programs for sheep and lambs. The brochure was delivered to sheep farmers, departments of agriculture, and to the Kosovo Veterinary Food Agency.

KCBS has worked with sheep farmers and assisted them to improve pasture management program. The low quality of pastures has a directly effect in milk and meat production. KCBS has selected five demo plots in different locations with different forage crops. During the field days that KCBS organized farmers mentioned that the milk production was increased 22.5 % to the ewes after the grazing and 11.3 % for the cattle. Adaptation of proven yield-enhancing pasture production activities will provide numerous benefits such as efficient domestic production of quality meat and increased milk production. Ultimately, this will result in the Kosovar consumer having access to quality products at a more reasonable cost and increase the overall competitiveness of the domestic livestock sector relative to other regional players.



### **2.3.2 Improved Quality Control**

The sheep sector needs to produce safe, high quality sheep milk products that meet the needs of the consumer. KCBS worked with sheep farmers to implement GMP including standardized process in order to improve the quality of their sheep cheese while increasing their yields. KCBS developed standard procedures for all aspects of cheese production including chemical, physical, and microbiological criteria, as well as percentage of ingredients, consistency, and storage. Sheep farmers who have started to use the new technology for preparing the Sharri cheese realized cheese production. Before the interventions the ratio of milk: cheese was 4:1 (4 liter milk, 1 kg cheese), after interventions of KCBS the ratio of milk to cheese is 2.8:1.

Also KCBS helped sheep farmers to improve milk production practices that will result in higher quality raw sheep milk and ultimately higher quality sheep milk products.

### 2.3.3 Improved Market Chain Linkages

In Year Two KCBS identified the lamb and sheep market as a very profitable sector of the meat market. At the beginning efforts were, and still are, focused toward export markets of Macedonia and Bosnia & Herzegovina but with an eye on EU markets. During this year KCBS worked on live lamb export procedures with BiH. In July 2006 Delfin (Kosovar Company) and Lijanovici (Bosnian Company) loaded and sent the first truck with live lambs for Bosnia. After months of coordination between these two companies and the two governments of Kosovo and Bosnia, finally all obstacles were removed and doors for exporting live lambs from Kosovo to Bosnia were opened. The first truck with 400 lambs from six sheep farmers, gathered in two collection centers in Kaqanik and Lipjan, with the average live weight of 25 kg/lamb left Kosovo for Bosnia. The price was € 2.5/kg and the total amount was € 25,000. In comparison, last year the price of live lamb was € 1.8/kg. This was the first export of live lambs since 1999 and Lijanovici and Delfin have entered into agreement to export from Kosovo 15,000 to 20,000 live lambs over the next 12 months.



KCBS identified a sales opportunity for sheep wool. The British company Dawson H Sons & Co. is interested to import sheep wool from Kosovo. KCBS met with Mr. Michel Cook representative of British company and organized visits in Kosovo to see the sheep wool quality. British company analyzed the quality of the wool and they are satisfied with it. The question is whether there are sufficient quantities to be collected to make it a worthwhile business venture.

KCBS met Mr. Marjan Petkovski of the MAGIS Agro Food Company and the Radishevo wool collection/pressing center. MAGIS is interested in buying wool from Kosovo. If the price of 0.25 cents per kg is accepted by Kosovo farmers this company is ready to buy all wool deposits that are here. This price is very low but does not require extra work on classifications and wool packaging. The wool should be placed in the bags (approximately 10 kg each) and separated by color black and white.

### 2.3.4 Strengthened Capacity to Access Credit

KCBS developed a model business plan and offered it to the sheep farmers to apply for loans at financial institutions and banks. KCBS has also finalized the cost of production and gross margin spreadsheet with a sensitivity analyses. The sensitivity analysis helps the farmers to improve their management skills by showing them the relative cost savings from making different management decisions.

## 2.4 Animal Feed Sub-Cluster

### 2.4.1 Improved Productive Capacity

KCBS has sought to improve the productive capacity in this subcluster by:

- better use of plant protection products;
- by introducing new, improved varieties;
- by improving fertilizer analysis and its use; and
- by improving pasture quality and productivity.



During Year Two KCBS continued working with commercial farmers in educating them to employ best practices when using plant protection products (PPP). KCBS organized field visits at different farmers informing the participants about the cost benefits of using new technologies promoted by KCBS. Farmers saw for themselves the improved performance from using plant protection products applied at the proper time and using the proper rates of application. The results were lower cost, better weed control and less impact on the environment.

KCBS increased its assistance to commercial farmers through local partners Peja Agriculture Institute, MAFRD, KODAA, KDC, Semenarna, and Agro Sativa in establishing 80 test plots through out Kosovo to help introduce new crop varieties and practices of production. This assistance has had a positive impact on increasing the number of hectares planted with new varieties of plants such as Maize, Soy Beans, Alfalfa, Red Clover and Vetch in 2006 compared with the 2005 growing season. As a result of the assistance the hectares planted with Maize increased by 25 %; with Alfalfa by 32%; and with and Red Clover and Vetch by 39%. KCBS provided consulting services in suggesting the best hybrids and recommending the fertilizer formulations to be used on each site.



Sixteen new hybrids of maize from the world's largest maize seed production company "Pioneer/USA" were included in the test plots. Additionally other hybrids from other world companies were used such as KWS/Germany, BC/Croatia, NS/Serbia, Agro Sativa /France, and some traditional hybrids used in Kosovo like: NS 444 and ZP 551 b. Eight improved new maize hybrids were imported from major European input suppliers and sold to commercial farmers.

KDC in cooperation with the Peja Agricultural Institute were engaged in a soil testing project financed by KCBS. In total 80 soil samples were collected and analyzed. The objective of this activity was to determine the level of active nutrients in the soil and recommend fertilizing with high nutrient concentrated fertilizers not previously available in Kosovo such as DiAmonium Phosphate (DAP) MonoAmonium Phosphate (MAP) and UREA. The cost savings of using these fertilizers applied according to soil test results compared with traditional fertilizers NPK, 15:15:15 and CAN applied according to traditional practices were then calculated. One or more samples were taken from 60 farmers' plots in different regions of Kosovo, including minority groups. The results of these soil analyses were presented in a seminar with each farmer receiving an individual report prepared by the Peja Agricultural Institute.

Partly as a result of KCBS continuing to promote the use of newer fertilizers, the four main input dealers that import fertilizer have increased the amount of fertilizer with new formulations. During 2006 compared to 2005 there was an increase of 21% of Urea usage while DAP and MAP had an increase of 8%, and new formulations of NPK had an increase of 28%. These figures indicate that KCBS is having a positive effect on changing the attitudes of commercial farmers.

KCBS focused also on improving pasture and pasture management since it is one of the main problems that farmers are facing. Pastures are some of the most underutilized resources in Kosovo. Consequently KCBS subcontracted HAK (Horticulture Association of



Kosovo) to implement a Pasture Management Project. Five demo plots at five different locations were selected on farms where the farmer owned the pastures. The test plots were planted with seven different pasture grasses and legumes using minimum tillage. The newly seeded plots were fertilized while the control plot of natural grasses was not. The pasture test plot project will continue for another year to observe the effects of wintering and to be able to measure second year productivity. However already we have observed increased milk production of 22.5 % for sheep and 11.3 % for cattle after just five days of grazing on the improved pasture plots. This was one of the best demonstrations to farmers of why they should improve their pastures. These results in addition to the obvious difference in growth and quality of the improved plots, were presented during field days.

#### 2.4.2 Improved Quality Control

KCBS also worked with farmers and farmers associations to make high quality silage from locally produced corn. Eight seminars were organized by KCBS on proper silage making in different Kosovo regions. This year has resulted in an increase in silage production of 29% compared with last year that will have a direct impact in increasing profitability in farms. In general, forage yields in Kosovo remain low because farmers use old varieties of maize and alfalfa. Thus KCBS in cooperation with Agrosativa, Semenarna and Fitofarma introduced new varieties of red clover and alfalfa that have shown excellent trial results.



KCBS is continuing to work with farmers and their associations in providing training on making high quality forages. As a result milk yields have improved just by cutting alfalfa and grass at the correct stage. KCBS subcontracted SB “Dukagjini” and the Agricultural Faculty to do the analysis of alfalfa nutrition content at different stages of maturity. Samples of the first and second cutting in different stages were collected and analyzed. In total 42 alfalfa samples were tested for all parameters of dry matter, proteins, energy value, celluloses and ash. The results of the analysis of alfalfa were presented through a training program and each farmer received a copy of the report.



Most of the dairy farms prepare their hay using old technologies by harvesting and leaving the hay to dry resulting in a loss of the nutrient value. KCBS supported KAMP association by sharing the cost of hiring custom rotobaling operators to bale hay silage for participating farmers. Around 85 % of the farmers that were involved in the project were using this technology for the first time. It decreased the cost of production and increased the milk production per cow by increasing the percentage of the nutrient value in feeding rations. KCBS prepared 400 copies of an instructional brochure entitled “Wrapped Bale Silage” and distributed them to farmers through KAMP.

#### 2.4.3 Improved Market Chain Linkages

Through the introduction of new varieties of grain KCBS has helped crop farmers obtain better markets for their production. Linkages have been established with major feed producers such as Pioneer and Semenarna.

#### 2.4.4 Strengthened Capacity to Access Credit

Through the above activities improving productivity and quality, KCBS has helped farmers improve their profitability, which indirectly helps strengthen their capacity to access credit.

### 2.5 Poultry [incl. Feed Manufacturing] Sub-Cluster

#### 2.5.1 Improved Productive Capacity

KCBS, through the SAF, is supporting the establishing of experimental breeder farm. All financial and statistical calculations are completed and those confirm the creation of the breeder operation. KCBS STTA Dr. Remzi Bakalli worked for three weeks and a major focus was to present to KCBS and SHPUK needed information regarding the breed and the number of parents. In addition, the latest problems created by Avian Influenza outbreak in the region, and the long time ban on importing day old chicks, have created a gap between flocks that are in production and are aging and new flocks for replacement. This could have resulted in farmers not being able to replace their flocks and with that some producing less and some not producing at all. These problems forced some farmers into illegal imports of day old chicks. In May KVFA lifted the ban for chicks from Italy and immediately in the following two months period 200,000 day old chicks were imported; and by the end of September this number had reached 500,000 representing 45-50% of annual needs.

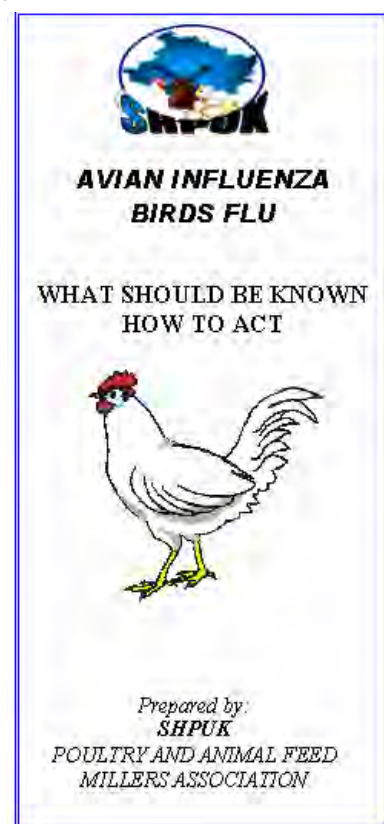
Year Two was the “Challenge Year for World’s Poultry Industry”. Kosovo’s and KCBS resources were turned toward the biggest threat that the poultry industry has ever faced: AI (Avian Influenza) or HPAI (Highly Pathogenic Avian Influenza) or as known among poultry industry – the Bird flu had spread across the world. Fortunately, Kosovo was one of 10 European countries that had no cases and this fact was recognized by UNDP/FAO findings after their first mission to Kosovo regarding Avian Influenza. Their mission was to assess the capacities of Balkan countries in dealing with Avian Influenza and one of their findings was that KCBS has remained as the ONLY donor or donor funded project that assisted directly KVFA and Poultry Industry in increasing their capacities in disease prevention.

During September KCBS met World Bank on another Avian Influenza mission. Acknowledging KCBS’s efforts in assisting the government and the poultry industry, the World Bank has reserved \$3 million for Kosovo, and KVFA/MAFRD have applied for funding the following projects:

- a. New Veterinary Laboratory
- b. Incinerator
- c. Poultry slaughterhouse
- d. Biosecurity material

World Bank asked KCBS to be part of the team and to assist World Bank in coordinating future activities in Kosovo regarding Avian Influenza.

However, despite the fact that Kosovo was a “Bird flu free” region the panic had spread among consumers and Kosovo faced a drop in poultry meat and egg consumption of more than 30%. Price of eggs dropped dramatically. Another challenge for poultry industry and KCBS was to regain the trust of consumer and to educate media on how to deal with this



crisis. This goal was also successfully achieved and by July egg consumption and prices were back to the old levels; by September egg prices had hit a record high of 28 Euro/(360 egg) box. One unfortunate consequence of the AI epidemic was that development of the poultry meat industry was suspended; the only broiler producer which KCBS had nurtured and brought into operation in the first year stopped his production and was unable to restart.

KCBS continued working with the industry in trying to solve the biggest problem in Kosovo poultry industry – production of least cost feed rations. Success in this area has had a dramatic effect in making local egg production far more competitive. KCBS assisted company Fauna to rent and modify the former SOE Animal Feed Factory in Fushe Kosova with storage capacity of 5,000 tons for grain storage, transport and packaging [In September, Fauna won the KTA bid to privatize this factory]. This facility now serves as a model for the entire industry to show the importance of bulk storage.

KCBS also assisted Fauna in forming links with large grain suppliers and linking all feed producers to one scheduled purchase. These include:

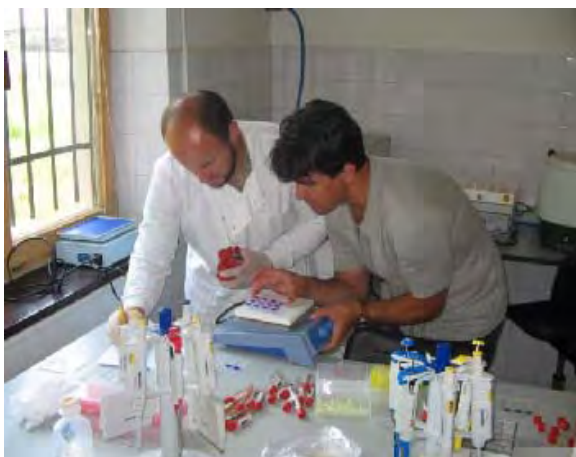
- In April, 600 tons of soybean meal (from US STR Company) using port of Koper in Slovenia arrived in 18 train wagons;
- A contract with Cargill Greece to deliver 250 tons monthly of soybean.
- A contract with Cargill Rumania to deliver 100 tons monthly of sunflower
- A contract with a supplier in Vojvodina to deliver initially 75 tons monthly of maize.



The entire poultry industry is supplied with soybean meal and sunflower meal from Fauna. As a result, cost of egg production has fallen to 15 Euro/box from 18 Euro/box, a decrease of 20%.

## 2.5.2 Improved Quality Control

Kosovo has maintained being disease free region and KCBS with SHPUK and KVFA are coordinating their activities against any threat from different poultry diseases. KCBS has purchased and delivered to KVFA additional quantity of Eliza test kits and rapid test kits to ease the work of KVFA inspectors on avian influenza sampling and testing. At the same time KVFA has purchased large quantity of vaccines for different diseases (Newcastle, salmonella, bursal disease) that will be distributed to poultry producers (pullet growers). KCBS and SHPUK have earlier started preparation and are now assisting KVFA by providing them information in advance of producers interested in pullet production and KVFA distribution the vaccines prior to chicks' arrival. Nine individuals went on the World Learning training program, previously postponed due to AI outbreak in the region, during Feb. – Mar. to Delaware Tech. in US.



KCBS directed its efforts to complete industry legislation and regulations and start implementing them. Administrative Instructions: Standards of Quality, Classification, Label and Preservation of Eggs, Against Zoonotic Disease Avian Influenza, Compound Feeding stuff for Animals, Against Salmonella and New Castle Disease. KCBS awarded a grant to KDC to conduct random feed testing of 250 samples of feed ingredients and finished feed. All results will be given to SHPUK for their database and to producers. Also, during June KCBS organized three training sessions

regarding the usage of the computer feed formulation program.

During April Dr. Remzi Bakalli (KCBS STTA) worked with SHPUK, MAFRD and the poultry industry and assisted them in feed production. KCBS organized presentations on “Increasing the storage capacities of feed ingredients and grains in feed production factories and wheat flour mills”. KCBS and Dr. Bakalli also organized a seminar/presentation on topics: Feed ingredients; Feed formulation; Feed palletizing; Breeder operation; and Molting.

KCBS assisted in decreasing the panic that was spreading among the consumers due to unprofessional and unrealistic AI disease coverage by Kosovar media. KCBS developed brochure “what needs to be done – how to act” informing producers and consumers about the disease was distributed by SHPUK to all relevant institutions and producers/traders. The promotion material developed by US Poultry & Egg Export Council (USAPEEC) – SHPUK – KCBS and financed by USAPEEC was distributed Kosovo wide. KCBS together with Irex (US funded media project) organized briefing with media in which among the speakers was Dr. Ken Yamashita (USAID’s Mission Director), Mr. Tome Hajdaraj (MAFRD Deputy-Minister), Dr. Sadik Idriz (Minister of Health). SHPUK also used the recorded material of the briefing and made an advertisement that could be seen on RTK.

### 2.5.3 Improved Market Chain Linkages

During Year Two KCBS achieved to have 100% of commercially produced and imported eggs within the MAFRD regime for testing and grading. The egg quality regulation prepared by MAFRD is in place and KVFA and MAFRD have started with its implementation. In addition to that SHPUK has a “Seal of Quality” goal on their Strategic Action Plan and this activity is being implemented through Koni-Soni. With the introduction of “KS” logo on the eggs Koni-Soni have increased demand. Koni-Soni is becoming a major egg collection point. Koni-Soni has started negotiations with small egg producers to supply them with pullets and feed, and to buy their entire production on a daily basis. By year end, they had agreed terms with some 25 local producers - 35% of SHPUK members. Koni-Soni are selling almost 200,000 eggs daily representing 30-35% of entire egg consumption in Kosovo. In late 2005 and early 2006, 850,000 layers were producing eggs in Kosovo farms, the highest number of layers ever in Kosovo history at one time.



### 2.5.4 Strengthened Capacity to Access Credit



KCBS assisted poultry industry in privatization process. During year one KCBS had assisted Koni-Soni to privatize the state owned farms in Livoq – Gjilan, which Koni-Soni now uses for pullet production. In September this year, Koni-Soni were successful in privatizing the state owned farms in Rezine – Gjakova which they had been renting since 2002 and using for egg production and egg branding.

## 3.0 FRUIT AND VEGETABLES CLUSTER

### Improved Productive Capacity

In mid-July 2006 the Cluster hosted a large meeting of the major participants and interested parties in the 2006 blueberry collection season. The purpose was to introduce sellers and buyers to each other. Most of the sellers were operators of collection centers located in high-elevation rural villages. The buyers are wholesaler/exporters, not processors. The meeting was notable for the presence of many representatives from minority areas.

Compared with the 2005 blueberry collection season, which was almost non-existent, the 2006 season to date has been a dramatic improvement, with exports of 600 tons valued at about a million and a half Euros, leading to the creation of an estimated 165 – 200 full-time equivalent jobs. We believe that about 900 – 1,200 people were involved in collecting blueberries, although some were more active than others. They were mainly young people and women, and both groups suffer from very high levels of unemployment. Acting solely as collection centers, about five associations or cooperatives were active, many of which are multi-ethnic. Blueberries were gathered by people living in 72 villages, all located in the mountains. About 11 exporters participated, but some of these were also collection centers.

During the later part of the harvest season, the Cluster hosted several foreign buyers, making introductions to local wholesaler/exporters. These resulted in excellent discussions about plans for the 2007 season, but did not result in sales to any new buyers because the entire crop was committed to current buyers.

In many ways the blueberry season saw the resurrection of an industry that was last vigorous in Kosovo before 1989. Alliances between collection centers and sellers were in flux for several weeks at the beginning of the season, forcing prices paid to collectors to rise and collected volumes to increase. Many new linkages were formed after such a long dormant period, and several Kosovo agribusinesses, which had not previously handled blueberries, entered the picture very actively. We believe part of the catalyst for the success was a donation by KCBS of 200 hand-held harvesting rakes, which were distributed to 11 organizations throughout Kosovo. An important success factor for the season was that a high, constant level of communication and monitoring was maintained with all known players.



The most serious problems facing blueberry collection centers are the lack of equipment to clean and size the berries, and lack of seasonal or short-term access to cold or frozen storage chambers by renting space at reasonable rates. A study tour to Serbia will be held early in Year Three, escorting three blueberry handlers/exporters to visit four companies manufacturing blueberry cleaning equipment.

The most beneficial unexpected consequence of the blueberry season was the reemergence of large numbers of rural people with a renewed interest in collecting other products from the wild. The mushroom processors in Kosovo are receiving increased volumes, and juniper berry collection, which follows blueberries, is expected to be very big this year.

The F&V Cluster participated in a ceremony organized by the Horticulture Association of Kosovo to unveil a new book, "Practical Orcharding", authored by three members of Pristina University Agricultural Faculty. There are many textbooks available for university teaching of fruit production, but until now there has not been a practical field manual available for farmers. KCBS financed the printing and will support subsequent training conducted by Faculty members.

This year the Cluster completed a SAF grant to Fruti Association in Kravarice-Gjilan. The last piece of equipment in the grant, an in-row orchard cultivating machine, was demonstrated at a field day near the end of the year attended by 42 interested and enthusiastic participants from most parts of Kosovo. The field day began with a short demonstration of the pneumatic pruning machine, the first equipment acquired through the grant. Using its own funds, the association purchased a low-volume water air blast sprayer, which was also demonstrated. Adem Demaj and Sylë Syllanaj, professors from the University of Pristina Agricultural Faculty, explained the positive effects of these machines in fruit production, especially in reducing total production costs.



At the request of USAID and in follow-up to a previous, brief position paper, an STTA was engaged to study the Kosovo wine industry. He met with representatives of municipalities, MAFRD, small private wineries and large former SOEs. The conclusion of his research, accepted by USAID, was that the magnitude of the difficulties facing the industry mitigate against KCBS assistance to vineyards and wineries, but that the owners/managers should be encouraged to participate in on-going business management and marketing training offered by the project.

### Improved Quality Control

Using a STTA the Cluster conducted detailed inspections to determine the current and potential HACCP compliance status of three food processing facilities, two of them dealing with wild mushrooms and one a potato processor. Two of these were determined to be suitable candidates for future in-depth training, but both will require substantial capital investments before attaining HACCP certification. The first step in this process, instituting Good Manufacturing Practices (GMP) will be the subject of a six-month STTA beginning in the first quarter of next year.



Another STTA was engaged to improve post-harvest handling in apples, focusing specifically on grading, sorting, packing and storage. The consultant divided his training time among the three fruit producing associations, using manual packing tables to separate the apples into three grades, premium, standard and cull, and separating the premium apples into three sizes. The tables were also a success in improving the health and well-being of the packing laborers. One apple storage room was improved by installing insulation on the outer walls and by stacking the storage boxes to allow greater air flow. Temperature and humidity instruments were introduced for monitoring storage conditions. Anecdotal evidence suggests that these measures allowed association members to obtain a 20% price premium above prices they might have received previously, but no hard data was collected. This hypothesis will be tested in winter 2006-2007.

Considerable effort was expended providing assistance to associations and enterprises locating information on equipment needed to fulfill objectives in SAF grants, all of which are related to post-harvest handling practices. Grants in various stages of completion are to: Agrocompani Association in Qyshke - Peje, which is seeking a semi-automated cleaning, sorting, grading and packing line for potatoes; UVB Association, in Blagaje - Peje, which wishes to renovate old storage rooms into refrigerated cold storage chambers for apples;

Pema Association in Kovrage – Istog for a semi-automated line to grade, sort and pack apples; Dragash Association, for cleaning and drying blueberries and juniper berries; and, As-Promet in Leposavic which has adequate equipment for freezing, slicing and drying mushrooms, raspberries and blueberries, but lacks adequate space to take advantage of the full volume products that could be gathered from the wild. To assist in the equipment search the Cluster has conducted two tours to Serbia for entrepreneurs and association leaders to visit manufacturers or representatives of foreign companies conducting demonstrations. KCBS expects to implement all of these grants prior to summer 2007.

A grant to Pestova Company is nearly completed, providing 500 stackable wooden pallet bins for storing raw potatoes received from farmers. The company's contribution is the construction of a large, new insulated and cooled room for the potatoes, which is nearly complete. The expanded storage of raw potatoes will allow Pestova to process potatoes 11 months of the year, creating increased demand for production from Kosovo farmers. Most of these potatoes are grown under contracts.



At the year-end, and continuing early into project year three, the Cluster hosted another STTA working in post-harvest handling and storage. The focus this time is for all types of vegetables and fruits, not just apples.

### **Improved Market Chain Linkages**

Farmers in Kosovo are capable of producing high-quality fruits and vegetables.

The most fundamental assistance KCBS can provide them is to successfully link them to profitable new markets. New and stronger market linkages will lead to increased sales and higher levels of employment, which will stimulate increased volumes of production. As these benefits accrue, greater cash flow due to greater incomes will provide a direct economic incentive to improve the competitiveness of products in the form of enhanced appeal in the marketplace. Typically this is achieved by selling products to three distinct markets. Damage-free class "A" products that are uniform in size, maturity, color and grade in a labeled package, are sold to wholesale traders and distributors; Class "B" products are sold to processors and traditional green markets; and Class "C" products are sold at the farm gate and used for home processing.

The primary areas of activity that can push these improvements are harvesting methods, post-harvest handling, processing and packaging, along with direct exposure to a wide array of buyers and market integrators. The Cluster's focus has been, and will continue to be, on efforts to assist producers in overcoming impediments they face in market access, advocating approaches to multiple markets rather than just processors.

Early in the year, using a STTA, the Cluster developed a flexible written contract for use by F&V producers and processors, which can be tailor-made for specific circumstances and products. A monumental amount of time was invested in putting together four contracts between four groups of vegetable producers, totaling 88 farmers, and four food processors. Two of the processors are domestic and two are located in Albania. The projected volume was 11,000 tons with an estimated value of 1.5 million Euros. Success in this work was



deemed crucial for expansion of F&V production in Kosovo because the introduction of written contracts provided a new, assured marketing mechanism. Historically, however, farmers lack confidence that processors will purchase products at pre-determined prices or

pay on a timely basis, and processors lack confidence that farmers will deliver pre-determined volumes of quality products. Such contracts imply a level of trust without precedent in Kosovo.

Two highly-experienced full-time Field Officers, hired for the summer and fall vegetable production and harvest season, joined the Cluster Staff in an effort to ensure that farmers were better connected with the food processors, in the hope that this would improve the likelihood that both contractual parties fulfilled their obligations.



No problems are anticipated for contract fulfillment by the nine farmers growing potatoes for Kapica, a processor in Albania, or the 15 farmers with potato contracts with Pestova. The early varieties, accounting for about a quarter of the crop, have already been harvested and delivered. Pestova has exported 1,550 tons of these potatoes with a value of €232,500.

Unfortunately, one of the processors in Albania, Alcred, has yet to pay about €8,500 for 45% of the vegetables obtained in summer 2005 from Anadrini Association. A March 2006 contract for delivery of peppers from Perdrini association, located near Anadrini, to Alcred was thus worthless because the farmers, logically, were unwilling to deliver peppers to an unreliable processor. Compounding the situation, Anadrini Association, which had a contract with Progress, a Kosovo processor, was unwilling to perform its contractual obligations to have its farmer-members deliver products.

To overcome or replace these previously-expected deliveries, the Cluster began working with Masar Braha. He is an owner of Braha Company in Prizren, an importer/exporter and wholesale distributor of F&V with cold storage chambers and refrigerated trucks with many years of experience. He became interested in acting as the middleman between growers and processors. A Cluster staff member traveled with Mr. Braha to Albania to visit four food processors and one fresh F&V exporter. Exports of potatoes began immediately and several of the Albanian companies have come to Kosovo seeking sources of sweet peppers.

At the same time, through our colleagues in the USAID/LAMP project in Bosnia we contacted Vocar Company, a F&V wholesale trader. Vocar came to Kosovo to meet Mr. Braha, and he began requesting shipments just recently. Vocar is expected to purchase 500 tons of red peppers and 200 tons of tomatoes. Very recently Mr. Braha formed a new company, Visari, for all of his F&V export business and it became an official KCBS Database client. To date Visari has exported, mainly to processors in Albania, 977 tons of various vegetables with a value of 223,400 Euros.



Finally, Progress has just announced it wants to purchase 400 – 500 tons of peppers this year. Although these purchases will not be under contracts, many of the same farmers who had contracts for potatoes will be selling to Progress.

This year Cluster staff members attended several food and trade shows including the ANUGA food show, Cologne, Germany, the 3<sup>rd</sup> Regional Conference of Central and South East European Associations of Processors of



Fruits and Vegetables, Durrës, Albania and the USAID Regional Competitiveness Initiative Buyers/Producers Conference, Belgrade, Serbia. Contacts made at these shows have resulted in new business opportunities for several companies.

The Cluster initiated an internal project, compiling a list of Contacts in the F&V sub-sector of the agricultural economy. The task has had the salutary benefit of encouraging the Cluster staff to meet with and reach a wider audience of players, beyond associations, food processors and civil servants, to include input suppliers, packaging manufacturers, refrigeration equipment dealers, enterprises willing to rent cold or frozen storage space, product aggregators, major importers, wholesalers and distributors, hypermarket managers, etc. Through a concerted effort of many field visits, the list has grown to over 145 names. It has proven valuable in helping the staff put business people in touch with each other to do business deals.

### **Strengthened Capacity to Access Credit**

Negotiations were conducted with two financial institutions for short-term production credit facilities. One of the institutions, BMF Micro Finance, tentatively agreed to provide production credit loans to growers having a written contract with domestic or regional food processing companies. BMF is planning to offer production credits ranging from €3,000 - €50,000 for periods of up to a four month, the average growing season. A repayment schedule for the loans has yet to be elaborated.

The F&V Cluster presented a seminar titled “Risk Management Analysis for Crop Production Lending” to Raiffeisen Bank loan officers. The topic was well received and KCBS made tentative plans to repeat the seminar for other banks and micro-credit associations and for members of the Association of Kosovo Agribusinesses at the next Finance Fair.

## 4.0 CONSTRUCTION MATERIALS CLUSTER

### 4.1 Engineered Wood Flooring Project

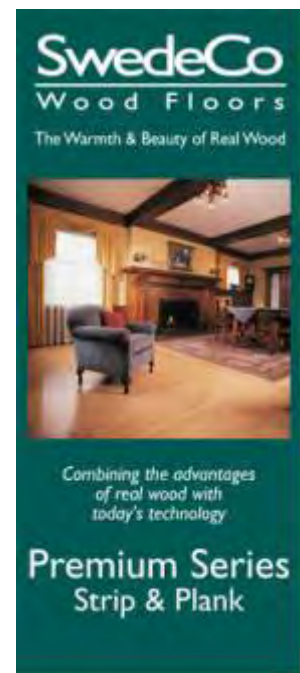
In the first quarter of the year, KCBS accepted an offer from US Marketing Company, SwedeCo, to assist in a project to develop manufacturing capability in Kosovo for engineered wood flooring [EWF]. SwedeCo is prepared to purchase approximately 133,000 m<sup>2</sup> in the first year for distribution into “Big Box”, “Do-it-yourself” stores and major flooring contractors such as Home Depot and Hardwood Flooring Gallery in the United States and Canada. This would represent sales of about €3,000,000. A condition of SwedeCo’s support was that a former LTTA from the previous KBS program, Matt Anderson, would be employed by KCBS to guide this project’s development.

Based on KCBS recommendations, the Kosovo companies to take the lead were identified as UKAJ from Peja and KORENICA from Rahoveci. KCBS facilitated a visit by the companies’ Principals in December to two factories in Thailand who were established SwedeCo suppliers. On returning to Kosovo, KCBS assisted the companies to develop a detailed cost analysis. The companies explored sources of capital for the considerable investment involved. By the end of January, both companies gave a firm commitment to move ahead on the project, to finalize investments and to set up for production of engineered wood flooring for US market. The Master Plan showed first shipment should be made during April-May 2006 from company KORENICA, and June-July 2006 from company UKAJ. As the project developed, these dates were proved to be over-optimistic, and first deliveries would be four months later than planned.

Criteria for the initial products to be manufactured were identified. Sourcing of the raw material input - kiln dried lumber - began. It had been hoped to establish a market linkage with the sole operating sawmill of reasonable capacity in Kosovo, Wood Combine. Unfortunately, the sawmill spurned this gift of a ready market, and the guaranteed baseload for sales it would provide; after several attempts at working with Wood Combine in a cooperative manner [KCBS contributed extensively to the design of a Master Development Plan] the principals decided to drop a business association with Wood Combine. Instead, they started to source from smaller mills within Kosovo, but more extensively from mills in Montenegro, Romania, Hungary and Slovenia.



and used equipment was sourced, including the transfer of some equipment from Korenica’s existing factory in Rahovec and by April used and reconditioned equipment was being relocated to the factory.



In February, Korenica completed the purchase of former SOE in Xerxe “18 Nentori”. The factory was in an appalling condition; it had not been used for ten years; the roof had serious leakages; and debris was everywhere. In a remarkable application of energy, by engaging several contractors, and despite some severe weather, which worsened the roof leaks, Korenica transformed the factory in a relatively short time. What was especially noteworthy is that this factory was being transformed from its previous purpose into a completely different manufacturing process. Plant layouts for the different production lines were developed, new

As each workstation was set up, operator training began. Some key, experienced employees from Korenica's other factory were brought in to train new workers as they were employed. Considerable attention has been given to health and safety at work; general safety training was delivered to all employees – the local Red Cross has provided First Aid training – and all workers and visitors to the plant are required to wear ear, eye and acceptable foot protection. KCBS drafted management/supervisory training courses, which are being delivered in the plant two evenings a week. Although the main progress has taken place this year at Korenica's plant, key employees of Ukaj are gradually being trained at the Korenica plant in preparation for starting work at Ukaj's new factory.

Ukaj decided early that he needed a brand new factory to participate in the EWF project. He purchased land about 10 kms outside Pristina. Construction was delayed by weather and late deliveries of construction materials. However, by end August the plant was ready to receive equipment – as in Korenica's case, a blend of new and reconditioned. Start up for Ukaj should be faster than for Korenica since many of the initial installation, set up and processing problems have been already encountered by Korenica and solutions found. Ukaj's key workers have also benefited from the training and exposure to the process at Korenica's plant.

Korenica will have invested some €1.56 million in the project by year's end, and created 70-80 additional jobs; Ukaj will have invested a similar amount, and created some 55-60 jobs. All this has been committed before a regular outflow of product has been achieved. The project is a testament to the entrepreneurship of the two principals, and the extraordinary cooperation between two businessmen competing in the same markets.



In developing the EWF project two issues have arisen which will be addressed in Year Three. The first concerns the capacity of the two companies alone to manufacture all the components required to fulfill the maximum potential of the SwedeCo partnership. There are many opportunities for other Kosovo manufacturers to become suppliers of components to Korenica and Ukaj. KCBS has a list of wood processors which are potentially the most competent to contribute supplies to the project, and discussions started with some of the companies in late FY2006. These will continue in 2007. The same detailed attention to modern production practices - quality, costs control, schedule, and safety at work - which is driving the two principals must be demonstrated by their suppliers.



Sourcing of lumber for the project revealed another serious challenge to be faced, not only in realizing the EWF project, but one that will soon affect all manufacturers of wood products in Kosovo. The trend in Western Europe and North America is for all wood processed products to carry a certificate regarding its origin, and to be able to show through a Chain of Custody the stages of certified manufacture through which the wood has passed. Large stores such as Home Base and Ikea are the leaders in this trend. Although in the very short term SwedeCo is prepared to accept product made from lumber, which has not been sourced from a certified forest, this situation will not be sustained for much longer. Nor will purchasers in Europe of Kosovo-manufactured furniture continue to accept non-certified products. Accordingly much attention was given in the last quarter of the year to mobilizing a Task Group, consisting of officials for the MAFRD and the Kosovo

Forest Agency, representatives of the public and private forest owners, and the manufacturing sector, to plan for forest certification. KCBS supplied an STTA to conduct a benchmark assessment of the forests, and we have strengthened the KCBS team to pilot the

certification process. This is a fundamental need if Kosovo is going to develop the full potential of one of its more plentiful resources.

## 4.2 Other Wood processors

KCBS's attention this year has been almost exclusively on the EWF project. Reference is made above to visits to other processors who might become suppliers of components to Korenica and Ukaj, and to KCBS intervention at Wood Combine. But essentially in FY2006, KCBS built on the solid work done under the previous KBS project to identify two industry leaders and to helping them prepare to enter the worldwide market. Development of other processors will take place in FY2007.

## 4.3 Other Construction Materials

### 4.3.1 Increased Productive Capacity.

During Year Two, KCBS continued its support in improving productive capacity, particularly to recently privatized former SOEs. These companies provide the greatest opportunity to



regenerate productive capacity and provide significant employment. Companies assisted included Silcapor, manufacturer of thermally insulating concrete blocks; New Co FAN, manufacturer of reinforcing steel mesh and bars; Trasing – Korrotica quarry and asphalt plant; and “Tulltorja” clay brick factory. Many of the companies required additional investment in equipment and machinery that had deteriorated in the years when the factories had remained dormant, or been improperly managed and maintained. KCBS assisted with selection of equipment and facilitated contacts with suppliers; we also assisted in introducing new techniques in order to increase productive capacity. For example, Silcapor developed new concrete mix design that increased quality and output, and Tulltorja developed a new drying system increasing output 50%.

KCBS gave much attention to the road construction and asphalt producing industry. We arranged a World Learning trip to Germany for nine representatives of Kosovo's asphalt industry [including one from northern Kosovo]. Training emphasized: energy saving; use of recycled asphalt and other construction materials; management operation with smaller number of employees; environmental protection; and quality control in production. Three months later, KCBS arranged for an STTA to visit all the asphalt plants and main quarried aggregate producers in Kosovo; his report indicated an over-capacity, outdated plants, almost no adequate quality control, and no plant acceptable for EU operations. However, by consolidating the better plants, making some modest investments, and assuming the



Government at Central and Municipal levels specified work to be performed properly, Kosovo's industry could be well placed to win some of the major road development work foreseen for the region.

One of the major constraints to manufacturing is the erratic power supply. KCBS assisted many companies in their discussions with KEK to become A+ customers, thereby getting guaranteed 24 hour, 7 day, power supply. Often the problems stemmed from the companies being on shared distribution lines with minority enclaves which were non-payers to KEK; these customers were the first to suffer under any load shedding, and accordingly supply to the companies was also suspended.

#### **4.3.2 Improved Quality Control.**

The technical group formed by Kosovo Standardization Agency finally, in the third quarter, launched the standards for cement, aggregates, reinforcing steel and concrete for public review prior to approval. KCBS had supplied these in early 2005, but the MTI and the advisors from the EAR's Standardization program took over a year to agree the procedures for their distribution and adoption. The KSA National Board Committee, which is composed of public and private sector representatives, designated technical committees for adoption of standards, which is a transparent methodology for adoption of EU standards. The public review was completed in August, the standards approved in September and implementation is planned to begin April 2007. KCBS's most serious concern regarding standards is the inability, or reluctance, of administering bodies to apply them; to specify them in construction documents, to test and inspect for compliance, and to reject non-compliant work.



One reason for the inability to apply standards correctly is an absence of adequate testing facilities and procedures. An STTA in June concluded that the existing equipment currently in use in all of the operations visited is adequate to provide QC testing, is relatively new and is in good working condition, but all of it is in need of calibration; the personnel responsible for testing are competent but need training; and everyone in the industry would like to see quality specified in construction documents. The German STTA, who

came in August to review asphalt plant operations, made similar observations subject to some investment in QC equipment at the plants themselves.

KCBS has been concerned about the non-transparency of MTI's licensing committee for construction companies. Under pressure from USAID, MTI granted the observer status to a representative for five construction-related associations (OEK, LINK, AAK, RCAF and KACP). After initial procrastination, MTI invited the observer to participate in the meetings starting May. He reported several malpractices by licensing committee members. The private sector has requested changes in licensing procedures, to prevent poorly qualified companies having the same, sometimes superior, standing to the better qualified companies, thereby eliminating unfair competition and inferior production.

#### **4.3.3 Improved Market Chain Linkages.**

KCBS assisted Silcapor to gain entry into markets in Greece and Macedonia. The company now operates three shifts creating employment for 250 employees. KCBS accompanied Silcapor to trade fairs in Greece and Macedonia, from which contracts resulted. KCBS also held marketing presentations for Silcapor's products to local engineering and construction companies. 70% of his summer production goes to the local market; in September, when the Greek construction season starts in earnest, Silcapor will increase the percentage of production for exports. In order to export to Greece, and other EU countries, KCBS has assisted Silcapor in upgrading its packaging line to be according to EU standards.

KCBS has brought together northern and southern Kosovo road construction companies to submit joint bids for roadworks. Although KCBS considers these partnerships eminently qualified for doing the work, the lack of transparency in the tendering and award procedures followed by the MTPT has led to some strange and unfathomable awards.

Many companies, Silcapor being one, are affected by the lack of bilateral international transportation agreements that would allow trucks with KS plates, and railways, to transport without restriction across borders. Transportation agreements are important for economic growth in Kosovo; employment could be increased, companies could use own trucks for transport, trading becomes effective and efficient, and import/export costs decrease. There would be increased production and additional income to government. Unfortunately, all our representation to the MPTP has proved ineffective.

KCBS built on the work done last year in identifying and promoting the quarrying of decorative stones. During November, KCBS arranged for an expert consultant to review in Kosovo's deposits in more detail and to give his assessment of their potential for development. He concluded that there is definite potential for developing quarries and exploiting the stone for its full market value, as opposed to crushing all different kinds of stone for construction aggregates, regardless of its value for decorative purposes. Since any development of these quarries will require a significant investment, probably involving some external enterprise, KCBS passed the lead role in attracting potential investors to the EU's team at the Ministry of Trade and Industry in the Investment Promotion Agency [IPA]. However, this Agency only began to operate effectively as FY2006 came to a close, and meanwhile KCBS has continued to accompany potential investors on visits to quarries of the stone deposits they seek. A German company registered a company in Kosovo; a Turkish company made three separate visits; and an Hungarian company [currently obtaining stones from Croatia] shipped four truckloads of stone to Budapest to test his market's reaction to the quality.

KCBS did not pursue a waste recycling plant with the EAR as proposed in last year's work plan. However, it did pilot a much smaller project to link a company collecting waste plastic [PET] bottles from a landfill in northern Kosovo with a larger distributor of such waste in Ferizaj, southern Kosovo. Previously the waste was being sent to Serbia; the new linkage results in lower transport costs for the collector, less bureaucratic hassle at the border, and a larger profit margin. The distributor increases his sales and builds the volume of his business. This pilot will be expanded in Year Three.



KCBS recommended Newco Llamkos adapt its production to meet domestic demand for waste containers and other steel products. We provided the company with buyer contacts and encouraged them to participate in KTA tenders for waste containers. For strategic reasons they declined to participate in this market; KTA continue to award the supply to a Macedonian company that provides an inferior product. KCBS will continue to develop this market potential for a Kosovo manufacturer in Year Three.

KCBS presented the interest of an Israeli developer, Orange Group, to invest in Kosovo to Prizren Municipality; it was the only Municipality that appeared willing to open its long term plans for discussion. KCBS continues to search for international real estate investors; and we have focused on gathering more accurate information from municipalities which would be beneficial to foreign investors.

#### 4.3.4 Strengthened Capacity to Access Credit.



KCBS worked with companies seeking capital to invest in their companies. The need may be to purchase a former SOE or, having bought it, to invest in modernizing the equipment and machinery to convert the plant into a credible manufacturing enterprise, or simply for working capital till product begins to flow. Investment required in the Construction Materials cluster is of an altogether different scale to that required in other clusters; after 24 months of the project, investment in the construction cluster was €16.9 million compared out of €20.2 million invested by all KCBS client enterprises. Much of that

investment was facilitated by the preparation of well-documented applications for loans supported by detailed business plans.

In view of the large investments needed, joint ventures and strategic alliances provide one funding solution. With equity and long term debt financing available in Kosovo on a very limited scale, as well as Kosovo's unique business challenges, the utilization of joint ventures and strategic alliances offers a potential alternative for Kosovar businesses to generate increased competitiveness and growth, resulting in enhanced employment and sales. But lack of experience often leads to companies being suspicious of outside involvement or new forms of cooperation – even when they desperately need the new capital, management, equipment, or access to supply and markets. Potential beneficial partnerships simply stall or go sour.

Due to these risks and limited experience with these types of agreements, several companies that KCBS had been working with in the building and construction materials sector requested assistance in assessing and developing joint venture and strategic alliance opportunities. Three potential deals and companies were pre-screened by KCBS staff as having good prospects with positive economic impacts. KCBS worked these selected companies to analyze their potential for completing joint ventures, and to provide technical assistance and hands-on training to help structure and initiate transactions. By year end 2006 JV agreements had been signed, Workshops had been delivered not only to participating construction companies, but to lawyers and accountants who acknowledged their deficiencies in this field.



## 5.0 IMPROVED BUSINESS OPERATING ENVIRONMENT

### 5.1 Improved Policy Dialog



The Private Public Dialog, initiated in June 2005, established six task groups addressing a broad range of business environment constraints and ended after three months of intense involvement with a successful policy working session on December 12, 2005. The Dialog had served to focus attention by Kosovo's representatives of business, government, and donor organizations on the constraints impacting the development of the economy. The initial purpose of the PP Dialog was to encourage the private sector to take greater ownership of the business environment and demonstrate to the public sector that such a transfer would

not reduce its authority in changing the relationship with the Government from Client-Patron to true equal partners. The final recommendations shared by both public and private sector participants reflected that transition as many recommendations called for the creation of private sector or civil society organizations to address issues of quality standards development, transparency, access to finance, education, tax implementation, and infrastructure development. Most impressively, the Prime Minister's Office publicly endorsed the PP Dialog recommendations, especially those that called for action outside government agencies (and without consuming scarce government funding), thus giving political support for the creation of these organizations in the future.

The Private-Public Dialog was never meant to be a stand-alone project. It was intended to shift the thinking of both the private and public sector change agents away from donor-driven short-term *project* planning to local long-term *process* development. With the beginning of the New Year, the private sector participants were given the responsibility for the further advancing the recommendations from the Private-Public Dialog's task groups. The close working relationship developed between former rivals, AKB and OEK during the Dialog process held as together they launched a series of public meetings on developing formal steps to implement selected recommendations.



OEK established the business club, where private sector and government people engage in informal monthly debates about issues that concern businesses in Kosovo. OEK has hosted so far two meetings where promotion of investments in Kosovo and delays in completing the privatization agreements were discussed. In February, OEK published a special edition of its newsletter, *Informatori* that focused on the PPD recommendations. KCBS contributed an article to this publication and subsidized the printing costs. The greatest challenge to the leaders of the PPD now is start thinking and planning in terms of infrastructure and institutional development and move away from short-term grant-financed activities.

KCBS also made contact with the director of the International Finance Corporation's newly opened office in Sofia, Bulgaria, which is dedicated to promoting private-public partnerships in the region. IFC is very keen to initiate activity in Kosovo. KCBS also contacted, the European Finance Convention Foundation, a conference planning firm from the UK, interested in developing a presence in the Kosovo market. Both organizations expressed interest in a Private-Public Partnerships conference. KCBS introduced this idea to



KBA/AMIK and OEK. Both local finance organizations and OEK were informed on this initiative and expressed interest in moving it forward.

KCBS is a permanent member of the MTI's Industry Roundtable. MTI has presented proposed strategies for industry development, technology adoption, and energy investment. The strategies emphasized infrastructure development over direct government or donor support. The strategies focused on concerns for improved access to finance, brand and trademark protection through intellectual property rights [IPRs], and independent testing capacities. All these were recommendations of the PPD, in which the chairman and staff of the Industry Roundtable had participated and which, they admitted, had influenced their approach.



In the first part of the year, the Donors Roundtable, a KCBS initiative, continued to identify several overlapping and complementary activities with other donor projects aimed at improving the business operating environment. As the year progressed it was evident many donors were reluctant, or unable, to modify programs to which their organizations were already committed. KCBS found it more serviceable to work one-on-one with other donors to take advantage of their programs where there was a fit with KCBS objectives. EAR's BAS Program and the MTI Investment Promotion were two specific examples.

### **Improved Responsiveness of Business Associations**

The associations with whom KCBS had developed strategic plans at the end of Year One progressed at varying speeds of achievement and commitment. It became evident that some would not succeed in becoming sustainable institutions without more direct involvement of the Boards and their executives. Both need to focus on obtaining funding less through donors and more through self generated programs, and rigorous dues collections. All associations need to research the services that their members are looking to the associations to provide. The Associations with which KCBS worked were:

- AWPK Association of Kosovo Wood Processors:
- RCAF Road Contractors Association of Kosovo:
- KDPA Kosovo Dairy Processors Association:
- KAMP Kosovo Association of Milk Producers
- SHPUK Kosovo Poultry Producers and Feed Millers Association:
- AKA Alliance of Kosovo Agribusinesses:
- BCC Business Consultants Council:
- KACP Kosovo Association of Concrete Producers:

KCBS continued to further association development efforts in the following ways:

- Training business leaders, association experts and KCBS staff to the new model for associations supported mainly through market-driven services and programs rather than membership dues and donor's support;
- Creating an environment that will foster the emergence of association management firms and, in turn, professional association managers.

To these ends, KCBS conducted training through a number of workshops and presentations, as well as on-the-job mentoring on self-sustaining business models, fee-for-service activities, product development, strategic planning review for KCBS cluster associations and their respective management companies.



Early in the project it became clear the need to create organizations that are driven by long-term planning and independent of government or donor support. Association managers had to be accountable to the board and not to the donor and/or government. At the time we started introducing the idea of association management companies, the very core of such business relationships that share responsibilities, revenue, and costs across firms were brand new to Kosovo environment. KCBS issued six grants out of the 11 associations targeted at the end of Year One. Grants were issued to cover 60% of the planned budget. During the year we worked to help associations plan to get away from 100 % reduced donor funding to the 60% target through introducing fee-for-service product and service development. This was quite a challenge. In many cases our associations continued to compete with similar services provided in the market at no cost from donors, or NGOs that had such activities subsidized by donor funds. Even though the threshold of 40% “self generated revenues” for the associations’ first year was very challenging, five associations out of the initial six are prepared to hit the threshold at the end of their first grant. This year we have witnessed associations charging for specific services they offered; well-prepared trainings have made an impact on businesses. KCBS cluster associations will continue to promote the value and need for non-dues revenues to its members and non-members.

Development of association management firms moved in parallel with overall reformation of the old model of the ‘donor dependent association’. Because of the small size of their markets many of associations could not afford complete offices and infrastructure. This is more obvious for the newly formed associations. The strategic plans developed by the boards demanded a broader range of skills that can better provided by the team instead of an individual executive director. KCBS worked with management firms to implement association strategic plans, including membership recruitment and fee-for service design and delivery. However, the lack of understanding of association management led to misunderstanding of the role of the management firms with unclear responsibilities between the association board and the management company. Association management companies did not result as cost-effective as initially thought, and in a number of cases AMC’s were themselves ‘infected with the donor and project mentality’ or performed low quality services. Notwithstanding the set of problems faced in Year Two, we shall continue to encourage use of AMC’s, out-sourcing of services and cost-sharing.



KCBS conducted an Association Management Study Tour to the US in February for 10 association executives and leaders on best association management practices. Following the tour, attendees agreed to follow up with the monthly meetings to be hosted by each association that participated. Other associations have been invited to attend. At the first meeting hosted by AKA all agreed to form an Association Advisory Council which would work with government agencies to collect, elaborate and address the association common issues such as fiscal and

financial policy, quality standards, law development and enforcement, etc. At another meeting SCAAK held a workshop on how association decision-makers, including board members and executive directors, can use financial statements as tools to better govern and manage associations. KCBS funded a grant for a local BSP to follow through on this workshop by hands-on training of the Boards of KCBS-sponsored associations. Although it was not one of the associations with which KCBS worked intensively, we did assist the Kosovo Chamber of Commerce (OEK) to develop a business plan for their new business center, and KCBS funded the purchase and installation of simultaneous translating equipment for the center.

### 5.3 Strengthened Business Consulting Capacity

In late 2005, the Ministry of Trade and Industry set up a Counseling and Training Voucher Scheme to encourage the use of business service providers. Following the first tranche of awards, a group of six consultants formed the Business Consultants Council (BCC) under KCBS guidance. This council strongly supported the project's objective of strengthening business consulting capacity, and the consequent encouragement of improved business practices.

BCC agreed to establish the Business Service Quality Institute, which will take care of the certification and quality aspects of business services, under the umbrella of the Council but as a separate body to assure transparency and avoid conflicts of interest. Vision and mission statements were finalized with an eye on market and customers' needs. The first BCC strategic plan and the first year budget were developed. KCBS has served as a facilitator and chaired a number of meetings. We also provided technical support in the area of association development and by-laws compilation. Success of this initiative is important for two reasons: first, it is one of the goals of KCBS to support the development of the business service provider (BSP) market in Kosovo - a successful association of BSPs shows a sign of maturation of such market; and second, success of BCC will confirm that the model of a self-sustainable and market-oriented association may exist in Kosovo.



The SCAAK/PIRAMIDA project to harmonize the financial record-keeping practices in the minority regions with the rest of Kosovo successfully finished the series of trainings to harmonize the financial record-keeping practices in the minority regions with the rest of Kosovo. Six of Piramida's trainers successfully finished training and became competent in the area of accounting practice and actual tax regulation and public lecturing. These trainers educated other accounting professionals in minority regions. Under this project Piramida trained some 54 accountants who represent around 71

companies from minority regions. SCAAK noted in its second report, "One of the lesson learned this month is that good planning and efficient management are necessary preconditions for success. With more realistic scheduling, all planned activities are performed without delay."

In order to measure the current capacities of the domestic business services sector against current and future needs of KCBS clients, to determine market gaps and to develop strategies to fill those gaps, KCBS signed a Fixed price Subcontract with UBO Creations, Pristina, to perform SWOT and GAP analyses. The subcontractor submitted the following deliverables:

- Vision of Cluster Development by 2008 and Anticipated Business service needs
- Report of Benchmark findings and suggestion
- SWOT/Gap Analyses with Recommendations for KCBS Year Three Work plan.

It is obvious that cluster companies will increasingly need professional services supplied by Business Service Providers, especially in specific technical and operational expertise. Benchmark research on business service provider development in regional markets – Croatia, Slovenia, Bulgaria and Romania - with more mature cluster activity was also carried out.

### 5.4 Increased Use of Improved Business Practices

In November, KCBS co-hosted the first ever Finance Fair in Kosovo with the Kosovo Bankers Association, the Association of Microfinance Institutions of Kosovo and the Alliance of Kosovo Businesses. There were over 500 attendees and exhibitors, including 13 minority

business representatives from different part of Kosovo. With coverage in two of three TV stations, all major Albanian and Serbian radio stations, and five leading print outlets, the Fair attracted considerable attention on private sector solutions to access to finance. By exposing potential borrowers to face-to-face interviews with representatives from lending institutions, borrowers (businesses) became more aware of the due diligence that must precede an application for a loan. A simple cash flow model for dairy farmers was prepared and exhibited to show how the essential information needed by a loan officer could be readily prepared.



KCBS awarded its largest grant to date with the value of €46,000 to Management Consulting International (MCI) in partnership with "Drini" and SCAAK for administration and support of an extension of the Ministry of Trade and Industry's Counseling and Training Voucher Scheme. The purpose of scheme was to support potential entrepreneurs and established SME's by providing them with access to affordable, high quality business advisory and training services. After a first tranche of applicants under an EAR funded scheme, the MTI asked KCBS to fund an extension, which we did on the condition that the business services were provided to enterprises within the three KCBS clusters. A total of 29 entrepreneurs, including three of KCBS's associations, participated under the grant.



## 6.0 STRATEGIC ACTIVITIES FUND

In Year Two, KCBS continued to leverage the Strategic Activities Fund (SAF) to support core project activities by providing funds to local business support service providers, associations, universities, and others to provide direct interventions to clusters, enterprises, associations, and business support service providers. In July 2006, KCBS received approval from USAID to include a third funding mechanism, Standard Grant Agreements.

During Year Two, KCBS received 65 concept papers from organizations proposing ideas for activities to be supported by the SAF. This shows that the interest for funding remained high during the year two, with an average of more than one concept paper each week. During this year KCBS awarded 18 simplified grants, 1 standard grant agreement and 26 subcontracts, bringing the total of 21 grants and 47 subcontracts awarded since the beginning of the project.

Funds approved to date total €1,003,923 (\$1,260,302). Below is a description of funds approved noted by award-type and cluster.

### 6.1 Fixed Price Subcontracts:

In Year Two KCBS awarded 25 subcontracts, with an obligation value totaling €242,475 (\$300,530). Total from the beginning of project for subcontracts is €500,155 (\$640,285).

	Subcontracts signed in Year 2	Value of Subcontracts signed in Year 2		Total value of Subcontracts for cluster	
		€	\$	€	\$
Livestock	14	€ 175,214	\$ 243,378	€ 312,042	\$ 397,676
Fruit & Vegetables	0	€ 0	\$ 0	€ 4,710	\$ 6,365
Construction Materials	2	€ 10,210	\$ 12,504	€ 18,840	\$ 24,166
General Business	10	€ 57,051	\$ 71,317	€ 164,563	\$ 212,078

### 6.2 Grant Agreements:

In year two KCBS has awarded 18 simplified grant agreements and 1 standard grant agreement, with an obligation value totaling €426,274 (\$521,366). Total from the beginning of the project for simplified grant agreements is €451,571 (\$553,409).

	Grant Agreements signed in Year 2	Value of Grants signed in Year 2		Total value of Grants for cluster	
		€	\$	€	\$
Livestock	7	€ 92,615	\$ 112,173	€ 92,615	\$ 112,173
Fruit & Vegetables	3	€ 49,840	\$ 60,684	€ 49,840	\$ 60,684
Construction Materials	0	€ 0	\$ 0	€ 25,297	\$ 32,043
General Business	9	€ 283,819	\$ 348,509	€ 283,819	\$ 348,509

### 6.3 Management and Challenges

In general, overseeing of grants takes a lot more effort and time compared to subcontracts, because the narrative and financial report from grantees in most cases had to be returned for revision. Although each grantee receives training in the startup orientation meeting they still have problems submitting timely, accurate reports. However, the SAF team stands ready to provide additional assistance and guidance when needed.

One real challenge has been the grants awarded to associations for implementation of their strategic plans. At the beginning of project implementation these organizations had difficulties submitting their reports in the proper format and providing the detailed information required by KCBS. Nonetheless the situation improved during the third quarter and since KCBS is planning to support these organizations in year three, we expect to see further improvement in their reporting skills.

A summary of the use of SAF funds is included in the table below:

	<b>Approved</b>	<b>Pending (approx.)*</b>	<b>Total</b>
<b>BY CLUSTER</b>			
Livestock	\$ 576,457	\$ 100,818	\$ 677,275
Fruits & Vegetables	\$ 67,049	\$ 36,623	\$ 103,672
Construction Materials	\$ 56,209	\$ 0	\$ 56,209
General Business Support	\$ 560,586	\$ 33,766	\$ 594,352
<b>Total</b>	<b>\$1,260,302</b>	<b>\$ 171,207</b>	<b>\$ 1,431,509</b>
<b>BY TYPE</b>			
Grants	\$ 553,409	\$ 171,207	\$ 724,616
Fixed Price Subcontracts	\$ 640,285	\$ 0	\$ 640,285
Procurement of Goods	\$ 66,608	\$ 0	\$ 66,608
<b>Total</b>	<b>\$ 1,260,302</b>	<b>\$ 171,207</b>	<b>\$ 1,431,509</b>

\* The Pending column represents grant applications that are in the process of being reviewed/evaluated by KCBS as of 30 September 2006.

## 7.0 COMMUNICATIONS

The goals that were set in Year Two Work Plan have been met successfully. KCBS Project's Communications Team has established a rewarding co-operation with USAID's Information Officer.

### 7.1 Events and Media Coverage

The KCBS Project organized various events with USAID among which the most notable ones were the Finance Fair and the Private-Public Dialog.

Co-hosted by the Kosovo Bankers Association, the Association of Microfinance Institutions of Kosovo and the Alliance of Kosovo Businesses, the Finance Fair, hosted over 500 attendees and exhibitors, including 13 minority business representatives from Kosovo. With coverage on two of three TV stations, all major Albanian and Serbian radio stations, and five leading print outlets, the Fair attracted considerable attention on private sector solutions to access to finance, shifting attention at least temporarily away from government backed loan guarantee schemes.

The Private-Public Dialog (PPD) consisted of six task groups addressing a broad range of business environment constraints and ended with a successful policy working session on December 12, 2005. The PPD achieved all of its targeted objectives and more.

KCBS managed to promote local dairy products through a range of Cheese Promotion events. The events held in Prizren, Ferizaj, Gjilan, Pristina and Gjakova introducing products developed by local dairy processors were covered by local media.

In an effort to educate the local population and the media, KCBS Project and SHPUK organized a joint media briefing on how to handle stories on Avian influenza and how not to damage the poultry industry while reporting on this issue.

Other events such as the Wood Fair, Joint Ventures Workshop and the Blueberry Collectors Meeting were also covered.

Other KCBS Project media highlights include:

- KTV: "The importance of certified wood" – the journalist was taken to several KCBS Project clients and Matt Anderson, KCBS Project Wood Processing Specialist, was interviewed.
- RTV 21: "Kosovo Made cheeses substitute imported ones" – including an interview with Senior Livestock Advisor Albert Wanous on KCBS Project's role in the dairy industry.
- RTK gave coverage to several KCBS events and workshops in its weekly farming program "Bujku".
- Acting COP Eric Howell was invited for an interview on RTK to discuss the KCBS Project work and contributions to the economical development of Kosovo, thus creating an even closer cooperation between KCBS Project and the media.

### 7.2 Success Stories

One of the main goals for year two was to promote KCBS Project's work through success stories. Our field team understands the importance of communication and considers it an integral part of the job. Our reports to USAID, stakeholders, and the public will tell the story of Kosovo's economic progress by the numbers and through interviews with farmers and food processors, contractors and carpenters. The close cooperation between the KCBS Project cluster leaders and the Communications team resulted in seven success stories published on the USAID Washington website and will soon be followed by three other stories already submitted for clearance.

### **7.3 Publications**

As noted in the initial Communications strategy, the KCBS Project continues to use every available channel to promote its work. Examples of publications include:

- The 2006 KCBS Project Brochure containing general project information and concrete examples of our success.
- “Kosovo is business-friendly” brochure and CD-ROM, was distributed to Government departments, KTA, OEK, AKB and other KCBS Project partners.
- “The Importance of Forest Certification” brochure.
- STTA recommendations published and distributed through brochures on feeding sheep, practices to obtain grade A milk, preventing diseases, silage preparation and other subjects.
- Articles on the importance of high quality milk and new crop varieties for the Ministry of Agriculture’s monthly magazine, June edition.
- Regular contributions to USAID publications (Admin Weekly, E-News, UNMIK Quarterly).



## 8.0 PERFORMANCE MANAGEMENT

### 8.1. DESCRIPTION OF THE SYSTEM

**Introduction:** The main objectives of the KCBS program are to increase sales and employment for long-term growth of enterprises in targeted clusters, and to reduce reliance on imports, by promoting increased competitiveness within the clusters, and by developing an improved business operating environment.

The performance-based management system (PBMS) is central to the project's structure and serves as an invaluable management tool. It monitors progress against project targets, facilitates reporting of results attributable only to KCBS, provides data for USAID reporting requirements, and flags implementation problems as they occur. It allows management to monitor progress during the year, and by identifying problems as they occur - in real time - the PBMS makes it possible to make programmatic adjustments mid-course.

PBMS is designed to be an integral part of the project management structure. The data generated by the cluster teams assists project management in its decision making. In addition to measuring progress and providing results data for quarterly and annual reports to USAID, the PBMS feeds important information to decision makers. The PBMS also plays an important part in determining whether or not to continue assistance to client firms. Based on reported results and cost/benefit analysis, the PBMS specialist may suggest discontinuing assistance to firms that consume a lot of resources but do not show an adequate return on the investment.

Overall, the data collected by the PBMS shows what works well and what does not, identifies successful clients and interventions, and allows the team to compare projected versus actual results on a monthly, quarterly, and annual basis.

**Selection of the clients:** Cluster specialists are responsible for selection and recruiting of new clients. The selection process of the clients continued also in the second year of the project. In the first year KCBS had 60 clients on database, four of them were non-active. In the second year the total number of companies increased to 85, but in the meantime 14 clients became non-active. Reasons for a company becoming non-active vary. A company may not want to cooperate with KCBS, either by not following the recommendations made by KCBS cluster specialists and/or STTAs, or refuses to provide their financial data (on sales, investment, financing and employment) to our specialists. A company, such as Agraria Commerce closed down its business as a result of Avian Influenza; Teuta Mi couldn't get the required financing to start production; and Famis Commerce couldn't purchase the necessary equipment for its main construction operations.

**Establishing a baseline:** PBMS approach to the baseline hasn't changed since the start of the project. However, in the beginning we collected only the total annual value of the baseline. Because we need to compare cumulative sales over baseline in quarterly basis, it was later necessary to collect disaggregated data for each month of the baseline.

The cluster specialists collected the data from their clients in order to establish baseline data for the previous twelve months of operations relative to sales, production, employment, investment and financing.

**Database design:** Database was originally designed at the beginning of the project, early in 2005. At that stage of the project we started to develop a specialized database to track and report results. KCBS database records information about the client firms, its product or service, and general information such as contact person, legal status and business address. Database is very important part of overall PBMS system. The data deriving from the reports

generated by the database are used to prepare all reports required by PBMS. The database is designed in two parts: data entry and data reporting. The data entry part of the database consists of Baseline entry data, Monthly entry, and Quarterly entry and Action plan. The data reporting part also consists of the reports generated from the entry part of the database.

The information first is entered into database by cluster specialists and it is considered preliminary. PBMS specialist conducts site visits and interviews representatives from the client enterprises in order to verify the results that have been reported. After verification of the information and the necessary modification of the information made, if any, then the results are considered to be final.

**Data collection:** Data for KCBS assisted enterprises are collected by cluster specialists. These enterprises receive assistance from KCBS so that specialists work with them on an on-going basis. This data then entered into database on quarterly basis. Data is sometimes provided orally to the specialists, but because specialist has been working with the enterprise over time, he can generally cross check the data for some more serious irregularities. KCBS specialist is able to periodically spot check the data using his knowledge of production and the enterprise. If the data appears to be incorrect, the specialist will go back and work with the client enterprise to explore the issue more fully.

The exchange of signed forms, e.g. monthly enterprise reports with the enterprises is another way to assure accuracy of the data reported. And more important, for enterprises which do not have orderly record-keeping, these forms put them into the habit of recording the information in a standard way and having the records for comparison.

**Data verification:** The PBMS specialist has a mandate to audit the results reported from the cluster teams. This includes verifying the accuracy and consistency of the data reported by the cluster teams, the intervention strategy of KCBS, and the causal relationship between the results and the KCBS intervention. Verifying the accuracy and consistency of the data reported by KCBS specialists required site visits and meeting with client enterprises. The PBMS specialist has visited every client during the first year of the project. Site visits have been arranged in coordination with the cluster team specialists.

In most cases KCBS didn't have access to the client's financial records, and therefore auditing is not carried out in the traditional sense. Rather, PBMS specialist verified results by interviewing a representative of enterprise, generally the owner or the manager. In these interviews, PBMS specialist has asked a series of questions, such as:

- What kind of support have you received from KCBS?
- What are the problems or obstacles hindering the growth of you employees?
- Which problems have you tried to resolve with the help of the KCBS?
- How could the support you are receiving be improved?
- How many employees do you have?

The client provided these data in writing. We have developed a special form for the Monthly enterprise report that includes data for production, sales, employment, financing and investment, and that requires signature by the client. The primary purpose of the client interview is to compare the reported results with the audited or verified results.

**Causality and Attribution:** In addition to verifying the accuracy and consistency of the results reported by the cluster teams, the PBMS specialist also must determine whether the results were caused by the KCBS intervention and thus attributable to the project. During the interviews with clients, the PBMS specialist documents the KCBS intervention strategy, the specific activities undertaken to assist the client, and the effect on specific indicators, in order to determine causality.

## 8.2 STATUS OF ESTABLISHED INDICATORS

### IR.1.3 (1) Accelerated Private Sector Growth

**Indicator: Company Profit Taxes Collected, Kosovo-wide**

Baseline set for CY2004: €34,100,000  
Target for FY2006: €40,500,000

Taxes reported are made up of:

- Presumptive tax
- Profit tax from small individual businesses (sole proprietors)
- Profit tax from big individual businesses (sole proprietors)
- Profit tax from small corporations
- Profit tax from big corporations

Actual total for FY2006: €38,054,639

The definition of this indicator should be revised to reflect the changes in the profit tax laws in Kosovo.

Tax Administration has a consolidated system for data collection and reporting. Data is received electronically. Tax Administration have information technology department that records the data and prepares reports. Tax Administration have reported on this indicator upon written request made from COP to Director of Tax Administration. KCBS is satisfied with cooperation with Tax Administration. Requests for data to the TA were processed and prepared during the day and send back to KCBS. The only issue is the timeframe of the data, or period covered by these data, e.g. data for last quarter consists of the payments made by the companies to the TA for obligations of previous quarter, while the deadline for the payment of obligations for this quarter is October 15, 2006, and the data will be processed at least 10 days after. Then these data would be included in the next quarter.

Also, considering that companies usually do not present to the tax authorities the real figures for their sales or/and production, it is extremely questionable whether this indicator shows real increase or decrease in economic activity.

### IR.1.3 (2) Accelerated Private Sector Growth

**Indicator: Exports as a Percentage of Imports – Kosovo Wide**  
**ANNUAL REPORT INDICATOR**

Baseline data for CY2003: 3.70%  
Target for FY2006 8.00%.

In FY2006, total exports were €61.4 million, while imports were €1,004.7 million (Data as of July 2006).

Actual cumulative % for FY2006: 6.11%

The definition of the indicator is: exports measured as a percentage of imports measured in euros.

The data for this indicator was collected from Statistical Office of Kosovo. The data covers period from October 2005 till July 2006. SOK didn't process and published any data for August and September, so the data for these months will be included in reports of following periods.

Exports are higher by €12 million and imports are lower by €17 million when compared to the same period of the previous year.

### **IR.1.3.1 (1) Increased Competitiveness of Targeted Clusters**

#### **Indicator: Sales within Targeted Clusters**

Baseline data for CY2004:	€35,755,626
Target Increase for FY2006	10.0%.
Cumulative sales - end of FY2006	€112,766,865
Increase in sales – in euro	€34,720,638
Actual % increase in sales:	44.5%

The definition of this indicator is: Value of goods and services sold during the year is measured as gross business sale. It is an aggregate of all business sales related to the cluster over a given period. This is measured for enterprises that receive KCBS assistance directly or through SAF.

The figures for sales are calculated on enterprise level first, and then aggregated in the category of sales. Total cumulative sales from start of the project to date are €112,766,865. This figure is then measured over the baseline for the same comparative period, for e.g. if we worked with the company for 21 months (from January 05 till September 06) and we have sales data for these months, that figure will be compared with baseline data for previous 21 months (from Jan 04 till September 05). Baseline established using this methodology is €78,046,227. So we have an increase over baseline of €34,720,638, which represents 44.5% increase in sales over baseline, and is way above the targeted increase of 10%.

### **IR.1.3.1 (2) Increased Competitiveness of Targeted Clusters**

#### **Indicator: Jobs Created within Targeted Clusters**

##### **ANNUAL REPORT INDICATOR**

Baseline data for FY2003:	Taken as Zero
Target Increase for FY2006	600 FTE
Actual job increase in FY 2006:	1,860 FTE

This indicator is defined as full time equivalent jobs in micro, small, medium and large enterprises resulting from direct KCBS assistance or through the Strategic Activities Fund.

Baseline data was set for the Annual Report at the end of FY 2003 data and was taken at level zero. The same zero level was assumed for FY2004, and subsequent changes were to be measured against this zero level. The total increase of direct employees from the start of the project to date over the baseline is 1,860, including full time [1,210] and part time employees [650]. In 2006, KCBS has ensured that records for employment, as for other indicators, have been kept on a quarterly basis, but recorded for each month separately.

Much of KCBS's work is aimed at improving the competitiveness of the clusters; the result of that should be higher productivity, doing the same work with fewer employees. As markets are developed, then more can be produced and employment will rise again, but in the short term one of the results of our work can be a dip in direct employment.

### **IR.1.3.1 (3) Increased Competitiveness of Targeted Clusters**

#### **Indicator: Labor Productivity**

Baseline data for FY2004:	Taken as Zero
Target Improvement for FY2006	10%

Improvement in Productivity in FY2006	-9%
---------------------------------------	-----

This indicator is defined as: decreasing labor involvement in producing the same value of sales in micro, small, medium and large enterprises, resulting from direct KCBS assistance or through the SAF. Later in the course of the project we have revised this approach and now we are using the cost of production per FTE instead of the sales.

Measurable productivity demonstrates the growing competitiveness of target clusters as well as the improved productive capacity and direct investment in enterprises. Increased productivity measures the overall capacity and ability of enterprises to become more competitive by adopting modern practices and innovating in order to increase sales value and reduce costs.

The increase in production didn't follow the increase of employment, so while we have positive impact on employment, the increased figure of employment distorted productivity.

### **IR.1.3.1. (4) Improved Productive Capacity of Private Enterprise**

#### **Indicator: Value of Capital Investment within Targeted Clusters**

Baseline data for FY2004:	Taken as Zero
Target Increase in Investment for FY2006	€3,000,000

Actual Increase in Investment in FY2006	€20,985,588
---	-------------

This indicator is defined as: increased capital investment by, and in micro, small, medium and large enterprises resulting from direct KCBS assistance or through the Strategic Activities Fund.

Our baseline in PBMS for 2004 was the actual capital investments at the companies with which we were working. This was taken as level zero. Value of capital investment from the start of the project to date is €20,985,588, figure that exceeds LOP target for capital investment. There were two main reasons for this increase:

- o Investments in four companies (privatized SOEs) in construction cluster were €10.9 million. In the value of investments is included also the purchase price of these companies
- o Investments in two companies, (Korenica and Ukaj, also in construction cluster), under the Engineered Wood Flooring project for export to United States.

### **IR.1.3.1 (5) Strengthened Capacity to Access Credit**

#### **Indicator: Value of Financing within Targeted Clusters**

Baseline data for FY2004:	Taken as Zero
Target Increase in Financing for FY2006	€6,000,000

Actual Increase in Financing in FY 2006:	€9,664,300
--	------------

Definition of the indicator: Financing includes commercial bank, non-bank and micro financing of micro, small, medium and large enterprises, resulting from direct KCBS assistance or through financial institutions

Our baseline in PBMS for 2004 was the actual financing at the companies with which we were working. This was taken as level zero. Value of financing from the start of the project to date is €9,664,300. So, the total cumulative increase till the end of FY2006 is €9,664,300.

### **IR.1.3.2 (1) Improved Business Operating Environment**

**Indicator: Number of Companies Registered – Kosovo Wide.**

#### **ANNUAL REPORT INDICATOR**

Baseline data for CY2003:	30,966
Target for FY2006:	47,000
Actual Companies registered in FY2006:	65,051

Definition of the indicator is: The number of companies registered with Agency for Business registry in Kosovo.

From the information received from MTI, as of December 2005, there 65,051 registered businesses in Kosovo (Publication on SME-s in Kosovo, MTI). The LOP target for this indicator is 54,000 registered businesses by the end of FY 2008.

### **IR.1.3.2 (2) Business Associations Responsive to Client Needs**

**Indicator: Number of Associations with Strategic Plans**

Baseline data for FY2004:	Zero
Target No. Associations with approved strategic plans in FY2006	10
Actual No. Associations with approved strategic plans in FY2006:	7

Definition of the indicator is: Total number of USAID supported associations with approved strategic plans.

In the first year, KCBS has given much effort in working with associations and assisting them to identify their priorities and how to get there. This resulted in seven (7) strategic plans approved by respective boards of the associations. Target for year two was additional 3 strategic plans. However, after review of the Work Plan for Year Two with USAID, it was agreed that KCBS would concentrate on ensuring sustainability of the associations with whom we had already developed strategic plans, rather than adding new associations to the portfolio.

### **IR.1.3.2 (3) Business Associations Responsive to Client Needs**

**Indicator: % of Operating Revenues Self-Generated by the Associations**

Baseline data for FY2004:	Zero
Target for FY2006	7 self-generating > 70% of revenues

Actual No. Associations self-generating > 40% of operating revenues in FY2006: 4

Definition of the indicator: Value of operating revenues generated from the associations, which are independent of donor agencies' funding, expressed as a percentage of total operating revenues. Revenues include membership contributions with all types of contributions paid to the associations for their direct or indirect facilitation, and may include fees or other contributions.

#### **IR.1.3.2 (4) Business Associations Responsive To Client Needs**

**Indicator: Number of Associations employing Permanent Staff**

Baseline data for FY2004: Zero  
Target for FY2006 5 associations.

Actual No. Associations employing permanent staff in FY2006: 12

The target for FY2006 was set that at least five associations will have employed non-volunteer staff. By the end of FY2006, the number of associations was twelve (12) employing in total 27 permanent employees.

### **8.3 ADDITIONAL INDICATORS AGREED IN APRIL 2005**

#### **IR. 1.3.1.2. Improved Quality Control**

**Indicator: Number and type of standards approved by target associations**

KCBS has worked to encourage legislation that allows associations to be recognized as accredited standard setting bodies. We have also worked with the newly created Kosovo Standardization Agency to allow for independent (extra-governmental) testing labs, a precondition to associations driven standards. The status of the indicator for FY2005 is zero.

There are many improvements in the field of Quality Control, which are needed in Kosovo. Several organizations are addressing the issue, most notably the EU/EAR which is driving a path to compliance with EN standards. KCBS can only make recommendations and encourage the establishment of a standards infrastructure and culture. Nonetheless, as part of our objective of achieving Improved Quality Control, KCBS will monitor improvements in the coming years in such areas as:

- Number of associations with Quality Standards Committees
- Number of accredited independent testing labs
- Number of associations with published products standards
- Number of associations with published process standards (best practices)
- Number of certified members by associations

For Year Three, we shall identify products within our clusters for which standards are most urgently needed. Our efforts will be directed to coordinating the introduction of standards with the EU/EAR, the Kosovo Standardization Agency, and with the associations representing the industries for which standards are most urgently required.

### IR.1.3.2 Improved Business Operating Environment

#### Indicator: Business Environment Index

The project on Business Conditions Index (BCI) was performed during Year One. BCI in Kosovo in 2005 helps to better understand business regulatory framework. It provides critical information to all agents in Kosovo. The overall purpose of compiling BCI in Kosovo is to evaluate the competitive position of the Kosovo business environment relative to current and future trading partners. It is also intended that findings from this project will contribute to, and substantially improve, the dialogue between the private sector and the government in Kosovo and help them improve the business environment in Kosovo.

There are seven components that are part of BCI, and for them a total of 27 different measures. KCBS has selected three measures, and one associated measure, on which Kosovo scores least satisfactorily and on which KCBS, through its program activities, has the opportunity to make some positive impact. These measures, together with the targets for the next three years, are set out below. The methodology used for measuring these four indicators will be similar to that used for the BCI in 2005 and will be based on research and analysis of laws and regulations, with inputs and verifications from local government officials, lawyers, business consultants, and other professionals.

Note that the target for a Financial Year will be the index value calculated for the previous calendar year, e.g the target for FY2006 is the index value for CY 2005.

#### 1.3.2. a Cost to Create Collateral (% of income per capita)

Baseline:	BCI Index for 2004	22
Target FY 2006:	BCI Index for 2005	16
Target FY 2007:	BCI Index for 2006	12
Target FY 2008:	BCI Index for 2007	8

#### 1.3.2.b Private Bureau Coverage (borrowers per 1000 capita)

Baseline:	BCI Index for 2004	46.8
Target FY 2006:	BCI Index for 2005	100
Target FY 2007:	BCI Index for 2006	200
Target FY 2008:	BCI Index for 2007	400

#### 1.3.2.c Cost of Enforcing Contracts (cost as % of debt)

Baseline:	BCI Index for 2004	29
Target FY 2006:	BCI Index for 2005	26
Target FY 2007:	BCI Index for 2006	23
Target FY 2008:	BCI Index for 2007	20

#### 1.3.2.d Number of Unresolved Claims

Baseline:	BCI Index for 2004	TBD
Target FY 2006:	BCI Index for 2005	TBD
Target FY 2007:	BCI Index for 2006	TBD
Target FY 2008:	BCI Index for 2007	TBD

There was no survey conducted in FY2006, so we do not have information about these indicators.



#### **IR.1.3.2.1 Strengthened Business Consulting Services**

**Indicator: Number of businesses using business consulting services**

KCBS program is now assisting a total of 71 client companies (active) in three clusters. All these companies use at least one consulting service. We have not made any survey among businesses that use consulting services outside the area of targeted clusters. However, a survey performed by KCBS in Year One on business consulting companies themselves, found that 20% of the revenues are actually from the services rendered to the local companies; 80% of their revenues are from donors. The creation of the Business Consulting Council has provided a medium for monitoring improvements in this ratio, and efforts will be made during the next year to develop with the Council a methodology for assessing the respective percentages. KCBS will then perform survey on business consulting companies in Kosovo to get an estimate of the number of businesses using consulting services, and also number and types of services provided by business consulting companies and/or individuals.

#### **IR.1.3.2.2 Improved Capacity for Policy Dialogue**

**Indicator: Number of Private-Public Dialogue Task Group Recommendations Implemented**

The initial strategy of KCBS was to collect the data related to ongoing public private dialogue. The original indicators identified were:

- Number of statistical strategies established by associations; and
- Number of cluster specific indices produced.

KCBS found that there was no dialogue at all, and no statistical data collected. It was determined that these indicators would not be relevant at this stage of the development of the private-public policy dialog.

Through the Private Public Dialog created in Year One, six task groups were formed, one for each of the issues identified as critical to the future of Kosovo business development: tax implementation, transparency, infrastructure development, financial sector stability, education, and quality standards development and enforcement. In early December 2005, these Task Group, through the Kosovo Chamber of Commerce disseminated their recommendations to the public at large, and through an Industry Roundtable is ensuring that progressively these recommendations are being tabled for consideration by the responsible agencies.

### **8.4. STATUS OF THE NEW COMMON INDICATORS**

Total number of companies that KCBS assisted from the beginning of the project is 85. However, there are more companies and individuals that are assisted directly by KCBS or through associations. We are capturing that number of assisted entrepreneurs through indicator 2 – Number of entrepreneurs receiving services supported by USAID.

**Indicator 1: Total number of enterprises benefiting from USAID business development assistance**

The total number of USAID–assisted enterprises for FY 2006 is 85. The number represents direct KCBS clients since the start of the project.

**Indicator 2: Number of entrepreneurs receiving services supported by USAID**

The actual cumulative number of entrepreneurs for FY 2006 is 829. This number represents clients assisted by KCBS through associations.

**Indicator 3: Number of firms using improved accounting and reporting as result of USAID-assistance.**

The total number of companies using accounting assistance in FY 2006 is 71. This is the number of firms attended accounting trainings organized by SCAAK through service provider Piramida in the minority areas.

**Indicator 4: Number of people trained**

The total number of trainings in FY 2006 is 4,276. Below is the number of participants by the type of activity:

- Number of participants in USAID-assisted presentations was 253.
- Number of participants in USAID-assisted seminars was 328.
- Number of participants in USAID-assisted trainings was 1,580.
- Number of participants in USAID-assisted training workshops was 1,341.
- Number of participants in USAID-assisted on site trainings was 74
- Number of participants in USAID-assisted study visits was 21.

Number of people attending other activities through USAID assistance:

- Number of people attending USAID-assisted roundtables was 135.
- Number of people attending USAID-assisted demonstration presentations was 310.
- Number of people attending USAID-assisted field days was 117.
- Number of people attending USAID-assisted conferences was 117.

**Indicator 5: Number of full time jobs in excess of two weeks**

The number of full time jobs of 1,860 is related to the IR.1.3.1 (2) Jobs created within targeted clusters. These are the additional jobs created over the baseline.

**Indicator 6: Number of USAID-assisted transactions completed by local firms with US and other foreign firms.**

The total number of USAID-assisted transactions completed by local firms with US and other foreign firms in FY 2006 is 1,178. Below is the number of transactions segregated by the type and origin:

- Number of importing transactions
  - From US firms 27
  - From other foreign firms 956
- Number of exporting transactions
  - To US firms 0
  - To other foreign firms 195

**Indicator 7: Total annual value of transactions of USAID-assisted firms with US and other foreign firms.**

The total value of transactions of USAID-assisted firms with US and other foreign firms in FY 2006 is €19,638,158. Segregated by the type and origin this data is as follows:

- Value of importing transactions
  - From US firms €603,700
  - From other foreign firms €14,311,732
- Value of exporting transactions
  - To US firms 0
  - To other foreign firms €4,722,726

**Indicator 8. Number of people trained in trade and investment.**

There was no activity performed on trade and investment.

### **8.5 MULTIPLIER EFFECT SURVEY**

An important issue related to measuring indicators is the multiplier effect. A multiplier is a factor that can be used to calculate the overall effect of the change within the local economy. Multiplier impacts reflect two components, direct and indirect effects. The direct effects are the increase within the cluster. The indirect effects are the impacts on local industries related to but not part of the cluster.

Early this year KCBS attempted to calculate a multiplier for the livestock cluster. We conducted a first round of interviews in the dairy cluster, with the milk processors, milk producers and animal feed producers. The results of the first round were unsatisfactory in respect to the data quality, accuracy and verifiability. A second round would have expanded the survey into a much larger network of suppliers and purchasers, including service providers such as transport companies. KCBS decided not to continue further with this second round.

# ANNEXES

- Annex 1      Financial Data
- Annex 2.     Performance Data
- Annex 3.     Short Term Technical Advisors [STTA] Summary of Assignments
- Annex 4.     Targeted Results 2005
- Annex 5.     Hierarchy of Objectives
- Annex 6.     Brochures Produced in Year
- Annex 7.     Glossary of Acronyms

# **KOSOVO CLUSTER AND BUSINESS SUPPORT**

## **ANNUAL REPORT**

**YEAR ENDING: 30 SEPT. 2006**

### **ANNEX 2**

#### **PERFORMANCE DATA**

**PERFORMANCE MONITORING REPORT**

**SO 1.3 Accelerated Private Sector Growth**

All Years are U.S. Govt. Fiscal years [commencing 01 October].

SO# IR#	SO Name	Unit measure	2005 Actual	2006 Target	2006 Actual	2007 Target	2007 Actual	2008 Target	2008 Actual
<b>1.3</b>	<b>Accelerated Private Sector Growth</b>								
1	Total number of enterprises benefiting from USAID business development assistance-Direct clients	Number	56	62	<b>85</b>	90		100	
2	Number of entrepreneurs receiving services supported by USAID-Through KCBS supported associations	Number	56	67	<b>829</b>	800		1,061	
3	Number of firms using improved accounting and reporting as result of USAID assistance	Number	40	48	<b>71</b>	58		70	
4	The number of people trained	Number	4,113	4,500	<b>4,276</b>	4,900		5,400	
5	Number of full time jobs in excess of two weeks	Number	327	1,000	<b>1,860</b>	3,000		5,000	
6	Number of USAID-assisted transactions completed by local firms with US and other foreign firms	Number	795	950	<b>1,178</b>	1,140		1,370	
7	Total annual value of transactions of USAID-assisted firms with US and other foreign firms	Euro	26,572,245	31,800,000	<b>19,638,158</b>	38,000,000		45,600,000	
8	Number of people trained in trade or investment	Number	None	None	<b>None</b>	None		None	
9	Has your mission engaged in programs to improve the business environment	Yes/No	Yes	Yes	<b>Yes</b>	Yes	Yes	Yes	Yes
10	Did your program described above have a positive impact	Yes/No	USAID	USAID	<b>USAID</b>	USAID	USAID	USAID	USAID

## KCBS Quarterly PBMS Report

### Summary of Quarterly Results

ALL YEARS ARE U.S. GOVT. FISCAL YEARS [commencing 01 October]

SO# IR#	SO Name	Unit measure	Base-line Year	Base-line Value	2004 Actual	2005 Actual	2006 Target	Q1 2006 Actual	Q2 2006 Actual	Q3 2006 Actual	Q4 2006 Actual	2006 To Date
<b>1.3</b>	<b>Accelerated Private Sector Growth</b>											
Indicators												
1	Value of company profit taxes collected	Euros	2003	28,412,404	42,840,000	39,228,497	40,500,000	-	-	28,272,194	38,054,639	38,054,639
2 (AR)	Exports as a percentage of imports	Percent	2003	3.70%	4.90%	5.59%	8.00%	4.65%	4.78%	5.57%	6.11%	6.11%
<b>1.3.1</b>	<b>Increased Competitiveness of Targeted Clusters</b>											
Indicators												
1	Increase in sales among targeted enterprises (Revised indicator by KCBS)	Euro	2003	0	35,755,626	6,682,433	20,000,000		20,999,581		34,720,638	34,720,638
1a.	% increase in sales over current baseline -€78,046,227-(Revised indicator by KCBS)	Percent			0	22.2%	10%		46.1%		44.5%	44.5%
2 (AR)	Jobs created within targeted clusters	Number	2003	0	0	327	600	445	742	1,164	1,860	1,860
2a.	Jobs created within targeted clusters (Revised targets of KCBS)	Number	2003	0	0	327	1,000	445	745	1,164	1,860	1,860
3	Labor productivity among targeted enterprises	Number	2005	0	0	-11%	10%	0%	0%	-10%	-9%	-9%
<b>1.3.1.1</b>	<b>Improved Productive Capacity of Private Enterprises</b>											
Indicators												
1	Increased capital investment among targeted enterprises	Number	2004	0	0	2,341,908	3,000,000	8,442,691	8,858,720	19,075,526	20,985,588	20,985,588
<b>1.3.1.2</b>	<b>Improved Quality Control</b>											
Indicators												
1	Number and type of standards approved by target associations	Number	2004	0	0	0	TBD	-	-	-	-	-
<b>1.3.1.3</b>	<b>Strengthened Capacity to Access Credit</b>											
Indicators												
1	Increased financing among targeted enterprises	Euro	2003	0	0	2,081,375	6,000,000	3,628,500	4,231,500	9,361,500	9,664,300	9,664,300

## KCBS Quarterly PBMS Report

### Summary of Quarterly Results

ALL YEARS ARE U.S. GOVT. FISCAL YEARS [commencing 01 October]

SO# IR#	SO Name	Unit measure	Base-line Year	Base-line Value	2004 Actual	2005 Actual	2006 Target	Q1 2006 Actual	Q2 2006 Actual	Q3 2006 Actual	Q4 2006 Actual	2006 To Date
1.3.2	<b>Improved Business Operating Environment</b>											
Indicators												
1 (AR)	Number of companies registered - two quarters	Number	2003	30,966	40,703	48,497	47,000	51,078	52,913	52,913	65,051	65,051
2	Business Environment Index (reduction of business constrains)							-	-	-	-	-
	a. Cost to create collateral - % of income per capita	Percent	2004	22.0%		N/A	16.0%	-	-	-	-	-
	b. Private bureau coverage - number of borrowers per 1000 capita	Number	2004	46.8		N/A	100.0	-	-	-	-	-
	c. Cost of enforcing contracts - cost as a % of debt.	Percent	2004	29.0%		N/A	26.0%	-	-	-	-	-
	d. Number of unresolved claims	Number	2004	N/A		N/A	TBD	-	-	-	-	-
1.3.2.1	<b>Strengthened Business Consulting Services</b>											
Indicators												
1	Number of businesses using business consulting services	Number	2004	0	0	N/A	TBD	-	-	-	-	-
1.3.2.2	<b>Improved Capacity for Policy Dialog</b>											
Indicators												
1	Number of Private-Public Task Group irecommendations implemented	2004	0	0	0	N/A	TBD	-	-	-	-	-
1.3.2.3	<b>Business Associations Responsive to Client Needs</b>											
Indicators												
1	Number of associations with approved strategic plans	Number	2004	0	0	7	10	7	7	7	7	7
2	Percent of non-donorrevenues generated by the associations	Percent	2003	0	0	4>50%	7>70%	4>50%	6>50%	7>50%	4>40%	4>40%
3	Number of associations employing non-volunteer staff	Number	2004	0	0	7	5	7	9	9	12	12



PERFORMANCE MONITORING REPORT

SO 1.3 Accelerated Private Sector Growth

All Years are U.S. Govt. Fiscal years [commencing 01 October].

SO# IR#	SO Name	Unit measure	Base-line Year	Base-line Value	2004 Target	2004 Actual	2005 Target	2005 Actual	2006 Target	2006 Actual	2007 Target	2007 Actual	2008 Target	2008 Actual
<b>1.3</b>	<b>Accelerated Private Sector Growth</b>													
<b>Indicators</b>														
1	Value of company profit taxes collected	Euros	2003	28,412,404	34,100,000	42,840,000	38,200,000	39,228,497	40,500,000	<b>38,054,639</b>	42,100,000		43,800,000	
2 (AR)	Exports as a percentage of imports	Percent	2003	3.70%	4.00%	4.90%	6%	5.59%	8%	<b>6.11%</b>	10%		12%	
<b>1.3.1</b>	<b>Increased Competitiveness of Targeted Clusters</b>													
<b>Indicators</b>														
1	Increase in sales among targeted enterprises	Euro	2003	0	0	35,755,626	10,000,000	6,682,433	20,000,000	<b>34,720,638</b>	35,000,000		50,000,000	
	% increase in sales over current baseline (€78,046,227)	Percent	2004	0	0	0	5%	22.2%	10%	<b>44.5%</b>				
2 (AR)	Jobs created within targeted clusters	Number	2003	0	0	0	200	327	600	<b>1,860</b>	1,100		1,700	
2a.	Jobs created within targeted clusters (Revised targets of KCBS)	Number	2003	0	0	0	400	327	1000	<b>1,860</b>	3,000		5,000	
3	Labor productivity among targeted enterprises	Number	2005	0	0	0	5%	-11%	10%	<b>-9%</b>	15%		20%	
<b>1.3.1.1</b>	<b>Improved Productive Capacity of Private Enterprises</b>													
<b>Indicators</b>														
1	Increased capital investment among targeted enterprises	Number	2004	0	0	0	1,500,000	7,881,475	3,000,000	<b>20,985,588</b>	4,000,000		5,000,000	
<b>1.3.1.2</b>	<b>Improved Quality Control</b>													
<b>Indicators</b>														
1	Number and type of standards approved by target associations	Number	2004	0	0	0	0	0	TBD	<b>0</b>	TBD		TBD	
<b>1.3.1.3</b>	<b>Strengthened Capacity to Access Credit</b>													
<b>Indicators</b>														
1	Increased financing among targeted enterprises	Euro	2003	0	0	0	3,000,000	3,380,200	6,000,000	<b>9,664,300</b>	10,000,000		16,000,000	

PERFORMANCE MONITORING REPORT

SO 1.3 Accelerated Private Sector Growth

All Years are U.S. Govt. Fiscal years [commencing 01 October].

SO# IR#	SO Name	Unit measure	Base-line Year	Base-line Value	2004 Target	2004 Actual	2005 Target	2005 Actual	2006 Target	2006 Actual	2007 Target	2007 Actual	2008 Target	2008 Actual
<b>1.3.2</b>	<b>Improved Business Operating Environment</b>													
<b>Indicators</b>														
1 (AR)	Number of companies registered - two quarters	Number	2003	30,966	37,000	40,703	42,000	48,497	47,000	65,051	51,000		54,000	
2	Business Environment Index (reduction of business constrains)												TBD	
	a. Cost to create collateral - % of income per capita	Percent	2004	22.0%			N/A	N/A	16.0%	0.0%	12.0%		8.0%	
	b. Private bureau coverage - number of borrowers per 1000 capita	Number	2004	46.8			N/A	N/A	100.0	0.0	200.0		400.0	
	c. Cost of enforcing contracts - cost as a % of debt.	Percent	2004	29.0%			N/A	N/A	26.0%	0.0%	23.0%		20.0%	
	d. Number of unresolved claims	Number	2004	N/A			N/A	N/A	TBD	0	TBD		TBD	
<b>1.3.2.1</b>	<b>Improved Business Operating Environment</b>													
<b>Indicators</b>														
1	Number of businesses using business consulting services	Number	2004	0	0	0	N/A	N/A	TBD	0	TBD		TBD	
<b>1.3.2.2</b>	<b>Improved Capacity for Policy Dialog</b>													
<b>Indicators</b>														
1	Number of Private-Public Task Group irecommendations implemented	2004	0	0	0	0	N/A	N/A	TBD	0	TBD		TBD	
<b>1.3.2.3</b>	<b>Business Associations Responsive to Client Needs</b>													
<b>Indicators</b>														
1	Number of associations with approved strategic plans	Number	2004	0	0	0	6	7	10	7	14		20	
2	Percent of non-donorrevenues generated by the associations	Percent	2003	0	0	0	4>50%	4>50%	7>70%	4>40%	10>80%		14>80%	
3	Number of associations employing non-volunteer staff	Number	2004	0	0	0	3	7	5	12	8		14	

# **KOSOVO CLUSTER AND BUSINESS SUPPORT**

## **ANNUAL REPORT**

**YEAR ENDING: 30 SEPT. 2006**

### **ANNEX 3**

**SHORT TERM TECHNICAL ADVISORS**

**SUMMARY OF ASSIGNMENTS**

**SUBJECTS OF SHORT TERM TECHNICAL ADVISORS' REPORTS****Wood Processing Report – October 2005**

To provide technical assistance and advice to the management of Wood Combine, the first of the fully integrated wood processing state owned enterprises (SOEs) to be privatized, and to introduce quality norms and lumber grading rules for beech and spruce logs for implementation at Wood Combine's facility.

**Development of the Sheep Industry in Kosovo – October 2005**

The purpose of this assignment was to conduct an economic analysis of the sheep and lamb sector with emphasis on the potential for export markets for lamb. Data was collected on all aspects of the sheep and lamb markets, which will support a comprehensive set of activities to be implemented by the KCBS agribusiness activities.

**Development Potential for Decorative and Dimension Stone – November 2005**

The purpose of this assignment was to evaluate the potential for developing the decorative and natural stone industry in Kosovo. The consultant advised on basic procedures and requirements for industrial block cutting, slab extraction, marketing, packaging, and transportation for export markets; he also made recommendations on how to integrate these operations with existing and future quarry operations.

**New Cheeses Manufacturing Processes for Dairies in Kosovo – November 2005**

The purpose of this assignment was to help dairy processors make an excellent quality "Feta" type of cheese [and other varieties of cheese] during the high production time of the year in order to take more milk off the market at a higher price.

**Fruit Packing and Quality Control – November 2005**

The purpose of this assignment was to assist three targeted Fruit Associations to initiate post harvest handling methods and improved storage conditions in order to provide the additional storage life necessary to lengthen the marketing season for apples. Training was provided to improve fruit quality and shelf life, and done in such a way to meet market demands and increase the monetary returns to producers.

**Implementing Recommendations in the Dairy Sector – December 2005**

The purpose of this assignment was to assist the Kosovo Association of Milk Producers (KAMP) build the capacity to create and manage dissemination of technical recommendations made by KCBS short-term technical advisors (STTAs) by using extension staff to ensure this dissemination is efficiently planned, established and coordinated.

**Poultry Diseases Testing and Diagnostics – December 2005**

The purpose of this assignment was to provide assistance to the Kosovo Veterinary Institute to implement tests for Newcastle Disease, Avian Influenza, Salmonella (pollurum), infectious bronchitis, and infectious bursal disease. In addition, basic microbial, antibiotic sensitivity testing, and drug residue testing was also conducted.

**Continuing Education on Mastitis Testing and Treatment – December 2005**

The purpose of this assignment was to provide continuing education to commercial dairy farmers, veterinarians & artificial insemination (AI) technicians, specifically on mastitis testing and treatment. The specialist worked through the University of Pristina with model local farmers and the Milk Production Improvement Program (MPIP) implemented by the KCBS subcontractor, BIOLAB.

**Public Relations Support for a Private Public Dialog – December 2005**

The purpose of this assignment was to create broad public awareness of the Private Public Dialog activities, discussions and outcomes and how the private sector was taking ownership of the problems around it. A short-term public relations advisor developed a campaign to support the change process and guided the debate toward a positive outcome.

**Dairy Records Management – January 2006**

The purpose of this assignment was to assist the Kosovo dairy industry through the development of management techniques at the farm level by identifying resources and technologies that will modernize the Kosovo dairy industry particularly in respect of records management and use.

**Development of the Lamb Export Market in Kosovo – February 2006**

The purpose of the assignment was to assist in developing the lamb export market. The consultant assessed the activities that have occurred since the first consultant's investigation was completed in October, 2005. The consultant provided guidance in further development of the sheep industry with particularly emphasis on the export market.

**Evaluation of Kosovo Quarries, Hot Mix Asphalt and Road Construction – February 2006**

The purpose of this assignment was to evaluate current business operations of the entire Asphalt industry in Kosovo. The goal is to upgrade asphalt production industry to the level of European Asphalt plants. After reviewing existing plants, and understanding the demands on the industry in Kosovo, the Hot Mix Asphalt [HMA] Processing Consultant prepared an outline for a "Working Manual for Processing of Hot Mix Asphalt" for quality production of asphalt based on EN or AASHTO standards. The manual included all necessary procedures and policies in order to upgrade the asphalt plants in Kosovo so that they become successful operators with possibilities for future expansion.

**Artificial Insemination Study – February 2006**

The purpose of the assignment: was to provide education to Kosovo Milk Producer Association (KAMP) commercial dairy farmers, veterinarians & artificial insemination [AI] technicians in the latest methods and technology in the field of AI. The farmer and AI specialist must be able to recognize estrus and pregnancy in order to maximize the potential benefit from high-yield cow breeds. Recommendations were made specifically for estrus and pregnancy detection because of the growing number of high yielding imported cows in confinement and poor nutrition.

**New Product Development for Dairy Industry in Kosovo – February 2006**

The purpose of this assignment was to help two dairy processors make an excellent quality "Gouda" type (The word "gouda" is defined as a special yellow cheese made in Germany). of cheese during the high milk production period of the year in order to take more milk off the market at a higher price. Gouda is an excellent quality cheese that is currently being imported from Switzerland at a very high price. Kosovo can produce quality Gouda cheese that is cost competitive with the imported Gouda during the high milk production season.

**Implementing Vegetable Growing Contracts – March 2006**

The purpose of this assignment was to assist producer groups to develop and implement growing agreements with processors, retailers and wholesalers. Farmer groups currently engage in ad hoc forward purchase contracts with processors, retailers and wholesalers. This assignment brought together these groups and assisted in formalizing their growing arrangements. Banks may serve as intermediaries in these transactions; KCBS may also serve as intermediary given USAID consent.

Several food-processing companies had expressed an interest in developing growing contracts to be used with producers in an effort to access the quantities of product necessary for efficient operation of their processing lines. The consultant worked closely to determine the needs of the processor and exactly the varieties of vegetables that should be grown to meet those needs. The consultant also worked to help processors and producers understand the terms of growing contracts.

#### **Food safety Standards, HACCP and EuropGap – March 2006**

The purpose of this assignment was to work with Kosovo's food processing companies to identify HACCP priorities, and to construct an implementation plan to address outstanding HACCP violations in a two-year plan towards HACCP certification. In addition to this primary aim, a secondary objective of the assignment was to disseminate general HACCP standards and emphasize the importance of bringing facilities up to HACCP standard to allow access to EU markets.

#### **Improving dairy Plant Operations in Kosovo – April 2006**

The purpose of this assignment was to help Kosovo dairy processors make new types of cheese of excellent quality, during the high production time of the year, in order to take more milk off the market at a higher price. The specialist worked with the processors to develop grades and standards including chemical, physical, and microbiological criteria; to develop testing capacities; and to set up plant operations to produce products that can meet the same standards as imported products from the EU in terms of GMP, HACCP, and ISO 9000 certification.

#### **Improving Pasture and Forage Production – May 2006**

The purpose of this assignment was to improve pasture and forage production for milk producers of the Kosovo Association of Milk Producers (KAMP) and other farmer associations by visiting farms in different areas, preparing recommendations for improving forages for dairy producers, and giving field workshops and presentations to farmers and other stakeholders.

#### **Quality Control Testing Laboratories for Construction Materials – June 2006**

The purpose of the assignment was to advise on the basic testing equipment to be provided, the organization of laboratories, training and certification of laboratory technicians, and certification/accreditation of laboratories performing tests on construction materials.

#### **Development of Association Management Companies – June 2006**

The purpose of the assignment was to provide technical assistance to the firms hired through the KCBS grant awards to manage associations. The advisor concentrated on introducing basic association management techniques and on implementing the ideas and practices introduced in a recent study tour to the USA. Specifically, he worked with association management firms of KCBS' client associations and other business service providers to:

- Understand the relationship between the management firm and the association and the management firm and the members;
- With special emphasis on the transparency of contract arrangements with the member firms and the general public;
- Understand the staff's relationship with the association and the contracted firm;
- How to prepare progress reports to boards that assure that hold the board members accountable for their decisions;
- Provide direct counseling on the development, design, and pricing of association services;

- How to develop association management tools with emphasis on building economies of scale across association clients;
- Introduce the practice of subcontracting with emphasis on virtual service arrangements.

**Dairy Laboratory Survey in Kosovo – June 2006**

The purpose of this assignment was to produce a detailed survey of laboratory conditions and their capacities to perform milk and dairy product testing for the needs of dairy industry in Kosovo. Currently milk processors and producers through their associations KDPA and KAMP are interested in improving the quality of milk received and the quality of control in order to improve the overall quality of milk produced locally. This will help domestic processors compete with imported milk and milk products. As a basis for conducting this survey the two dairy industry associations have coordinated their request together with KVFA and MAFRD as main stakeholders from governmental side. They are very supportive of this activity and interested in the results. The objective of this survey is to determine the current situation of laboratory testing in Kosovo regarding the cost of testing, quality of testing and human resources available for testing.

**Improving Feed Rations in the Dairy and Sheep Industries – June 2006**

There were two objectives to this assignment. The first was to provide rations for successfully starting and growing calves and heifers that will enter the productive milking herd at industry accepted ages of 23 to 26 months as well as to formulate rations for dry cows. The second objective was to assist the sheep industry in Kosovo to become more competitive by introducing better feed rations and feeding practices for lambs, ewes and rams.

**Forest Certification Benchmarking Assessment – July 2006**

KCBS is providing technical assistance to the Ministry of Agriculture, Forests and Rural Development, and specifically to its Kosovo Forests Agency [KFA], in preparing for the sustained yield management of Kosovo's forests and eventually the Forest Stewardship Council's [FSC] forest and chain-of-custody certifications. The purpose of this assignment was to look at the current situation of forest management in two forest districts in Kosovo and propose steps that need to be taken by the KFA so that it can move forward to achieve certification by the Forest Stewardship Council, or other certifying body.

**The State of the Wine Industry in Kosovo – July 2006**

The purpose of this assignment was to identify areas in which USAID can assist the wine industry in Kosovo and the highly specific conditions under which that assistance should be provided. The report evaluates the benefit of the Kosovo Cluster & Business Support (KCBS) project providing assistance to the wineries and wine producing vineyards in Kosovo.

**Pasture and other Forage Management for Sheep and Cattle – August 2006**

The purpose of this activity was to improve pasture and forage production for sheep and cow milk producers in Kosovo. It involved follow-up reviews of, and recommendations for, the five pasture demonstration plots that were planted this spring by HAK (Horticulture Association of Kosovo) with support from USAID/KCBS.

**Good Milk Handling Standards Implementation in Milk Collection Centers and Good Manufacturing Practices in Dairy Processing Plants – August 2006**

The purpose of this assignment was to recommend the implementation of GMH standards in one model Milk Collection Center (MCC) including providing written procedures for each step of raw milk handling and testing. This MCC will serve as a model to other MCCs and be used in trainings for their staff. The KCBS Project surveyed 10 MCCs using a standard

questionnaire to identify their strengths and weaknesses. On the basis of these questionnaires the STTA and KCBS selected three MCCs for assessments and site visits to determine which one to use as a model to implement/improve GMP.

**Improving Pasture and Forage Production – September 2006**

The purpose of this assignment was to improve pasture and forage production for milk producers of the Kosovo Association of Milk Producers (KAMP) and other farmer associations by visiting farms in different areas, preparing recommendations for improving forages for dairy producers, and giving field workshops and presentations to farmers and other stakeholders. It was a continuation of work performed on two previous assignments in May 2005 and May 2006.

**Improving Mix Designs and Plant Operations for Asphalt Producers – Aug/Sept. 2006**

The purpose of this assignment was to improve current business operations of the entire Asphalt industry in Kosovo. The goal is to upgrade asphalt production industry to the level of European Asphalt plants. The Hot Mix Asphalt [HMA] Processing Consultant will be responsible for preparing a “Working Manual for Processing of Hot Mix Asphalt” for quality production of asphalt based on EU standards. The Manual shall include all necessary procedures and policies in order to upgrade the asphalt plants in Kosovo so that they become successful operators with possibilities for future expansion.



# **KOSOVO CLUSTER AND BUSINESS SUPPORT**

## **ANNUAL REPORT**

**YEAR ENDING: 30 SEPT. 2006**

### **ANNEX 4**

**TARGETED RESULTS 2006**

No. Ref	TARGETED RESULT - DAIRY	OUTCOME
1.1	Development of one model farm building with proper silage bunkers for demonstration to other farmers on proper dairy cow housing and management	Mujota farm identified and being prepared for demonstrations; a SAF grant will complete the preparations in the fall.
2.1	Development of five model least-cost silage bunkers	Activity complete farms in Ferizaj, Podujevo [2] and Dukagjina [2]
3.1	20% Improvement in milk production on farms that implement feed grain concentrate feeding programs.	Improvement achieved. Dr. Roy Chapin's feed mixes are widely circulated to Kosovo farmers through KXCBS and KAMP
4.1	Artificial insemination program introduced for inseminating 3,000 commercial cows with dairy cattle semen at farms that are currently using AI	Activities complete. During this year 14,000 straws of bull semen were imported including 10,000 of the Simmental breed from Swiss genetics and 4000 units of calving ease semen from World Wide Sires, an American Company. Additionally 26,000 straws of Holstein semen have been imported from Ireland and it is being distributed free of charge from Heifer International to Kosovo dairy farmers. It has been impossible to separate the two activities 4.1 & 4.2
4.2	Artificial insemination program introduced for inseminating 1,000 commercial cows with dairy cattle semen at farms that are NOT currently using AI	
5.1	Develop model calf rearing operation that raises 100 pure breed dairy heifers a year for sale back into the Kosovo dairy industry	36 calf hutches were delivered to six farmers [a seventh in minority region is awaiting delivery of cows for breeding].
6.1	Commercially import 10,000 straws of high quality semen	KCBS assisted Fauna in the importation and distribution of these straws.
7.1	A "model" business plan developed commercial dairy operations and privatization of SOE's	SOW was issued to EAR for implementation under their Voucher scheme in Dec. 2005. Unfortunately, this scheme was already fully subscribed. KCBS completed the SOW in August under extension of the Voucher scheme, now partially funded by USAID.
7.2	Introduce Dairy Herd Improvement (DHI) record keeping system with 5 model farmers	This was completed and is an on-going project through the end of KCBS. It is administered by students from the Faculty of Agriculture, Pristina University.
8.1	Amount of milk not accepted by dairy processors as being below required quality reduced by 3,000 liters of milk per day	Reduction achieved. 4000 lit/day of milk is being sold to Devolli and Abi from 6 MCCs whose milk previously was not accepted.
8.2	Double production of Grade A milk from 47,000 liters per day in August 2005 to 90,000 liters per day in August 2006.	"Grade A" last year was loosely defined. It was equivalent to what is covered by the MAFRD's standards for Grade A and Grade B. Production of these two grades now exceeds 100,000 lit/day

No. Ref	TARGETED RESULT - DAIRY Continued	OUTCOME
8.3	Establish one model milk collection center to serve as an example to all other centers	Activity complete. MCC serving Abi dairy identified in Prizren, Mamusha - a Turkish minority MCC [milk collection has doubled].
8.4	Demonstrations completed of workable private sector approaches to providing needed farm level extension support.	Activity completed. KCBS participated with KFOR, MAFRD Extension Services, FAO and local Municipalities in demonstrations.
9.1	Submit to MAFRD standards and testing procedures for raw milk and final dairy products	KCBS cooperated extensively with MAFRD and the KVFA in developing standards and testing procedures for raw milk and final dairy products. These were incorporated in the Milk Quality decree due to come into force in January 2007.
9.2	Establish a commercial laboratory for testing raw milk and final dairy products	A dairy laboratory survey report was completed. There is interest from KVFA to support dairy industry with two testing equipments for self quality control. KCBS will assist KAMP and KDPA on lab sampling and lab testing of dairy products.
10.1	Develop and introduce to the market two commercial dairy products that are cost competitive with imported dairy products	Activity complete. Several new cheeses introduced, as well as sheep and goats' milk and derived products
11.1	One plant serving as a model plant employing all the correct procedures and GMPs	Incomplete. Implementation of GMPs started at Abi dairy, but is not yet sufficiently advanced to be used for demonstration

No. Ref	TARGETED RESULT - MEAT	OUTCOME
1.1	Establishment of an EU certified lamb and sheep meat production and processing operation	A first truck was loaded with 400 lambs from six sheep farmers, gathered at two collection centers in Kaçanik and Lipjan, with the average live weight of 25 kg
1.2	Implemented marketing campaign for Kosovo fresh lamb meat into regional markets	Veterinarian Agencies of both Kosovo and Bosnia, agreed for the export of 400 live lambs to BiH in July. Marketing to other companies in BiH will start ready for next lambing season in November. No other country permits Kosovo exports.
2.1	Meat Processors Association [MPA] initiate new service for lamb and sheep meat slaughtering facilities	No interest has been expressed by the meat processors in these animal carcasses; a larger export market is needed to generate interest
2.2	Develop proper lambing process with 5 model farms	Activity complete at only 2 farms in Kacanik and Lipjan. Otjher farms considered unsuitable at this stage to serve as models.
2.3	Implement proper pasture management program with 5 model farms	Activity complete at 3 sheep farms and 2 cattle farms. Milk production from ewes feeding on improved pasture increased 12.5%; cattle by 22%.
3.1	A "model" business plan developed for a lamb and sheep production operation	Activity completed. Farmers still reluctant to apply for loans using the plan because of perceived onerous lending terms.
4.1	At least one contract signed between foreign purchasers and domestic producers of wool.	A Macedonian importer has agreed to purchase wool, provided it is collected and packaged by a Kosovar distributor.

No. Ref	TARGETED RESULT - ANIMAL FEED	OUTCOME
1.1	Establish intercropping regime using a legume such as rape seed, alfalfa, red clover or vetch with five model farms	Activity completed under grant with KODAA at six model farms - Lipjan, Klina, Podujevo, Gjakove [2], and Viti.
1.2	Assist AKA and KODAA to develop for their members two new fertilizer formulas properly suited for the Kosovo conditions	Activity completed. New formulations with DAP and MAP, and Urea top dressing introduced.
2.1	Yield results from test plots of corn, soybean, rapeseed and red clover disseminated to 200 farmers.	Activity completed.
2.2	Test two new feed grain products produced – example: Pelletized feed grains and Full Fat Soybean meal	Tests were initiated in the spring. Results will be analysed and disseminated in the fall.
3.1	60 soil testing samples taken and analyzed	Samples were tested from sites spread across Kosovo. Reults disseminated to farmers who started to select appropriate fertilizers and herbicides for their fields.
4.1	Test plots with 5 sample sheep farmer demonstrating proper pasture management	Activity complete at 3 sheep farms and 2 cattle farms. Milk production from ewes feeding on improved pasture increased 12.5%; cattle by 22%.
5.1	80 samples of corn silage taken and analysed	Completed under a grant to NGO "Dukagjina". Two workshops organized to disseminate the information.
5.2	Provision of alfalfa seed for multiplication	Delayed because of difficulty in finding a suitable partner to supply parent seeds. Seminarna will now partner; KCBS will conduct a market analysis early in Year Three.
5.3	40 samples of alfalfa taken at different stages of growth and analysed	Activity completed - 42 samples taken. Results disseminated at workshops and training sessions to farmers.
6.1	A "model" business plan developed for commercial feed grain farm that can be used for obtaining commercial financing from two banks	This assignment was one of the proposals performed under the MTI Voucher Scheme.
6.2	Develop cost analysis for on-farm soybean extruding and implement soybean extruding on two model farms	Activity completed.

No. Ref	TARGETED RESULT - POULTRY	OUTCOME
1.1	At least one breeder flock operation and hatchery established	Grant approved; hatchery will be established in first quarter of Year Three.
2.1	100% of domestically commercially produced and imported eggs are within the MAFRD regime for testing and grading system.	Cooperation with MAFRD and the KVFA ensured this was achieved early and allayed consumers' fears exaggerated by the Avian Flu concerns.
2.2	SHPUK standards for egg quality established and accepted by a majority of domestic producers.	ADMINISTRATIVE INSTRUCTION MA – No. 20/05 set the governmental minimum standards. SHPUK under the Strategic Action Plan has the Seal of Quality Goal that will define poultry industry standards. MAFRD accepted these.
3.1	Promotional campaign implemented that results in 25% consumer recognition of Kosovo logo for fresh poultry products - eggs and meat	Koni-Soni has introduced the KS logo and are selling more than 165,000 eggs daily representing 24,6% of the Kosovo daily consumption. EAR/BAS program conducted market research confirming consumer recognition was above 25% .
3.2	Market share of locally produced eggs increased by 20%	Activity completed. Excluding illegal imports, since Nov. 2005 all eggs sold in Kosovo were Kosovo produced.
3.3	Market share of locally produced chicken meat increased by 100%	Activity discontinued due to Avian Influenza
4.1	SHPUK to develop a feed products price list for the feed mills and cluster members	Activity completed. Price list distributed to all SHPUK members; other stakeholders can access the website and request data.
4.2	Random feed testing conducted by 100% of local feed millers and all imported feed grain products	Activity completed. Two major suppliers - Fauna and Koni-Soni - have contracted with Ag. Faculty for testing on an on-going basis.
4.3	Identify the cost advantages of pelletizing feed grain in Kosovo.	Activity completed. Provided justification for moving ahead with the pelletizing plant - see 4.4 below
4.4	Obtain one pelletizer, and install at one feed mill, to serve as a model for the poultry industry	Grant approved late in FY 2006; pelletizer will be installed in first quarter of Year Three
5.1	Develop business plans that will assist the industry in privatization	Activity completed.

No. Ref	TARGETED RESULT - POULTRY Continued	OUTCOME
5.2	Assist two SOE's to privatize into layer and broiler operations	Activity is completed. Unfortunately Koni-Soni were unsuccessful in privatizing the farm in Gjakova, no other poultry operations were placed for privatization
6.1	Organize group buying activity that results in 20% cost savings for the buyers.	Instead of a group being formed, Fauna has assumed this role and is bulk buying soya, sunflower meal and maize.
6.2	Establish one trial feed storage facility to serve as a model for the poultry industry	Fauna's purchase of the SOE Animal Feed Mill in Fushe Kosovo
7.1	Conduct 5 poultry training seminars on nutrition/production and disease prevention management.	Activity completed.
7.2	Draft remaining regulations and policies affecting the poultry industry and submit to MAFRD	KCBS assisted MAFRD to complete draft legislation

No. Ref	TARGETED RESULT - FRUIT & VEG	OUTCOME
1.1	At least 15 forward purchase contracts between domestic producers and processors or wholesalers.	15 potato farmers fulfilled their contracts with Pestova. One other contract will perform and two will not, but new processors have been found in Albania and Bosnia to compensate.
2.1	With the Ministry of Agriculture and local agriculture institutes, introduce test plots for high-bush blueberries, a highly profitable product.	Due to extremely unprofessional behavior by the director of the lead association for this activity, KCBS withdrew all support.
2.2	At least 2 new Kosovo produced varieties of fruits and vegetables, introduced to meet the specific demand of processors and compete successfully with imports.	None introduced.
2.3	At least 2 new Kosovo value added products be developed with export potential.	Consumer-size mushroom packs in woven wood baskets, dried blueberries, frozen blueberries and dried rosehips were exported.
2.4	At least 3 fruit&vegetable growers starting the process of conforming to EuroGAP practices	The phytosanitary focus was shifted to HACCP for processors, which were screened and two identified as ready to begin the certification process in year 3.
3.1	Establish packing and grading facilities for two fruit associations	Four F&V grading/sorting/packing lines and/or sizing/drying lines, financed by SAFs, are in-process for completion in Q1 of year 3, but none were established in year 2.
3.2	Continue ongoing packaging improvement	Contacted carton manufacturers in Kosovo and most of those in the surrounding region. New packages for apple packers were introduced during the fall 2006 harvest; one processor has introduced new packaging for mushrooms.
3.3	Installation of 7 refrigerated cold rooms for improved fruit and vegetable storage	One association converted a room to passive cooling for storing apples, and six cold or frozen storage rooms, financed by SAFs, are in-process for completion in Q1 of year 3.
4.1	New processing equipment installed in at least one processing company, IQF freezing line, Ragova	None were installed.
4.2	Complete implementation plans for 2 new value-added products produced by Kosovo processing companies.	No plans were made or implemented.
5.1	Promote a quality Kosovo brand	With EAR/Marketing Support Project, 6,000 cartons will be donated in December 2006 to three apple associations with new "Kosovo Apples" logo. This will also test the hypothesis that properly packed apples can command higher prices.
5.2	Acquire "new technology" orchard machinery for demo purposes; pneumatic tree pruning equipment, rotovating machines and air blast sprayers.	Activity complete. Fruti Association received the pneumatic pruning equipment and the in-row orchard cultivator; the Association financed the purchase of the air blast sprayer



No. Ref	TARGETED RESULT - CONSTRUCTION MATERIALS	OUTCOME
1.1	Maximize the production potential of the Silcapor plant by addressing production, quality and manning levels..	Negotiations for technical assistance from a Slovenian company stalled as it requested outrageously high rates. KCBS identified an STTA to evaluate realistic needs, but visit was postponed until after the construction season..
1.2	Financing for €3.0 million of capital plant investments obtained by materials manufacturers.	Total financing for investment to date in the Construction Materials cluster was 16.9 million euros to finance investments valued at 7.7 million euros.
2.1	EN standards for cement, aggregates, and reinforcing steel disseminated to engineering community and in general use.	Standards were given to KSA; dissemination to engineering community is under the guidance of EAR and its standards compliance with EU regulations. Standards were adopted for use in Kosovo in September.
2.2	Action Plan developed for acquiring necessary testing facilities to ensure standards for essential construction materials are enforced	These three results have been delayed by interactions with the EU standards program and its work with the KSA. Several private investors have indicated interest in setting up a testing laboratory in asphalt plants for quality control, and construction related associations are also interested.  KCBS funded an STTA to advise on the basic testing equipment to be provided, the organization of laboratories, training and certification of laboratory technicians, and certification/accreditation of laboratories performing tests on construction materials.
2.3	At least one testing laboratory established for testing of essential construction materials	
2.4	Financing for €0.5 million for testing equipment obtained to support the monitoring of quality production of essential construction materials.	
2.5	Lumber grading rules defined, disseminated to primary and secondary wood processors and in general use.	This was an ambitious goal, pressed for by the Wood Processors Association. It was KCBS intent to use Wood Combine Co. as the leader in this activity, but their cooperation failed to materialize,
2.6	EN standards for wood products used in construction reviewed, translated, submitted to MTI, and in general use.	This, too, was an ambitious goal, pressed for by the Wood Processors Association. Absent any testing facilities in Kosovo, it is also meaningless
3.1	Two new trade associations registered and strategic plans developed to ensure their sustainability	The concrete producers registered their association KARC, and a strategic plan was written. In order to ensure a sustained association KCBS will cooperate with OEK and RČAK many of whose members have concrete plants as well.
3.2	Reactivation of the clay products manufacturers' association and a strategic plan developed to ensure its sustainability	KCBS will not get involved in this association until other associations are well founded and demonstrating sustainability. This development will also be coordinated with the OEK.
3.3	Creation of an association of decorative stone producers, processors, and traders	No progress in this area. Not needed until the industry takes off and there are committed players in the cluster to form an association.
4.1	At least one domestic producer of waste containers selling to replace imports	KCBS tried to develop a relationship between KTA and privatized SOE, Lamkos. Lamkos claimed they couldn't compete with inferior products being bought from Macedonia. At year end, CDF placed an order for 95 new waste containers with LamKos.
4.2	Two foreign investments resulting in production of decorative stone blocks for local and foreign markets.	Investment promotion turned over to the IPA at MTI. They have been slow to get established. KCBS continues to field calls of interest, but we can't make the big pitch that MTI are set up to do.
4.3	At least one decorative stone processor using locally quarried stones.	Unlikely to result until action 4.2 is completed.

No. Ref	TARGETED RESULT - BUSINESS CONSTRAINTS	OUTCOME
1.1	Conduct the "100 Days" conference identifying specific private sector initiatives and civil society institutions	Task Groups for the PP Dialog met throughout the first quarter. Their recommendations were published. Kosovo stakeholders in the process are now responsible for moving these forward.
1.2	Follow through on recommendations with financial and technical assistance, and coordination Donors Roundtable	KCBS is addressing each request for assistance as stakeholders follow through with recommendations arising from PP Dialog as the request is appropriate to the KCBS program.
2.1	Participate in the World Bank Symposium, and promote the findings of the Doing Business Index	World Bank did not want Kosovo to be represented at the symposium. 5,000 copies of KCBS brochure "Kosovo is 'business-friendly'. The numbers prove it" were printed and delivered across Kosovo institutions.
3.1	Conduct Finance Fair on borrower education and rational pro-business public policy	Finance Fair was successfully held in November 2005 with over 500 visitors attending workshops and one-on-one meetings with financial institutions to educate borrowers.
3.2	Conduct Finance Workshop focused on helping banks create new products around long term assets.	Since there is no experience in Kosovo of forming Joint Ventures, KCBS arranged a Workshop on the subject, held meetings with potential partners from construction industry, and facilitated one completed JV in year. Two more by Q1 FY2007.
3.3	Expand KAMP-Raiffeisen model to two more sectors	Neither the poultry nor the F&V sectors were interested in following through with this model. It was not as applicable to them as it was to milk producers; interest rates were still high; and repayment periods were too short. Will revisit in Year Three.
3.4	Determine role for Diaspora remittances in Kosovo's development	No action. The diaspora remains an important, untapped source of capital for Kosovo and will be addressed more determinedly in Year Three.
3.5	Complete a full review of the DCA application and implementation process	KCBS researched the needs for such a guarantee to assist the agricultural industry. The DCA application was removed from KCBS scope, and was successfully concluded by USAID directly.
3.6	Develop a plan to address existing gaps in Kosovo financial markets	No action. Access to Finance will be a principal focus of the KCBS program in Year Three.

<b>No. Ref</b>	<b>TARGETED RESULT - BUSINESS ASSOCIATIONS</b>	<b>OUTCOME</b>
1.1	Issue grants for eleven [11] targeted associations and prepare all 11 associations to reduce donor support from 60% to 40% of total revenue.	Grants were awarded to seven associations. Strategic plans recognized need to reduce donor-dependency in Year Three, but the 40% figure will be reviewed on case by case basis.
1.2	Conduct study tours in US and EU markets to demonstrate functioning models of Association Management firms	First study tour to the US was completed in February; second tour, to an EU country, was planned for Q3 but never arranged. The need to conduct one was not seen as a priority. If it takes place, a careful selection of attendees will be necessary.
2.1	Support the writing of Strategic Plans for 3 new associations and follow process for their implementation developed in Year One.	Strategic plans for just two associations were written - the Business Consultants Council and the Concrete Products Manufacturers. It was agreed with USAID that our involvement in new associations should be limited.
2.2	Complete training manual for associations in how to evaluate training needs, estimate demand, and price courses.	An Association Management Manual was left as part of STTA assignment, and handed over to the Business Consultants Council. Its members will respond to training requests from associations with KCBS support as required..
2.3	Conduct three meetings to foster regional association cooperation	Meetings were held with associations in Serbia, with the SE Europe Associations of Producers of Fruits and Vegetables, and with several USAID counterpart projects in Serbia, Macedonia and Montenegro.. These will be developed further in Year Three.
2.4	Draft NGO Law more favorable to fee-for-service activity	At USAID's direction, further pursuit of this goal was suspended.
2.5	Implement industry tracking systems with at least two associations	A STTA was lined up for this work, but it was decided that this was not a high priority for associations at this time. When the initiative for such study comes from them, KCBS will respond.
2.6	Train associations in coalition building	Discussed on the US Study Tour, and further in the PP Dialog. Benefits of coalitions regarding advocacy were propounded. Further development left to associations to initiate.
2.7	Develop a plan to build on the ongoing USAID initiatives to facilitate effective cross- border economic cooperation amongst associations and other NGOs in Kosovo and Serbia	Evolving - see 2.3 above. KCBS appointed a Marketing and Trade Linkages specialist in September to further this initiative.
<b>No. Ref</b>	<b>TARGETED RESULT - BUSINESS SUPPORT SERVICES</b>	<b>OUTCOME</b>
1.1	Conduct a SWOT analysis of existing business service providers	Local BSP, UBO Consulting evaluated strengths and weaknesses of Kosovo BSPs; and identified opportunities and threats experienced in developing Balkan countries, Romania, Bulgaria, Croatia and Slovenia. Steps to close gaps recommended.
2.1	Assist local business service providers to develop private sector infrastructure programs addressing issues of advocacy and transparency	KCBS will respond when BSPs request assistance. This must be a "demand-pull" initiative, not a "supply-push".
2.2	Conduct benchmark research on business service provider development in other regional transitional economies	Research was performed under the SWOT analysis - see 1.1 above.

# **KOSOVO CLUSTER AND BUSINESS SUPPORT**

## **ANNUAL REPORT**

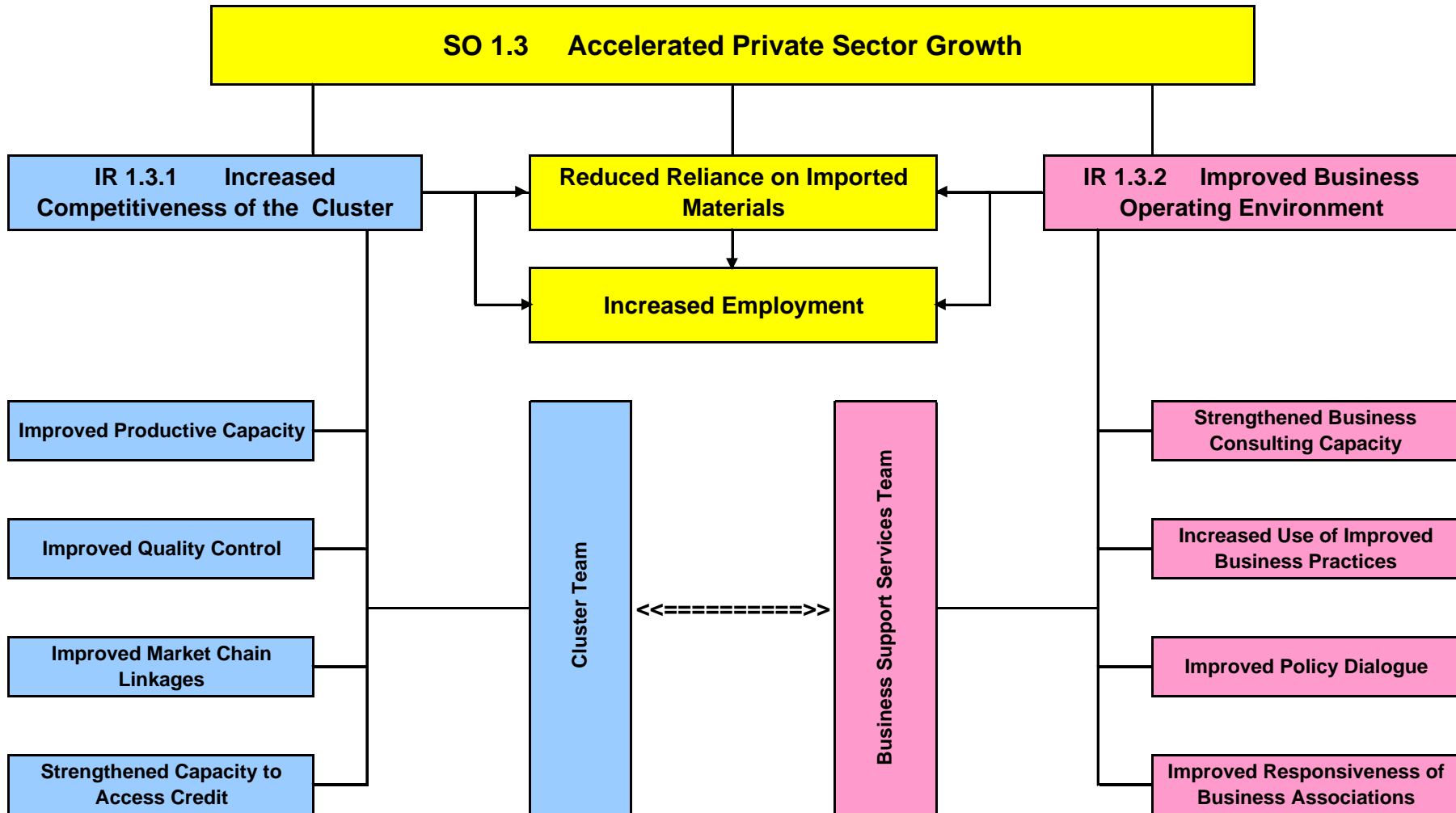
**YEAR ENDING: 30 SEPT. 2006**

### **ANNEX 5**

#### **HIERARCHY OF OBJECTIVES**

# KOSOVO CLUSTER AND BUSINESS SUPPORT PROGRAM

## HIERARCHY OF OBJECTIVES



# **KOSOVO CLUSTER AND BUSINESS SUPPORT**

## **ANNUAL REPORT**

**YEAR ENDING: 30 SEPT. 2006**

### **ANNEX 6**

**BROCHURES PRODUCED IN YEAR**

Brochure Topic	TriFold	Multipage	Other	English language	Albanian language	Serbian language
<b>GENERAL</b>						
Kosovo Cluster and Business Support Project 2006		✓		✓	✓	✓
Kosovo is Business Friendly			✓	✓		
Strategic Activities Fund	✓			✓	✓	✓
Alliance of Kosovar Businesses	✓				✓	
Decorative Stones of Kosovo		✓		✓		
The Role of Associations in Vocational Training	✓			✓	✓	
<b>LIVESTOCK</b>						
Wrapped Bale Silage	✓			✓	✓	
Avian Influenza - Bird Flu	✓			✓	✓	✓
Factors that Have an Impact on Corn Silage Quality and Yield	✓			✓	✓	
Maintenance & Handling of Cow Hoofs and Prevention of Disease	✓				✓	
Preparation of Fodder Plants for Animal Feed	✓				✓	
Raising Dairy Calves and Heifers	✓			✓	✓	✓
Soybean	✓				✓	
Agrotechnical Measures & Research Parameters in Experimental Fields	✓				✓	
Corn	✓				✓	✓
Process of Making Silage for Animal Nutrition	✓				✓	✓
Mozzarella	✓				✓	
Agrotechnics of Wheat Cultivation	✓				✓	
Agrotechnics of Soyabean	✓			✓	✓	✓
The Silage Making Process	✓			✓		
Natural Insemination is Not a Solution for Your Farm	✓			✓	✓	
Indirect Detection of Sub-clinical Mastitis			✓		✓	
Good Practices for Milk Production on the Farm			✓		✓	
Recommended Practices for Transportation of Milk			✓		✓	
Golden Rules for Quality Milk Production			✓		✓	✓
Determination of Milk Acidity			✓		✓	
Bluemethilen Test			✓		✓	
Guide to Nutrition Deficiency Symptoms			✓		✓	
Protection of Sheep Health		✓			✓	✓
Proper Sheep Feeding and Management		✓			✓	✓
Kosovo Poultry Producer and Feeder Association	✓			✓	✓	
Alliance of Kosovo Agribusiness	✓			✓		✓
<b>FRUIT &amp; VEGETABLES</b>						
Wild Blueberries	✓				✓	✓
<b>CONSTRUCTION MATERIALS</b>						
Association of Wood Processors of Kosovo 2005	✓			✓	✓	
Association of Wood Processors of Kosovo 2006	✓			✓	✓	✓
Importance of Forest Certification	✓			✓	✓	✓
Road Construction Association of Kosova	✓			✓	✓	

# **KOSOVO CLUSTER AND BUSINESS SUPPORT**

## **ANNUAL REPORT**

**YEAR ENDING: 30 SEPT. 2006**

### **ANNEX 7**

#### **GLOSSARY OF ACRONYMS**



## GLOSSARY OF ACRONYMS

[Where an acronym represents initials of Albanian words, the English translation is provided]

<b>AAK</b>	Alliance for Future of Kosovo
<b>ACCA</b>	Association of Chartered Certified Accountants (UK)
<b>AKA</b>	Alliance of Kosovo Agri-businesses
<b>AVUK</b>	Kosovo Veterinary Food Agency [same as KVFA]
<b>AWPK</b>	Association of Wood Processors of Kosovo
<b>BAS/TAM</b>	Business Advisory Services/Turnaround Management
<b>BCC</b>	Business Consultants Council
<b>BiH</b>	Bosnia and Herzegovina
<b>BPK</b>	Banking and Payment Authority of Kosovo
<b>BSI</b>	British Standards Institution
<b>BSP</b>	Business Service Provider
<b>CAN</b>	Calcium Ammonium Nitrate
<b>CMT</b>	California Mastitis Test
<b>COC</b>	Chain of Custody
<b>CPP</b>	Crop Plant Protection
<b>DAP</b>	Di-ammonium Phosphate
<b>DCA</b>	Development Credit Authority
<b>DHI</b>	Dairy Herd Improvement
<b>EAR</b>	European Agency for Reconstruction
<b>EN</b>	European Norm
<b>EU</b>	European Union
<b>EWF</b>	Engineered Wood Flooring
<b>FSC</b>	Forest Stewardship Council
<b>GMP</b>	General Manufacturing Practices
<b>GTZ</b>	German Society for Technical Cooperation
<b>HACCP</b>	Hazard Analysis Critical Control Points
<b>HAK</b>	Horticultural Association of Kosovo
<b>HMA</b>	Hot Mix Asphalt
<b>ICCED</b>	International Center for Community and Enterprise Development
<b>ICMM</b>	Independent Commission for Mines and Minerals
<b>IFC</b>	International Finance Corporation
<b>IPA</b>	Investment Promotion Agency
<b>IPR</b>	Intellectual Property Rights
<b>IQF</b>	Individually Quick Frozen
<b>KACP</b>	Kosovo Association of Concrete Producers
<b>KAMP</b>	Kosovo Association of Milk Producers
<b>KBA</b>	The Kosovo Banking Association
<b>KCBS</b>	Kosovo Cluster & Business Support
<b>KDC</b>	Kosovo Development Center

<b>KDPA</b>	Kosovo Dairy Processors Association
<b>KEK</b>	Kosovo Energy Corporation
<b>KFA</b>	Kosovo Forest Agency
<b>KODAA</b>	Kosovo Agricultural Input Dealer Association
<b>KSDP</b>	Kosovo Swiss Dairy Processing and Marketing Promotion Project
<b>KTA</b>	Kosovo Trust Agency
<b>KVFA</b>	Kosovo Veterinary Food Agency
<b>LC</b>	Letter of Credit
<b>LLC</b>	Limited Liability Company
<b>LINK</b>	Kosovo Association of Civil Engineers
<b>MAFRD</b>	Ministry of Agriculture, Forestry and Rural Development
<b>MAP</b>	Mono-ammonium Phosphate
<b>MCC</b>	Milk Collection Center
<b>MESP</b>	Ministry of Environment and Spatial Planning
<b>MEM</b>	Ministry of Energy and Mining
<b>MM</b>	Millions
<b>MOU</b>	Memorandum of Understanding
<b>MT</b>	Metric Tonnes
<b>MTI</b>	Ministry of Trade and Industry
<b>MTPT</b>	Ministry of Transport and Communication of Kosovo
<b>NGO</b>	Non-Governmental Organization
<b>NPK</b>	Compound Fertilizer (Nitrogen-Phosphorus-Potassium)
<b>OEK</b>	Chamber of Commerce of Kosovo
<b>PPD</b>	Private Public Dialog
<b>QA/QC</b>	Quality Assurance/Quality Control
<b>RAS</b>	Rural Advisory Services
<b>RBKO</b>	Raiffeisen Bank of Kosovo
<b>RCAK</b>	Kosovo Association of Road Constructions
<b>RTK</b>	Radio and Television of Kosovo
<b>SAF</b>	Strategic Activities Fund
<b>SCAAK</b>	Society of Certified Accountants and Auditors of Kosovo
<b>SHPUK</b>	Kosovo Poultry Producer And Feed Miller Association
<b>SME</b>	Small and Medium Enterprise
<b>SOE</b>	Socially-owned Enterprise
<b>SOW</b>	Scope of Work
<b>STTA</b>	Short-term Technical Assistant
<b>SWOT</b>	Strengths, Weaknesses, Opportunities and Threats
<b>UNMIK</b>	United Nations Interim Mission in Kosovo
<b>USAID</b>	United States Agency for International Development
<b>USAPEEC</b>	US Poultry and Egg Export Council
<b>USDA</b>	United States Department of Agriculture
<b>WfW</b>	Women for Women Association