

**CRDA & CRDA-E
COMMUNITY REVITALIZATION
THROUGH DEMOCRATIC ACTION**

FINAL REPORT

GRANT NO. 169-A-00-01-00125-00

JULY 2001 - JULY 2007



Community Development



Value Chain Development



Local Economic Development



***Micro, Small & Medium
Enterprise Development***

SUBMITTED BY



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Summary

CRDA Overview: The USAID-funded Community Revitalization through Democratic Action (CRDA) project was a landmark project in the development of post-conflict Serbia. CRDA contributed more financial resources to the people and communities of Serbia than any other single donor funded project. The project was a six-year, \$200 million project implemented by five USAID partners throughout the country, each with a budget of \$40 million. Mercy Corps covered 18 municipalities in southern Serbia, including the six municipalities of Sandzak. Commencing in 2001, the goal of CRDA was to promote citizen participation in communities to address their priority needs for economic and social revitalization. In 2005, USAID changed the strategy, shifting the focus to economic development through enterprise and job growth, and renaming the program CRDA-E. From 2005, over 90% of the project investments were made in economic development initiatives.

CRDA Activity Portfolio: This report covers all activities implemented over the life of CRDA, presented herein in four general categories: I) Community Development, II) Local Economic Development (LED), III) Value Chain Development, and IV) Micro, Small & Medium Enterprise (MSME) Development. Each activity is presented in its corresponding category, and includes three sections: i) Strategy, ii) Results, and iii) Monitoring & Evaluation.

Budgets & Matching Contribution: In total, of the \$40 million USAID award, \$26.80 million (67%) was invested into specific projects and activities: Community Development, \$12.69 million; LED, \$5.7 million; Value Chain Development, \$6.22 million; MSME, \$1.48 million; and Reproductive Health (earmark activity), \$700K. Beneficiaries and clients contributed \$19,975,000 in documented matching contribution (42% of total project cost), significantly higher than the 25% minimum specified in the cooperative agreement.

Partnerships: Mercy Corps relied on the partnerships and cooperation of a number of private-sector and donor initiatives over the life of CRDA and CRDA-E. In addition to our extensive use of local consulting firms and NGOs, notable partnerships were formed with the USAID MEGA, SEDP and SLGRP programs; Regional Chambers of Commerce; UNDP and FAO in the Sandzak municipalities; commercial banks through our Employment Expansion program and Credit Fairs; IFC for recycling business initiatives; and DeLaval, who provided pro-bono training and equipment for dairy demonstration farms. Mercy Corps organized and facilitated the meetings of the Serbia Economic Working Group and was instrumental in forming the Southern Serbia Agriculture Project Alliance.

USAID Indicators: USAID mandated the tracking of four CRDA indicators. In the early stages of the program USAID and the partners agreed on the use of standard multipliers to estimate indicators based on project types and values. Furthermore, except in cases where M&E surveys were conducted on a specific project, the results were not verified, but instead rely on estimates provided by the clients or beneficiaries. Nevertheless, the results of the CRDA indicators are:

Number of Beneficiaries: 4,759,306 (53% women)

Employment Created: 70,649 person-months

Additional Income Generated: \$17,641,268

Increase in Agriculture Sales: \$29,253,314

Number of Projects (not an indicator): 1,320

Monitoring & Evaluation: Due to the diverse nature of activities implemented under CRDA and CRDA-E, the Mercy Corps country team conducted a series of M&E assessments to evaluate and document the results of the various activities: Community Development, LED, MSME Development, and the Dairy Sector Value Chain & CRDA Impact.

Part I: Community Development

Community Development Councils: CDCs operated primarily on the Mesne Zajednice (MZ) level, the lowest administrative level of governance in Serbia. MZs in turn mobilized the active support and involvement of their respective municipalities, who contributed most of the financial matching contribution toward project implementation. Mercy Corps strategy guided CDCs through three stages of development: mobilization, capacity building and expansion. Mercy Corps facilitated the formation and development of 76 CDCs serving 300 communities, 135 of which completed at least one CRDA project. CDCs implemented a total of 326 projects, the majority of them in civil infrastructure, with a CRDA contribution of \$11.95 million and matching contribution of \$9.52 million. While none of the CDCs eventually formed a registered civil society group, a number of them did continue to meet, either under different auspices or to continue working toward the completion of ongoing community projects.

Community Fairs: Beginning in 2003, Mercy Corps diversified its community mobilization methodology and established *Community Fairs*, interactive events aimed at increasing citizen participation in urban areas where CDC and citizen participation was generally lower than in rural MZs. Community Fairs were events where different special interest groups, NGOs, sports teams and other clubs, schools, and institutions were able to present their project ideas to the

community. Citizens attending the fairs then voted for their favored project, which received financial support from CRDA. From 2003-2005 Mercy Corps organized 29 community fairs where participating groups proposed 602 projects, 152 of which were implemented in cooperation with CRDA. Each year, participation in the fairs grew, both in terms of participants and voters. Over the three year period Community Fairs were held, over 75,500 citizens, or 17% of Mercy Corps' urban population voted for projects.

Part II: Local Economic Development

Municipal Economic Councils (MEC) & LED Projects: In 2005, with the transition from CRDA to CRDA-E Mercy Corps transitioned its Community Development activities to an LED strategy aimed at creating and facilitating public-private partnerships and increasing municipal economic competitiveness while retaining the positive aspects of the community development approach of CRDA. LED activities were implemented in 15 of the 18 municipalities in the AOR. In 2005, MECs conducted SWOT analyses to identify LED opportunities, bottlenecks and strategic sectors; however, few of the proposed projects targeted the strategic areas identified; triggering two key changes in 2006: the competition between municipalities for CRDA resources based on quality of projects; and a "*Cultivating Demand*" approach to solicit project proposals from three targeted sectors: i) Tourism, ii) SME Development, and iii) Vocational Education & Work Force Skills. In total, Mercy Corps implemented 171 LED projects valued at \$9.024 million, \$5.151 million from CRDA and \$3.873 in matching contribution. In 2006, the quality of project proposals increased markedly; there were 27 projects implemented in the Cultivating Demand sectors, as opposed to only six in 2005. An intensive M&E assessment was conducted by the local consulting firm, DCG, in 2007; the findings are summarized herein.

LED Institutionalization: In 2007, the final year of CRDA-E, Mercy Corps focused on ensuring the sustainability of its LED programming to provide a permanent mechanism or agency for LED within the local governments. To this end Mercy Corps undertook an institutionalization strategy in partnership with MEGA, UNDP and local partner DCG with the aim to create municipal LED offices throughout the Mercy Corps AOR. The materials and processes used by the USAID MEGA program were used for the training and development activities and were supplemented by study tours and local strategy meetings. In the end, the M&E assessment confirmed that: four of the 15 municipalities formally established LED Offices as part of municipal administration by enacting a Municipal Assembly Decision; six municipalities have ensured some functionality of LED activities, and five of these are in the process of formalizing an LED Office.

Citizen Assistance Centers (CAC): CACs are one-stop centers in the municipal building that assist citizens in obtaining permits, documents and information; resolving issues with local government; lodging complaints; and providing suggestions. CACs provide a relationship between citizens and the municipal government that fosters open communication and assists the municipality in providing better, more efficient, and more transparent services; they offer local government an opportunity to demonstrate that they are responsive, transparent and reform-minded. Eleven of eighteen municipalities established a CAC in cooperation with CRDA and/or another USAID partner.

Business Improvement Districts (BID): A Business Improvement District (BID) is a strategic partnership aimed at revitalizing downtown shopping districts in city centers. BIDs renovate the basic infrastructure and streets and beautify the zone, improving the business climate and economic vitality of downtown areas. Property owners, shopkeepers and City Hall cooperate to address construction and legal initiatives that result in a successful BID project. Mercy Corps invested in three BIDs, leading the development efforts in Prijepolje, while Krusevac and Prokuplje were led by USAID's SLGRP and MEGA programs, respectively. Mercy Corps contributed \$271,500 toward the three BIDs while local partners provided \$1,221,000 in matching contributions.

Tourism Development, Placemaking® & Greenways: Mercy Corps implemented three activities aimed at improving tourism development throughout CRDA-E: i) Placemaking®, ii) Greenways, and iii) Three Unique Days in Nova Varos.

Placemaking®: Placemaking® is a process based on public involvement in creating and designing public spaces to revitalize the area and jumpstart economic development. Project for Public Spaces, Inc. (PPS), the New York based non-profit organization that pioneered the Placemaking® approach to public spaces, worked with four CRDA partners under the encouragement of USAID. Mercy Corps implemented Placemaking® projects in Krusevac, Kursumlija and Novi Pazar.

Greenways: The Greenways strategy is similar to Placemaking®, except that while Placemaking® generally focuses on the revitalization of urban areas, Greenways focuses on rural areas, especially routes that connect various tourism points or destinations. Greenways projects often include the construction or physical rehabilitation of points of interest, as well as tourism signs that point the way to various destinations. In Aleksandrovac and Trstenik, Mercy Corps worked with the USAID SEDP project to implement Placemaking® and Greenways projects in the municipalities of Aleksandrovac and Trstenik, helping to implement a strategy

to turn the spa city of Vrnjacka Banja into a hub for hiking, wineries, and festivals. Six projects were implemented in the area.

Three Unique Days in Nova Varos: In Nova Varos Mercy Corps implemented a tourism strategy in cooperation with the Serbian consulting firm, ExperienceClub. The program was based on a competition between stakeholder groups for tourism investments in and around the municipality. The contest format required that applicants form consortia to offer the most unique three-day package of activities that the region has to offer: lakes, the Lim river and Uvca canyon, rare species of birds and eagle, and a caving expedition accessible only by boat. The winners, which included the park rangers overseeing the Nova Varos resources, were awarded \$20,000 worth of equipment and gear necessary for organizing the *Three Unique Days*.

Recycling & Employment Alternatives Program (REAP): Mercy Corps' REAP program was implemented through the LED component in thirteen municipalities. Under the program local governments, communal enterprises and businesses had the opportunity to apply for capital investments that supported recycling activities in an economically viable way and created new jobs. Ten of the eighteen municipalities in the AOR applied to either start or expand a municipal recycling program, as well as 38 other private enterprises and public-private partnership initiatives. In total, 25 projects were financed in the amount of \$395,000 of CRDA-E funds, with a client matching contribution of \$145,000. Projects were implemented in categories of municipal collection, plastic processing, wood scrap and waste, mixed products, and training initiatives.

Business Incubator Center (BIC): A Business Incubator is an organizational structure that facilitates creating successful new enterprises by providing them with a comprehensive and integrated range of services, which can include production and office space, common services, business counseling, and networking activities. Due to the complex nature of business incubators and the high level of development efforts necessary to plan and open an incubator, Mercy Corps' BIC strategy planned for establishing only a single incubator in one municipality chosen through a competition between applicant municipalities based on strict criteria. Mercy Corps selected Prokuplje municipality for the BIC, based in large part to the strong support of the project from a cross-section of stakeholders. The BIC is a registered limited liability company (DOO) with three shareholders representing the public, private and civil society sectors. At the time of this writing (September 2007), there are six tenant companies with 30 employees working in the BIC with another six expected to move in soon. Once complete, the BIC will employ 105 persons.

Credit Fairs: Mercy Corps held four Credit Fairs in 2005-2006, two each in Krusevac and Novi Pazar. Credit Fairs offer a forum where banks and business service providers presented their services and loan products to potential clients. In addition a host of MSMEs, food processors and agricultural associations representing the most successful clients from each component of the Mercy Corps portfolio had the opportunity to present their businesses to credit providers and the broader community. Between 6,000 and 8,500 people attended the credit fairs. In addition to the exhibits, the 2006 fairs hosted Credit Round Tables where banks, donors and entrepreneurs discussed key issues related to SME and agriculture credit, including setting interest rates, foreign & domestic capital, borrowing trends and requirements for MSMEs, social responsibility, guarantee funds, agriculture credit, and potential donor interventions. A transcript is available in the October 2006 LED News (see bibliography).

Junior Achievement: Junior Achievement (JA), an international program in over 100 countries, offers students dynamic, interactive programs for the Serbian business leaders of tomorrow through exciting partnerships between economy and education. The key to Junior Achievement's success in so many diverse countries and cultures is its ability to develop the brightest young minds through a broad portfolio of interesting and creative opportunities, coupled with the support of the local business community. JA Serbia offers three primary activities: i) Applied Economics, a one semester high school curriculum teaching the fundamental concepts and practical application of economics and marketing; ii) Student Company, which offers students the opportunity to start and operate their own company; and iii) Management & Economic Simulation Exercise (MESE), a computer simulation contest that matches student teams in competition with one another just like in the real world of business. JA reached 28 schools in the Mercy Corps AOR, reaching 91 classes and 2,310 students; 63 student businesses were formed and 538 students participated in either a national or international MESE competition. JA students also participated in numerous national and international events with JA students from other countries.

Part III: Value Chain Development

CRDA Processor Level Interventions: From 2001-2004 Mercy Corps and partner Emerging Markets Group managed the CRDA economic development portfolio, targeting economic investments primarily at the processor level under a strategy aimed at both making processors more competitive and increasing the demand for raw agricultural products, thereby expanding the benefit over the entire value chain. Investments typically ranged from \$30,000-\$50,000, with the

majority of the investments in the dairy, livestock and fruit sectors; in total \$3.88 million of CRDA funds were invested in 97 projects in the agriculture sector during these years. Of the 97 projects, 78 were made at the processor level and directed primarily at promising micro, small and medium privately-owned enterprises in the fruit, dairy and meat sectors. Investments aimed at increasing production capacities and helping processors create new product lines. Beginning in 2005 and the transition to CRDA-E, Mercy Corps ceased financial support to the processors but continued with a number of training and development initiatives, including HACCP/ISO certification, supply chain management, and trade fair exhibition.

CRDA-E Producer Level Interventions: In 2005, partly in response to the transition of CRDA to CRDA-E, and partly as a result of a 2004 EMG assessment, CRDA-E began targeting value chain interventions at the producer level. While the focus remained on the fruit and dairy sectors, it transitioned from the processor to the producer level of the value chain, targeting agricultural associations and cooperatives. The strategy was built on strengthening the linkages between producer and processor; thus, processors were actively involved in the developmental activities of the producer associations. The CRDA-E strategy had four main activity areas: i) farmer association development (FAD), ii) production technology investments, iii) training & education, and iv) trade promotion. As a result of Mercy Corps' FAD activities, 49 new associations registered representing 734 farmers. Technology investment programs provided support to 84 new (emerging) and existing (expanding) associations. Four dairy demonstration farms, one fruit demonstration farm, four blueberry test plots, and a host of training programs offered through the Training-on-Demand program complemented the investments. In all, CRDA contributed \$2.18 million against a client contribution of \$851,000.

Part IV: Micro, Small & Medium Enterprise Development

Refugee & IDP Small Grants: The 2003-2005 Refugee & IDP Small Grants program was implemented using USAID earmark funds for refugees and IDPs. The program sought to provide displaced persons in Krusevac, Prokuplje, Kursumlija and Novi Pazar with medium to long-term opportunities for income and employment. The program provided the families with small grants up to \$5,000 and training in the basics of business analysis, planning, marketing, and micro-finance. From 600 applicants for the program over two years of implementation, Mercy Corps awarded 172 grants in agriculture, small production and service sectors.

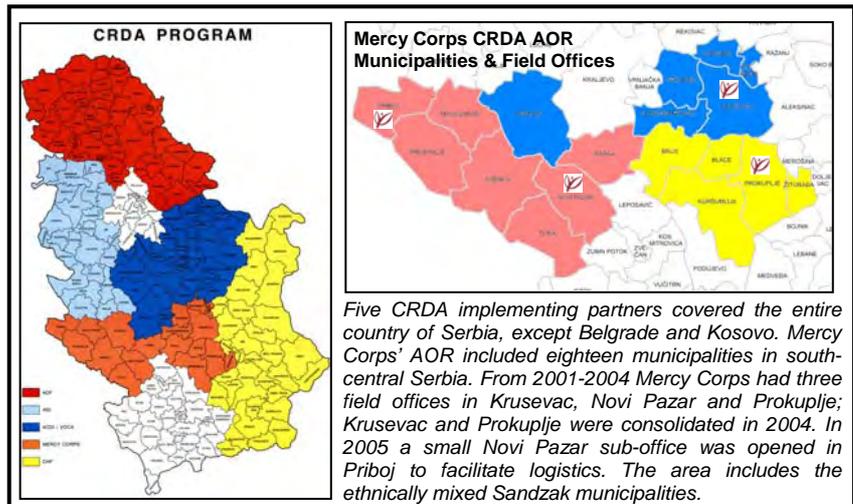
Income Generation Grants (IGG): The IGG program assisted local unemployed and redundant workers to achieve entrepreneurial self-sufficiency by focusing on business startups and unregistered family businesses operating in the gray economy through a process of business planning and competitively awarded grants. To be eligible, applicants had to have been registered with their local unemployment bureau at the time of the application, and had a sound business idea. Participating businesses were required to legally register their business and hire at least one worker. Applications were evaluated to select clients to attend a three-day Business Planning workshop, after which they completed their own business plan. The business plans and clients were then evaluated for grants to help them start and legally register their business. Unemployment bureaus in five targeted municipalities distributed and collected 537 applications, resulting in the selection of 350 applicants who were enrolled in the business plan training. Of the 330 applicants who completed all three days of training, 247 completed and submitted a business plan, of which 81 were selected to receive grants of basic capital equipment to help them start their business. The program invested \$294,000 of CRDA resources and created 95 new jobs at a cost per job of \$3,094.

Employment Expansion Program (EE): The EE program facilitated job creation for redundant and unemployed persons by providing the incentive to MSMEs to expand working capacities by matching grants with commercial credit. To be eligible, enterprises were required to i) apply for and received credit from a commercial lender; ii) agree to legally employ at least one registered un employed worker full-time for at least one year; and iii) employ not more than fifteen persons. In two years of the EE program 421 production-based firms applied and 121 applicants received grants (average grant \$5,838). As a result, 222 jobs were created with an average CRDA-E investment of \$3,027 per job. The program was implemented in 17 of the 18 municipalities in the AOR.

Ethno-Network Rasina (ENR): Ethno-Network assists women-owned micro-businesses, home-based women and vulnerable groups by assisting them with production and markets for traditional Serbian handicrafts. The goals of Ethno-Network are to i) promote handmade Serbian ethno-products by bringing together producers of traditional handicrafts into a wider network, ii) assist in the development and design of marketable products, and iii) promote the products and establish markets. Within the Rasina network the project focused on five activities. ENR comprises nine groups and 109 members in the Rasina district of Serbia who are cooperatively registered as an association, with established sales outlets through partner businesses. Mercy Corps received a grant from its internal Phoenix Fund in the amount of \$49,500, in addition to CRDA-E resources, to support ENR; as a result, ENR has participated in a host of organizational and technical training courses and promotional events.

Introduction

CRDA Overview: The USAID-funded Community Revitalization through Democratic Action (CRDA) project was a landmark project in the development of post-conflict, post-Milosevic Serbia, as well as a milestone for Mercy Corps. For Serbia and the international community, CRDA contributed more financial resources to the people and communities of Serbia than any other single international donor funded project. As one travels through the country there is hardly a territory in the country that was not affected by CRDA, as evidenced by the CRDA project signs one sees even in the most remote of places. For Mercy Corps, CRDA represented the longest single-donor project to date in the organization's portfolio. The project itself was a six-year, \$200 million project implemented by five USAID partners throughout the country.



Mercy Corps AOR Description: Mercy Corps covered the 18 municipalities of southern Serbia shown above. From 2001-2004, they did so from three offices located in Krusevac, Prokuplje and Novi Pazar. In 2004 the Prokuplje office was consolidated with Krusevac and in 2005 a small Novi Pazar sub-office was opened in Priboj, Prijepolje and Nova Varos. The AOR includes the six municipalities of Sandzak, an ethnically mixed region of Serbia consisting mostly of Bosniaks and Serbs. The municipalities of Kursumlija, Prokuplje and Krusevac have high populations of IDPs from Kosovo (Kursumlija is highest with a population of 28% IDPs). The official population of the entire AOR is 660,000; Krusevac is the largest city and municipality, with a population of 131,000. The AOR can be characterized as mostly rural with little comparative economic advantage and heavily reliant on the agriculture sector. Most former state enterprises are either closed or operating at significantly reduced levels.

CRDA Goal & Four Pillars: Commencing in 2001, at the onset of the democratic transition in Serbia, CRDA's goal was to promote citizen participation in and between communities and clusters of communities to address their priority needs for the economic and social revitalization. Through citizen participation, communities identified and prioritized projects in four pillars: i) civic participation, ii) economic development, iii) civil infrastructure and iv) environment. Within these, community mobilization was the foundation of all programs and activities.

USAID Strategic Framework: CRDA was implemented under USAID Strategic Objective (SO) 2.1, Increased Citizen Participation in Political & Economic Decision Making. Within this SO were five Intermediate Results (IRs):

- I.R. 2.1.1 Increased Citizens Participation in Community Development Activities
- I.R. 2.1.2 Increased Inter-Community, Inter-Ethnic Cooperation in Community Activities
- I.R. 2.1.3 Improved Social & Economic Infrastructure
- I.R. 2.1.4 Increased Incomes & Job Opportunities for Low-Income families
- I.R. 2.1.5 Improved Environmental Conditions and Practices

CRDA Transition to CRDA-E 2005: In 2005, USAID and the US Embassy changed strategy and shifted programming priorities to focus almost exclusively on economic development. As a result, CRDA underwent a significant change from its prior emphasis on community development and civic participation to job growth and creation through Local Economic Development (LED), agriculture and MSME development. At that time Mercy Corps discontinued activities implemented through Community Development Councils (CDCs) while continuing Community Fairs for one additional year (nine fairs, 36 projects, \$252,000 in 2005). In FY05, 85% of CRDA financial resources were invested in economic development activities; in FY06 the figure rose to over 90% (the remaining 10% were funds used primarily to close out several dated projects from previous years).

CRDA-E Strategy: Under CRDA-E, Mercy Corps' strategy became more diversified with a host of activities implemented in the LED component, two separate MSME initiatives, and an agriculture development component that continued to target the fruit and dairy sectors, but spread the assistance upstream, from the processor level during

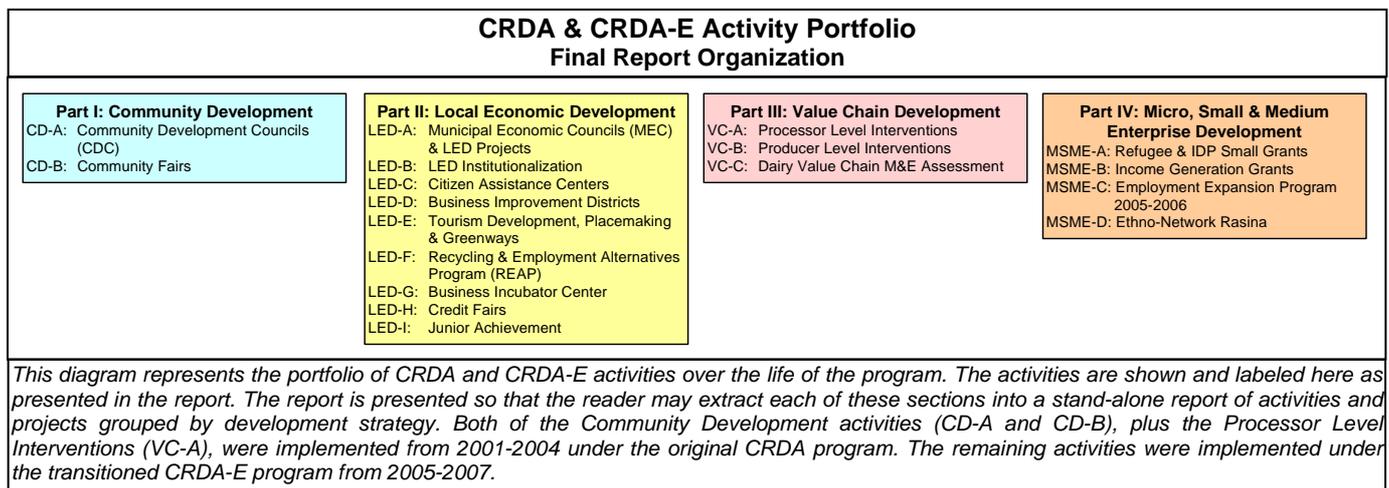
CRDA 2001-2004, to the producer level. Not only did the projects funded under CRDA-E change to support economic growth and job creation, but Mercy Corps transformed programming from a focus mainly on grants to a focus on technical assistance, training and institutional development. All of the activities in the CRDA-E portfolio were comprised of a programming mix of training, development activities, and consulting services backed up by financial and human resource investment.

CRDA Activity Portfolio & Report Organization: This report covers all activities implemented over the life of CRDA. For the convenience of the reader, and taking into account the USAID program portfolio at the time of this writing (September 2007), the activities are divided into four general categories: I) Community Development, II) Local Economic Development, III) Value Chain Development, and IV) Micro, Small & Medium Enterprise Development, with separate activities under each as shown in the diagram below. The designation in front of each activity corresponds to the section in this report where that activity is presented. Within each section, the activity is presented as follows:

Strategy: Overview of the activity strategy, rationale and significant evolutions or changes over its implementation cycle.

Results: A summary of the outputs and results achieved through the activity.

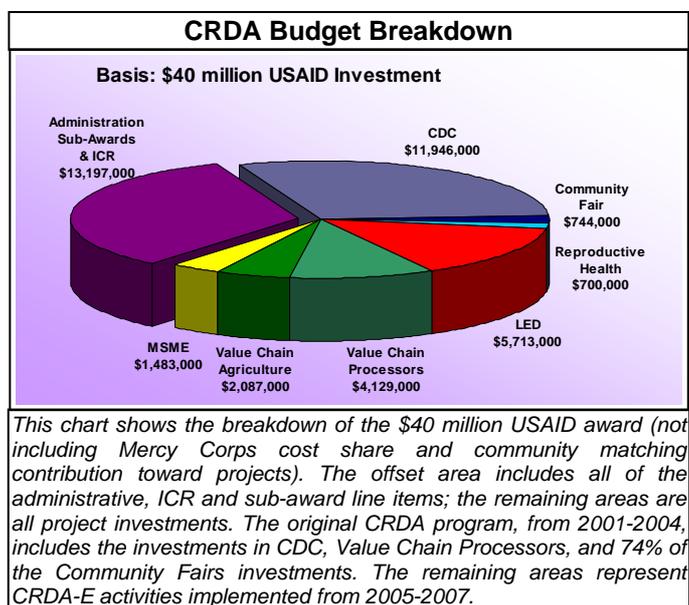
Monitoring & Evaluation (M&E): An objective assessment of the activity and results. In most cases the findings presented were determined through one in a series of program M&E assessments by external consultants or staff members, who surveyed clients to determine the effectiveness and shortcomings of the program and confirm the accuracy of the reported results.



CRDA & CRDA-E Activity Budgets: The overall budgets for CRDA and each of the CRDA and CRDA-E activities are shown in the diagram to the right. In this diagram, all of the administrative, ICR and sub-award costs are grouped into a single area, with the remaining areas representing each of the major activities. In total, of the \$40 million USAID award, a full 67% was invested directly into specific projects and activities. The program investments were spread out roughly equally over the life of CRDA, with roughly \$17 million invested during the original CRDA years from 2001-2004, and the remaining 10 million under the CRDA-E strategy from 2005-2007.

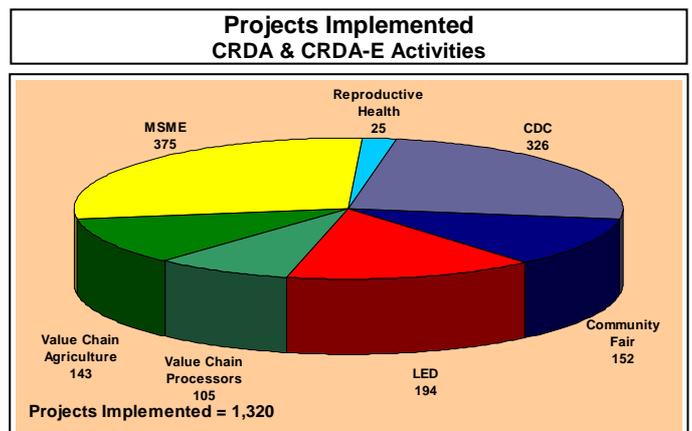
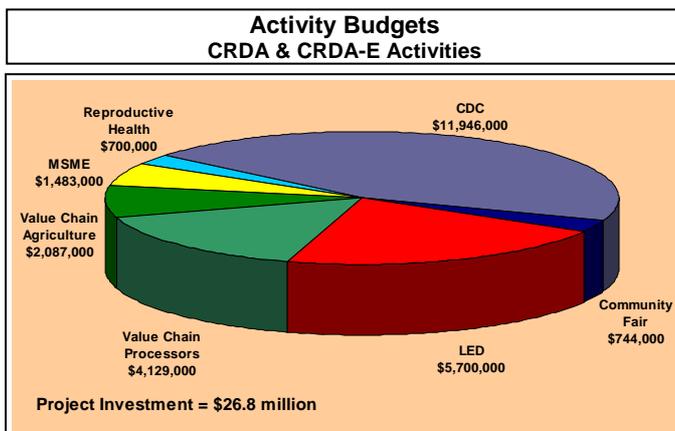
CRDA & CRDA-E Projects Implemented: While the figure to the right is effective at showing Mercy Corps' budget performance of administrative costs versus project investments and the budget breakdown of the various activities, it tells only part of the story. The charts below present the project financial data (excluding administrative costs) alongside of the number of projects implemented under each activity:

- While the value of projects implemented over the life of CRDA was relatively uniform from year to year,



certain activities accounted for a much higher number of projects, notably the MSME and Community Fair activities, which accounted for a high number of projects with relatively small values. These activities logically tended to consume more time and human resources on the parts of Mercy Corps staff members for the dollar invested.

- While the CDC activities accounted for nearly 45% of the project implementation budget, they accounted for less than 25% of the total number of projects, indicating that the average value of the project was considerably higher than most other activities (averaging \$36,600). LED projects in comparison averaged \$29,400.
- Investments in the value chain processors from 2001-2004 were the highest on average at \$39,300. The average agriculture investment under CRDA-E was \$14,600.
- As further discussed in the report, Community Fair projects proved cumbersome to implement. By their nature, the projects involved a high number of individual procurements of specialized equipment for beneficiaries that tended to be very brand-specific. As a result, this small portion of the overall budget often proved problematic both for Mercy Corps and for the beneficiaries, often resulting in delays and frustration on both sides.



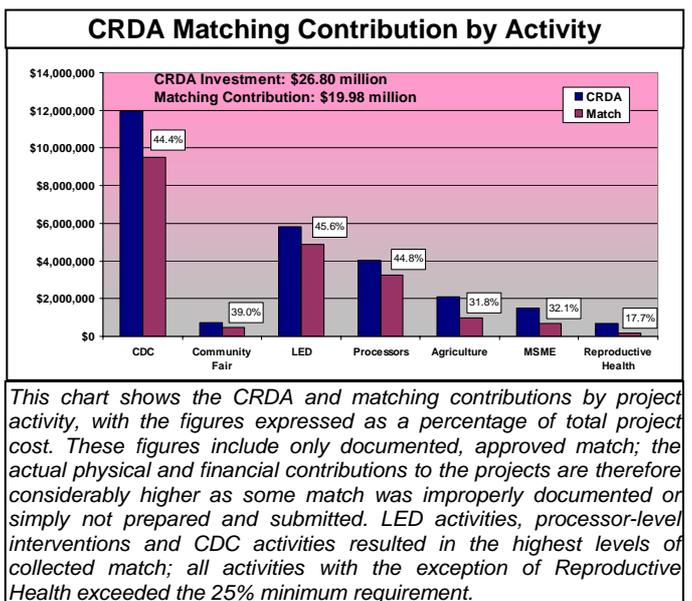
These two charts compare the CRDA project investments with the number of projects implemented through each activity in CRDA and CRDA-E. While the funds invested under the original CRDA exceeded those invested under CRDA-E (though on an annual basis they were roughly equal) there were a significantly higher number of projects implemented under CRDA-E as the strategy was expanded to include the additional activities. In particular, the MSME projects accounted for a high percentage of projects implemented (though these tended to be strictly procurement with no construction elements). Community Fair projects proved to be very time and labor-intensive activities to implement, yet accounting for only a small portion of the overall budget. While these projects and the activity itself were very beneficial in the communities, their nature also made them often result in delays, sometimes leading to dissatisfaction on the parts of the beneficiaries. The monitoring & evaluation sections of this report provide further insight into the relationships between activity budgets and projects implemented.

Matching Contribution: Overall, beneficiaries and clients contributed \$19,975,000 in documented matching contribution toward the implementation of CRDA and CRDA-E activities, compared with the CRDA investment of \$26,803,000. The amount of matching contribution was a considerable achievement of CRDA and represents the trust and reputation that Mercy Corps held in honoring its CRDA agreements. Mercy Corps beneficiaries and clients far exceeded budgeted requirements for matching documentation.

Minimum Match (25%): \$8.934 million (based on \$26.802 million CRDA contribution)

Actual Match: \$19.975 million (42.7%)

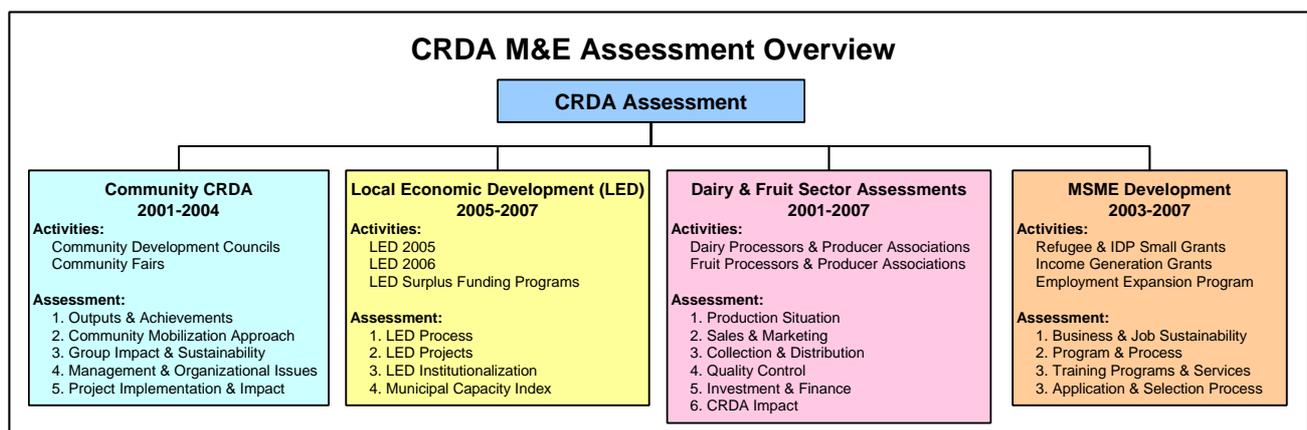
Partnerships: Mercy Corps relied on the partnerships and cooperation of a number of private-sector and donor initiatives over the life of CRDA and CRDA-E, some of which are highlighted below. Through these partnerships, the quality of CRDA programs was improved due to the sharing of resources and to the availability of technical experts that the various initiatives shared with CRDA. Those partnerships highlighted below represent only those for which no CRDA financial resources were provided to the partner; in addition to those below, Mercy Corps relied on a number of



local consulting firms and NGOs to implement various activities. All of these are highlighted in greater detail in the corresponding activity section of the report.

- The USAID-funded MEGA program shared its LED resources and training materials to provide training and form the institutional framework for municipal LED offices. MEGA and its predecessor, SLGRP, also shared technical resources related to Citizen Assistance Centers (CAC) and Business Improvement Districts. The programs jointly participated in a number of individual projects, notably several CACs and the Prokuplje BID.
- Mercy Corps and the USAID-funded SEDP program joined in activities to promote Serbian fresh fruit and to develop tourism offerings in Trstenik and Aleksandrovac through the Greenways & Trails program. SEDP also provided Trade Fair Representation training to all Mercy Corps clients who attended trade fairs.
- Mercy Corps, MEGA, SIEPA and Regional Chambers of Commerce jointly delivered seminars on municipal competitiveness, investment profiles, and attracting outside investment.
- Mercy Corps assisted both the USAID-funded SCoPES program and the UNDP PRO program in the Sandzak municipalities to transition our experience, programming and lessons learned.
- Through our partnerships with commercial banks the Mercy Corps Employment Expansion program has leveraged over \$700,000 in commercial credit for 121 micro, small and medium enterprises that created 222 full-time permanent jobs, fully registered and tracked through local partner Unemployment Bureaus.
- Three organizations and projects, Reka Mleka in Nis, FAO in Sjenica, and DeLaval-Serbia, were instrumental in Mercy Corps' work in the dairy sector, in particular establishing the four Dairy Demonstration Farms and conducting the *Southern Serbia Dairy Value Chain Assessment*. Reka Mleka and FAO provided countless hours of technical assistance and consulting to assist Mercy Corps and our clients; while DeLaval, one of the largest manufacturers of dairy equipment, provided pro-bono technical assistance and equipment for the demonstration farms.
- The International Finance Corporation (IFC) division of World Bank provided consulting services to all Mercy Corps Recycling & Employment Alternatives Program (REAP) to help them improve their recycling businesses and develop national and international networks. IFC also reviewed all of the project proposals for the REAP program, making recommendations for CRDA investments based on potential markets for recycled products.
- Mercy Corps organized the Economic Working Group, an informal consortium of all international and local development efforts working towards the economic development of Serbia. Mercy Corps organized specific topics and agendas to be discussed and presented at the meetings. In addition, Mercy Corps participated in the Agriculture Committee and was very active in the Southern Serbia Agriculture Project Alliance.
- Mercy Corps participated in all of the joint CRDA partner activities including, but not limited to Ethno-Network; joint reproductive health strategy; several Serbian and international agriculture and trade fairs; Placemaking[®]; the national advocacy committee; and numerous international study tours, many of which were organized by Mercy Corps.

Monitoring & Evaluation: Due to the involved and complex nature of CRDA and CRDA-E, the Mercy Corps country team designed and conducted a series of discrete M&E assessments to evaluate and document the results of the various activities. The activities and scopes of each assessment are summarized below. The results of each of these assessments are included in the discussion for each activity in this report. The surveys and field work for the MSME assessment are complete; the final report will be released in October 2007.



Part I: Community Development

Note: For a complete account of the community development strategy and its evolution from 2001-2004, a detailed discussion of the outputs and results, and an assessment of the community development activities and projects, the reader is referred to the “CRDA Community Development Programming Assessment” submitted to USAID in May 2007 and the externally-conducted “Evaluation of CRDA Projects” submitted in January 2007.

Community Development Activities: In 2001, when USAID began development activities in Serbia, the primary goal of CRDA was to promote citizen participation in ways that helped communities address their priority needs for the economic and social revitalization. Through citizen participation, communities identified and prioritized projects in four pillars: i) civic participation, ii) economic development, iii) civil infrastructure and iv) environment. Within these, community mobilization was the foundation of all programs and activities. From 2001-2002 Mercy Corps’ primary vehicle for community mobilization and project implementation was newly-formed *Community Development Councils* (CDCs). In 2003, Mercy Corps introduced a second activity, *Community Fairs*, as a way of increasing community involvement in urban areas. Community Fairs were events where community groups, NGOs and institutions presented their project ideas to the broader community, who voted on the projects; winning projects received financial support from CRDA. Both of these activities continued through 2004 and the transition of CRDA to CRDA-E.

Note: For the two *Community Development* activities, when indicated, results are presented jointly for both CDC and *Community Fair* activities; this was done to either illustrate the overall results of *Community Development* initiatives or to present a comparison of the two activities. In general when presented jointly for the purposes of showing overall impact, the discussion is presented in the CDC section; comparative results are presented in the *Community Fair* section.

CD-A: Community Development Councils 2001-2004

Strategy

Community Development Councils: From 2001-2004 Mercy Corps (and CRDA in general) focused mainly on mobilizing communities and resources to implement projects at the local level in cooperation with community stakeholders and the municipal government. Mercy Corps primary mechanism for community mobilization and project implementation was newly-formed Community Development Councils (CDCs). CDCs operated primarily on the Mesne Zajednice (MZ) level, the lowest administrative level of governance in Serbia. MZs in turn mobilized the active support and involvement of their respective municipalities, who contributed most of the financial matching contribution toward project implementation. Mercy Corps allowed communities themselves to identify priority projects with little guidance on what their priorities should be. CDCs served as the intermediary bodies between Mercy Corps and citizens, serving to:

- mobilize community input for project identification, prioritization and selection;
- collect and document matching contributions;
- monitor progress and project implementation.

Phase I – Mobilization: Mercy Corps strategy evolved in three relatively distinct phases from 2001 to 2004. Phase I (July 2001 through early 2002) was characterized by a rapid process of group formation and project identification. As requested by USAID, Mercy Corps targeted 60 communities and identified at least one project in each during the first 90 days of CRDA. (Mercy Corps selected 61 projects valued at nearly \$1.5 million in 17 of the 18 municipalities.) Partner communities were selected by: i) reviewing relevant statistical data, ii) completing field visits to assess the readiness of communities to promptly identify priority projects, and iii) relying on the recommendations of municipal officials regarding their most needy communities. Although these criteria were applied in all three Mercy Corps field offices, the criteria were prioritized slightly differently:

- Krusevac: The team attempted to include all communities wishing to take part in CRDA.
- Novi Pazar: The approach was guided by the municipalities’ lists of priority communities.
- Prokuplje: Communities were identified independently primarily using input from municipal officials.

Phase II – Capacity Building: In early 2002, after reaching the 60-projects-in-90-days target, the Mercy Corps team refined its community mobilization approach in an attempt to: i) increase citizen participation in decision-making and project implementation, ii) improve transparency in the process, iii) build organizational capacity, and iv) strengthen the

linkages between citizens and authorities. The team also expanded CRDA communities geographically to include representatives from surrounding villages with whom they shared common infrastructural and economic interests. The change both increased the number of project beneficiaries and decreased the instances of communities feeling “neglected” in the process. Specific changes in Phase II included:

- a) establishing more strict voting rules for project selection;
- b) revising and expanding CDC membership, especially to increase inclusion of women;
- c) forming internal CDC supervisory and financial control bodies.

Phase III - Expansion: The desire to include even more communities in existing CDCs resulted in the transition to Phase III in mid-2003, after most of the originally-selected communities had completed several infrastructure projects. Mercy Corps had strong feedback that new communities were eager to join CRDA and implement projects in their communities. To respond, Mercy Corps fundamentally changed the project selection procedure and made the individual CDCs compete for project funding on a regional level within Regional Cluster Committees (RCCs), which consisted of old CDC members and newly-targeted MZs’ community leaders. RCCs were intended to train new MZs in community mobilization and assist them in forming local CDCs, which would then be in charge of local project selection; afterward, all CDCs would compete on a regional basis. Phase III meetings also included representatives of public utility companies, municipal officials and regional leaders. Phase III lasted through 2004 and the transition to CRDA-E.

CDC Budgets: In both Phases I and II, the budgets for CDCs (and municipalities) were pre-established; therefore, CDCs had fixed budgets within which to identify and manage project implementation. In Phase III the budgets for CDCs (and municipalities as well) were no longer pre-allocated, but all CDCs from each AOR competed for funding on the RCC level, based on project quality. Each of the three Mercy Corps offices was provided a budget to manage so that on an AOR-basis, budgets were pre-established. Competition, therefore, occurred only within the office AOR and not between projects in the three different AORs.

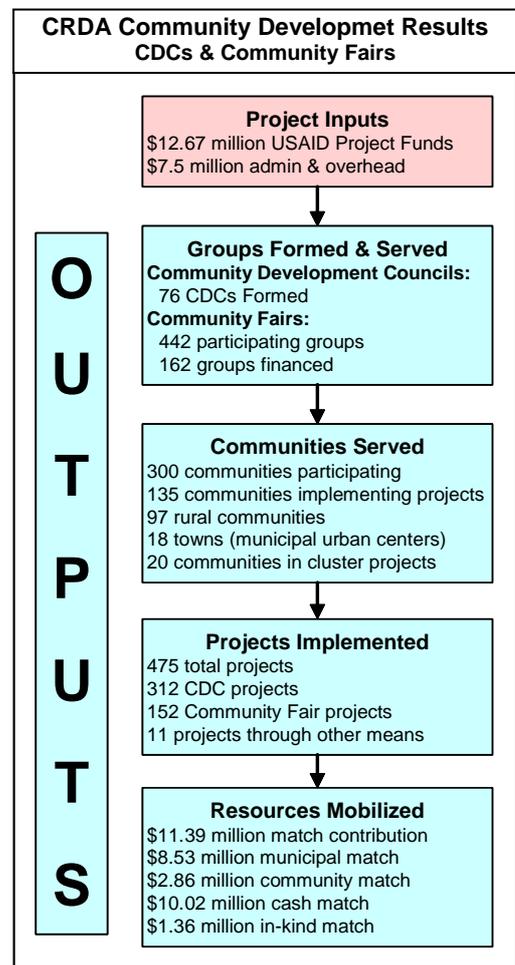
Results

Overview: The results and outputs of CDC activities are presented as follows: i) Groups Formed & Served, ii) Communities Served, iii) Projects Implemented, and iv) Resources Mobilized. The results are summarized in the diagram to the right.

CDCs Formed & Served: During the three years of CRDA Community Development activities from 2001-2004, 76 CDCs were formed representing 300 MZs spread roughly equally throughout the 18-municipality AOR. The 76 CDCs identified and implemented 312 projects. During this time Mercy Corps’ approach evolved, shifting from a strategy of cooperation with individual communities at the MZ level to one of fostering cooperation among neighboring MZs. As a result, with each year additional MZs began participating in CRDA; however, instead of forming new CDCs, in the majority of cases new communities joined CDCs already operated in their nearby vicinity. Consequently, by 2005 the 76 CDCs represented the interests of 300 MZs, representing far greater outreach by the approach than is immediately evident by examining only the number of CDCs formed.

Communities Served: Due to limited budgets and competition for projects, plus the large number of represented MZs, not all of the 300 MZs actively participated in project implementation. While representatives of each of these MZs had the opportunity to vote at CDC meetings, projects were actually implemented in 135 communities (45% of the 300 represented). Of these, 117 were rural communities, 97 being individual communities and 20 being rural cluster groups where a project served multiple MZs; the remaining 18 are the municipal urban centers. In summary, one could argue that the CRDA project impacted 135 communities with capital improvement projects, while increasing democratic participation in 300.

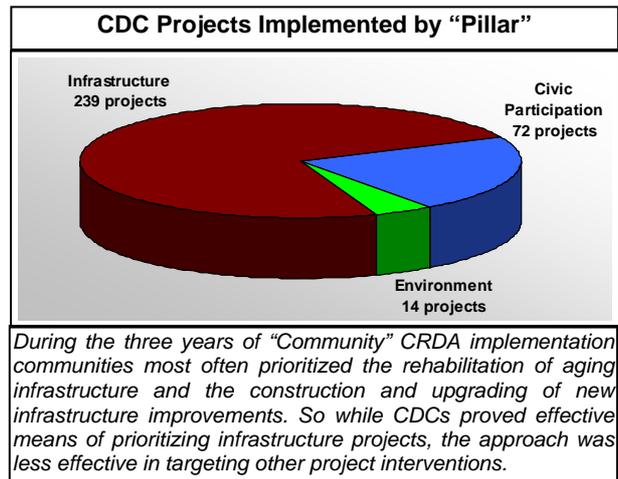
Projects Implemented: The primary output of CRDA in the eyes of the communities, and in terms of the resources committed, was clearly the



projects. In total, 325 projects valued at \$21.52 million (\$12.00 million USAID resources) were implemented through CDCs from 2001 through 2004. The vast majority of projects implemented were community infrastructure improvements of various types, as shown below. (The figures shown do not include Community Fairs, or projects implemented under the Economic Pillar by partner Deloitte-Touche-Thomatsu, which was a separate strategy and is covered later in this report.)

Project Breakdown by Pillar: CRDA community projects were classified into one of four pillars (the fourth, the economic pillar, is presented separately):

- **Civil Infrastructure (239 projects):** Social and economic infrastructure projects, including basic utilities (electricity and water) and facilities (e.g. schools, health centers, community centers).
- **Civic Participation (72 projects):** Projects aimed at increasing citizen participation in local initiatives. Nearly half of the projects in this category were identified through Community Fairs, which by nature fall into this category since they are proposed by local special interest groups, clubs, institutions and schools. It is worth noting, however, that of these 134 projects, 49 of them were actually infrastructure improvements to sports, recreation and social infrastructure objects or facilities.
- **Environment (14 projects):** Projects that aim to increase environmental awareness and protection. Similarly as above, however, most of these projects were also in fact infrastructure improvements for water treatment, erosion control and other environmental infrastructure.



Project Types: The table below summarizes the projects implemented of various types through both CDCs and Community Fairs. As one would expect, CDCs generally selected infrastructure projects with broad community benefit such as roads, electrical transmission, and school and facility renovation. Community Fair projects on the other hand – again by virtue of the fact that the projects are proposed by special interest groups – included education, parks, health and "other" special initiatives. In general, CDC projects were more construction or facility-oriented while Community Fair projects tended to provide institutions and clubs with technology or other special equipment. Projects implemented by "Other" means include special initiatives identified and selected due to a particular, high priority community need supported by Mercy Corps.

**CRDA Community Projects Implemented
CDCs & Community Fairs**

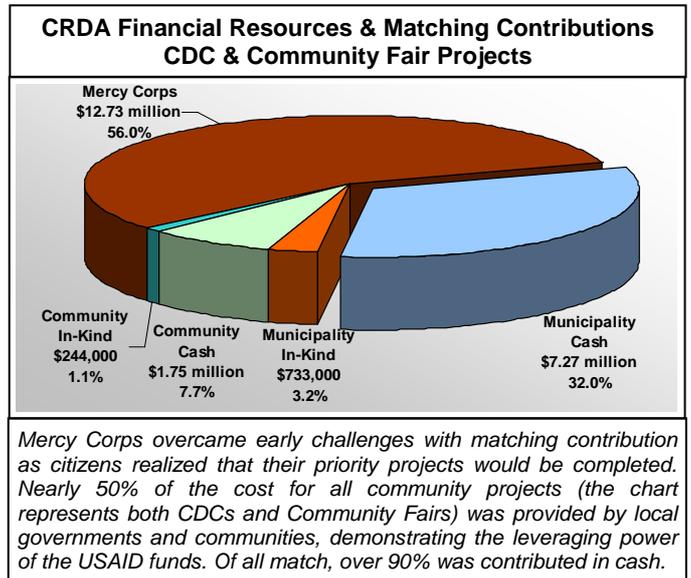
Project Type	Project Types	Projects Implemented			
		CDC	Community Fair	Other	Total
Education	Kindergarten, Primary & Secondary Schools, Special Education, University	63	63		126
Transport	Bridges, Roads, Traffic Safety	75	2		77
Water	Water Distribution, Supply, Systems, Treatment	51	2		53
Parks & Recreation	Parks, Playgrounds, Sports Facilities	19	25		44
Health	Health Services & Training, Health Centers	20	21	1	42
Community Development & Participation	Community Centers, Theaters, Museums, Libraries, Urban Planning	20	13	3	36
Electricity	Electric Distribution, Transmission	31			31
Miscellaneous/Other	Information Boards, Civic Organization Support, Heating Systems, Other	13	12	5	30
Social Welfare	Elderly, Handicapped, Refugee Programs	5	8		13
Environment	Clean-Up/Remediation, Environmental Awareness, Flood Control & Drainage	8	2	2	12
Communication	Radio, Telephone	3	3		6
Solid Waste	Solid Waste Collection & Disposal	3	1		4
Wastewater	Wastewater Treatment & Systems	1			1
TOTAL:		312	152	11	475

Resources Mobilized: One of the greater achievements of CRDA is manifested in the amounts of matching contributions and changes in public perception in contributing financial resources toward realizing priority projects. At the beginning of CRDA, community matching contribution was one of the most controversial aspects of the program. Besides the obvious financial burden, Serbian communities were historically used to a system in which the government, and later foreign donors in the aftermath of the wars of the 1990s, would assume 100% of the financial responsibility for local development efforts. As a result, the majority of the public was suspicious and hesitant to contribute financially in 2001-2002. Mercy Corps staff members faced a difficult challenge in convincing citizens to provide financial resources. These opinions changed rapidly, however, as projects were successfully completed and USAID/Mercy Corps earned a reputation for honoring commitments. In the end, Mercy Corps beneficiaries far exceeded the budgeted 25% requirement for matching documentation:

Minimum Match (25%): \$4.24 million (based on \$12.73 million CRDA contribution)

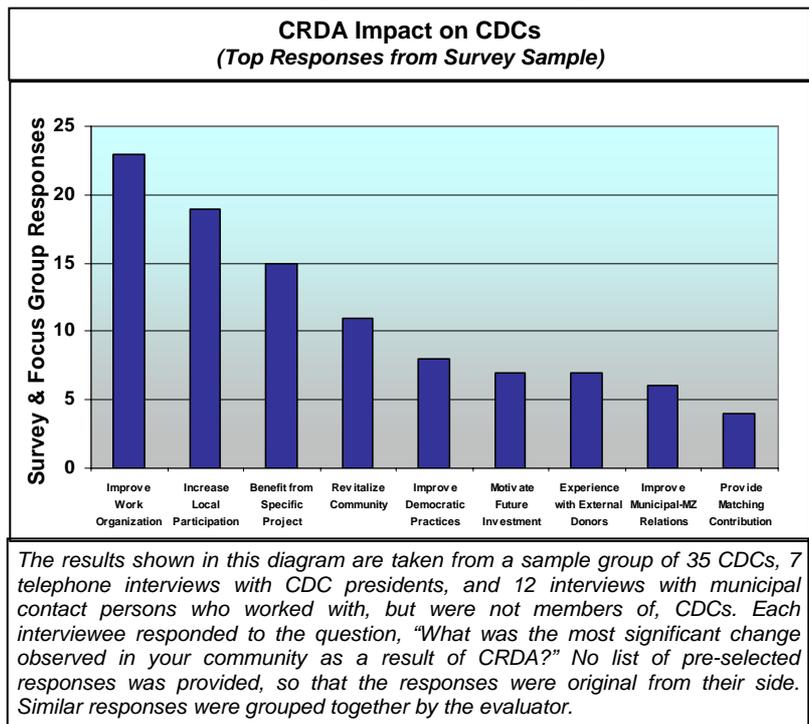
Actual Match: \$10.00 million (44% of project cost)

Match Contributors: As shown in the diagram, while the majority of matching contribution came from municipal governments, the communities and stakeholders themselves contributed nearly \$2 million, \$1.75 million in cash. After the startup year, Mercy Corps generally required that communities themselves contribute at least 5%, while the municipality was expected to contribute the remaining 20%. In the end, communities contributed close to 9% of the total project cost, accounting for 20% of all match. Of further interest is the fact that of the \$10.00 million in total matching contribution by all parties, \$9.02 million (90%) was in cash. (These figures are for actual match documentation collected and approved; pledged match was considerably higher. There was also a considerable amount of inputs which were provided but which remained undocumented, meaning that the actual match is also higher than the figures shown.)

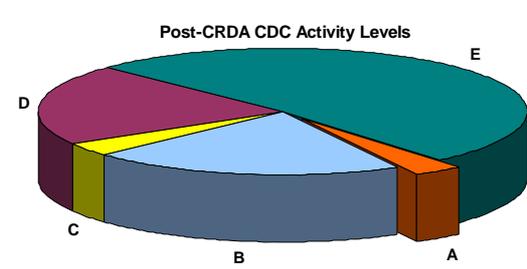


CDC Sustainability Objective: The primary goal of CRDA was to help citizens to actively affect their communities in a positive manner through democratic participation. One of the SMART objectives in the 2004 logical frame was to "facilitate 60% of CDCs to become sustainable institutions that demonstrate tangible capacity for positive community development by end of CRDA." However, due to the transition to CRDA-E, the team did not undertake the activities planned to meet this objective.

CDC Impact: During the M&E assessment, to measure the impact CDCs and their activities had in communities, focus groups and interviewees were asked to cite what they believed was the most significant change they observed in their communities as a result of CRDA. The results of this survey are shown in the diagram to the right.



Post-CRDA CDC Activity Level: The activity level of the CDCs post-CRDA was divided into five categories ranging from active to the complete dissolution following the cessation of Mercy Corps' community development activities.

Group (See chart.)	Post-CRDA CDC Activity Level (Based on 27 CDCs surveyed in this assessment out of total of 76)	CDCs	Post-CRDA CDC Activity Level Graphical Representation
A	CDC continued meeting and/or transitioned into new organization to become eligible for other donors and activities.	1*	
B	Former CDC member serving on Mercy Corps CRDA-E MEC and still advocating for development of their community.	6	
C	Parts of CDC continued to exist after CRDA, but solely due to ongoing projects financed by Mercy Corps.	1	
D	An informal group existed before CRDA, and began calling itself a CDC for the purposes of Mercy Corps assistance. After CRDA, the group reverted to its original form.	6	
E	Entirely abandoned CDC approach; local development activities reverted to the MZ.	13	

* In this only example of a CDC registering into an official organization, the CDC transformed into an agricultural association which subsequently cooperated with Mercy Corps under CRDA-E. It cannot therefore be said that this CDC continued activities in line with those it performed in cooperation with CRDA Community Development.

Sustainability Assessment: No CDC represented by the assessment focus groups (and no known example exists overall) officially registered as a civil society group. Only one later registered as an agriculture association; six existed in some form prior to CRDA; and only one continued to meet, but only under the auspices of an ongoing CRDA project. Therefore, it can be concluded that the goal of institutional self-sustainability was not achieved. This, however, should not be taken directly as a sign of failure to increase community mobilization and participation. The predominant sentiment expressed across the focus groups was that the general outcome of CDC sustainability may have been different if CRDA had not transitioned so abruptly. Others expressed regrets in their tardiness in adapting to the new organization required by Mercy Corps. In general, most regretted the end of CDC support, as CRDA was one of the rare, or even the only, venues for underdeveloped rural communities to acquire support for their local development efforts. In the words of one *Krusevac Town* CDC member: "It is a pity that Mercy Corps changed its organization method when we finally got used to this kind of work, when we became trained and more efficient in it."

Monitoring & Evaluation

M&E Initiatives: CDC activities and projects were extensively assessed in two separate initiatives. The first initiative, completed by summer intern Bosiljka Vukovic (later hired as full-time M&E Coordinator) examined: i) Outputs & Achievements, ii) Community Mobilization Approach, iii) Group Impact & Sustainability; and iv) M&E Record Keeping. The second initiative, completed by external consultant Linde Rachel, examined the projects implemented. For a full discussion of the M&E initiatives for both CDCs and Community Fairs, the reader is referred to those reports.

Recommendations: While the M&E assessments cover the full range of project outputs, activities, community and client perceptions, targets, and results, for the purpose of brevity this report focuses on key conclusions and recommendations. Explanation and further discussion regarding each recommendation can be found in the assessment reports.

Startup Recommendations

Startup: Completing small, quick-start projects during the startup period were shown to be very effective as the practice quickly demonstrates that the organization's efforts are serious, genuine and in accordance with the needs of the communities.

Choosing Partners: When selecting community representatives, assure that these individuals hold high respect and esteem in their communities.

Training Partners: It is crucial to provide in-depth training and education to the local partners at the inception and throughout the project's life cycle.

Ensuring Success & Transparency

Training & Transparency: The CRDA experience showed that it is necessary to explain and review the policies and procedures thoroughly and repeatedly, not only to the leaders, coordinators and CDC presidents, but to all of their members and constituencies as well.

Earning Local Trust: In the case of CRDA, Mercy Corps earned its current high level of respect and trust not by being a donor and investor at the local level, but by respecting established policies, obligations, budgets and deadlines.

Preparing & Training Staff: Program success depends equally on the clients' commitment as well as on the organization and its staff to design a program and to effectively assist clients in its implementation; it is necessary that all staff members are aware of the local conditions, acquire detailed information about the main actors in each of the communities and municipalities, know the main problems and challenges facing communities, and understand the legal environment that may affect the outcome of the projects.

Group Institutionalization: In areas with no tradition of civil society and non-governmentally led development, it is unrealistic to expect that informal groups formed by external actors and donors will be sustainable, and that democratic working methods will carry over to future activities unless steps are taken to institutionalize the groups.

Flexibility in Design: Program design should be flexible, taking into account the specificities of partners, communities and regions. Considering that CRDA covered several markedly distinct regions in terms of social, ethnic, economic and political development, it should not be assumed that the same program will produce the same results across the different regions.

Changes in Programming: Abrupt changes in the program strategy and implementation should always take into account the previous commitments made by the program, and bring systematic and informed closure to those processes that are crucial to the mission of the program.

Project Management and M&E

Field Visits: One of the most important recommendations proposed was to increase the number of staff member visits to the field to increase the visibility and the appeal of the organization, demonstrate consistency and enduring commitment; facilitate the work of the community partners, ensure transparency and inclusiveness of decision-making and project implementation processes, increase the level of local awareness about development issues, and provide the donor with an accurate assessment of the project status, implementation, and quality of work and new ideas for improving its processes and procedures.

Systems Management & Oversight: Staffing a full-time M&E Coordinator from the start of the program, particularly on projects of the size and magnitude of CRDA, is essential to assure the quality and standardization of management systems and performance data, and to assure that any divergences from the goals and objectives, processes, and procedures, both internally and externally, are detected and resolved with the greatest efficiency to the program.

Document Progress in the Field: In addition to improving the maintenance and documentation of the official Web-PRS M&E data, more effort should have been made to document experiences and challenges with respect to projects and specific communities, as well as plans discussed and commitments made to communities and municipalities.

Indicators: Statements with regard to desired effects and indicators should be meaningful and should be revised with the beneficiaries from time to time.

Donor Requirements: Project participants and users should be protected from artificial donor requirements when they don't make sense in their particular context (for example including a specific gender or other demographic mix merely to satisfy the requirement).

Project Implementation

Contractor Performance: The most common problem cited by clients during the assessments was with respect to contractor performance, whether they were hired by the MZ, municipality, Mercy Corps, or the project owners. (Where USAID funds were involved, all tenders were completed by Mercy Corps.) Procedures for selecting and hiring contractors should be reviewed with emphasis on checking references and considering prior experience.

Contractor Supervision: Procedures for supervising sites should be reviewed and standardized. Clients often cited a lack of supervision of their work, which was officially Mercy Corps' responsibility; however, the responsibility for supervision was not always clear. Users who were able to observe the contractor's activities did not always have supervisory or reporting responsibility and therefore may have failed to report faulty work or irregularities.

Tendering Process: Tender results should be reviewed jointly with users and technical support people. The procedures for choosing the lowest bidder should be carefully reviewed. A database should be developed, tracking contractor performance.

Road Projects: Roads linking smaller isolated communities with the major road network are among the most highly valued interventions, yet they were a source of client frustration in a large number of cases, either because the communities were disillusioned by unpaved road improvements, or the road was not subsequently maintained.

CD-B: Community Fairs 2003-2005

Strategy

Community Fairs: Beginning in 2003, Mercy Corps diversified its community mobilization methodology and established *Community Fairs*, interactive events aimed at increasing citizen participation in urban areas where CDC and citizen participation was generally lower than in rural (village) MZs. The team determined that in the first two years of CRDA, rural areas had achieved a much higher level of community mobilization than urban areas. Mercy Corps found it difficult to attract urban citizens to town meetings, even though many citizens and groups involved in civil society had individually approached Mercy Corps requesting support for small projects to support their group or special interest. Hence, a new venue was needed for urban citizens to address priorities relevant for the development of their communities. The result was the *Community Fair* concept, events where different special interest groups, NGOs, sports teams and other clubs, schools, and institutions were able to present their project ideas to the community. Citizens attending the fairs then voted for their favored project, which received financial support from CRDA.



Community Fairs proved to be very popular activities virtually everywhere they were implemented; so popular, in fact, that Mercy Corps staff developed quite sophisticated methods of ensuring fair voting procedures, including UV-light stamps. The events were especially popular with young people as the events were perhaps the only venue where youth and special interest clubs could get their voices heard, and if they were lucky, benefit from one of the many winning projects.

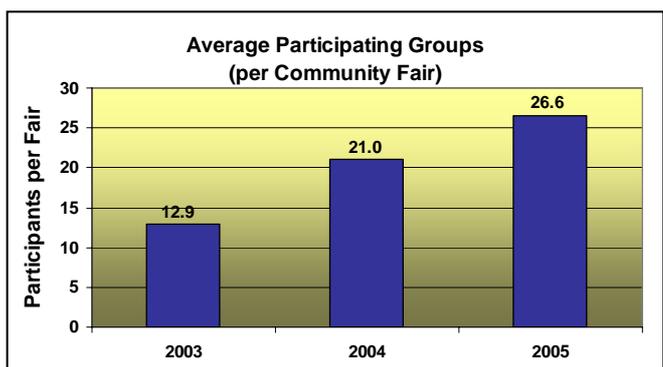
Community Fair Goals	Indicators
<ul style="list-style-type: none"> Mobilize urban communities. Increase diversity of decision makers. Identify projects. Increase organizational/group visibility. Educate the public about issues and problems. Build capacity in communities. 	<ul style="list-style-type: none"> Number of participating groups & organizations. Number of projects implemented. Number of citizens voting for projects.

Community Fair Indicators for Success: The Community Fair Manual, prepared in 2004, defines the key objectives of the activity; these are presented in the table to the right. This assessment is based on the evaluation of three of the six objectives and corresponding quantitative indicators identified by the author, as well as the findings from focus groups with CDC members.

Results

Participating Groups: In 2003 Mercy Corps organized eight community fairs, seven in the Novi Pazar AOR. Although the idea was new, citizens responded enthusiastically, proposing 103 projects through the eight fairs. Following this positive response, Mercy Corps expanded Community Fairs to include all AORs. In 2004, twelve fairs were organized and the number of participating groups (each with its own proposed project) more than doubled to 252. In 2005, after the transition to CRDA-E Mercy Corps retained the Community Fair component and organized nine more fairs; 239 groups participated in the nine fairs, an average of nearly 27 project proposals per fair.

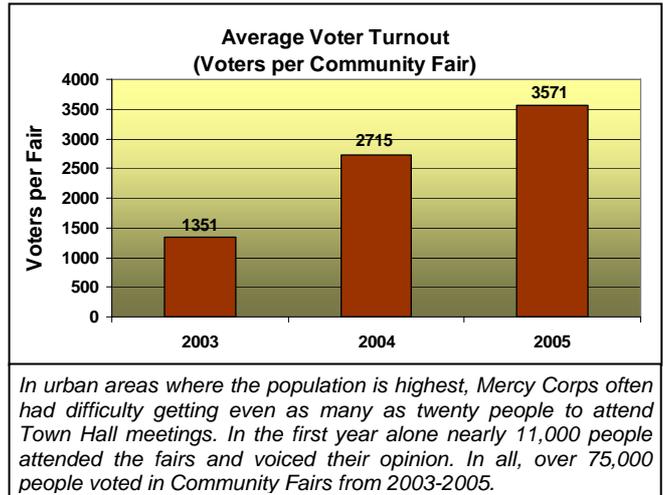
Novi Pazar Participating Groups: While increase in participants was a general trend, in the Novi Pazar AOR the number slightly decreased in 2004 compared with 2003. In three municipalities (Novi Pazar, Prijepolje, Tutin) the fairs were cancelled due to low participation; according to a staff focus group this was at least partly due to local elections and increased political tensions during that period which made it difficult to adequately publicize and garner participation in the fairs.



From 2003 to 2005 the average number of participating groups per Community Fair more than doubled, indicating the success of the fairs in mobilizing urban communities. Since each participating group came prepared to present their project idea, these figures show both a high level of community mobilization and a diversification of interest among local decision makers.

Voter Turnout: Mercy Corps organized at least one fair in each of the 18 municipalities in our AOR. In the first year alone, nearly 11,000 people turned out to vote at the new events. Over the three year period Community Fairs were held, over 75,500 citizens, or 17% of Mercy Corps' urban population voted for 602 projects, of which 152 received financial support. The annual increases in voter turnout for Community Fairs indicate their growth in popularity and their success as a tool for community mobilization in the hard to reach urban communities.

Projects Implemented: Mercy Corps implemented 152 projects selected from Community Fairs. (Eleven projects were later cancelled; therefore, the original number of winning projects was 163.) The number of projects implemented cannot be considered an indicator in and of itself, however, since the Mercy Corps offices limited the number of projects per fair. For example in 2005, four projects per fair were financed from each of the nine fairs – two for organizations and clubs (maximum \$4,000) and two from schools and institutions (maximum \$10,000). In 2004, however, the number of projects financed at each fair was flexible and depended on the quality of the fair's organization, the participants' creativity and presentation of their projects, and voter turnout. (The required match for Community Fair projects was typically 20%.) The table below summarizes the results of Community Fairs over their three years of implementation.

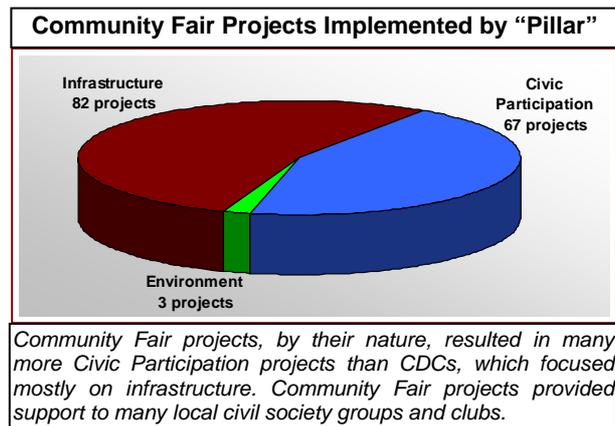


Community Fair Results 2003-2005

Year	Community Fairs	Participating Groups	Average Participants Per Fair	Projects Selected	Voters	Average Voters Per Fair
2003	8	103	12.9	40	10,806	1,351
2004	12	252	21.0	77	32,585	2,715
2005	9	239	26.6	36	32,138	3,571
Total	29	594		153	75,529	

Organizational & Implementation Challenges: Despite the positive impacts, Community Fairs faced several organizational and implementation problems:

- Mobilizing local groups of people willing to assume the primary responsibility for organizing and advertising fairs. Throughout all three years, Mercy Corps continued to play the key role in organizing and staffing fairs with minimal (albeit increasing) support from the local community.
- Dealing with ad hoc groups created solely for the purpose of participating in the fair to receive a project. This often resulted in unstable financial and logistical commitments to the proposed projects.
- Routine delays on the part of Mercy Corps in implementing the selected projects due to the great number of very small and diverse procurement needs necessitated by these specialized projects. Delays were often caused by both program and procurement staff: from the program side, there was often little time to prepare specifications since new fairs were continuously being organized; from the procurement side, the small value of the fair projects made them less of a priority as procurement staff needed to meet their higher spending targets.
- Difficulty in implementing the projects often resulted, as the groups proposing them were often not able to receive permits, projects were infeasible, project values were underestimated, and the groups were not able to meet financial obligations.



Regional Office Differences: In the Krusevac AOR the primary responsibility in organizing the fairs lied with the municipality and their identification of a group of people tasked to organize and lead the event, with strong support from of Mercy Corps local staff. In Novi Pazar, on the other hand, CDCs were entrusted with organizing the fairs, with

substantially less assistance from Mercy Corps staff. In 2005 all fairs were organized by a single Mercy Corps staff member with local support from the municipality and/or an organization charged with a supporting role.

Observations on Regional Office Differences: Focus group discussions during the Community Development Assessment indicated that due to the municipal officials' direct inclusion in the process in Krusevac, fair organization was less of a burden on Mercy Corps, as this practice facilitated permitting, advertising, and reservation of space, all of which were problematic in Novi Pazar. Hence, although the number of participating groups was not significantly different between the two AORs, it seems that the Krusevac approach was more effective in mobilizing the broader community, which impacted both attendance and the ultimate success of the fairs. It can be further noted that the average voter turnout per fair was 10% higher in Krusevac than in Novi Pazar (though this figure may not be significant and could easily be attributable to other causes).

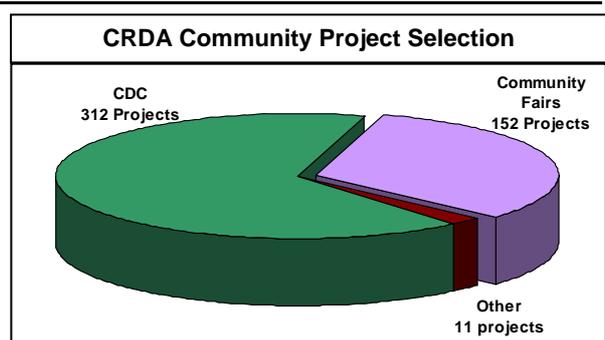
Monitoring & Evaluation

Community Fair Impact: To obtain qualitative feedback from communities regarding the impact of Community Fairs, focus groups were held with former CDC members and key staff members involved in the events. Respondents identified the following key areas of impact from Community Fairs (ranked in order most often cited):

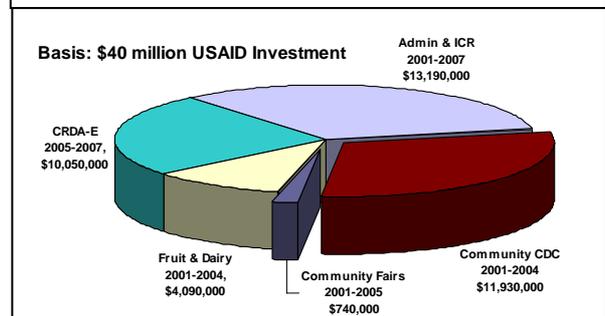
1. Increased community mobilization and number of participating stakeholders. Improved transparency in the project selection process, decreasing citizens' suspicions about financial support and encouraging them to take a more active role in local development (93% of respondents).
2. Bring people together, increase solidarity, enhance the community atmosphere, and improve the competitive and playful spirit in the community (50% of respondents).
3. Identify the main problems faced by the community, and in particular allow the representation of small, neglected groups and their development needs (42% of respondents).

Recommendations & Lessons Learned: In addition to the recommendations outlined above for CDC's, many of which are applicable for Community Fairs as well, the following recommendations particular to Community Fairs were made in the two Community Development M&E assessments:

- Mercy Corps should assure that groups selected to organize the fairs have broad public appeal and active support, if not direct participation, from municipal officials.
- A more strict process of project and organizational pre-screening would help ensure the selection of genuine priority projects and organizations able to lead the project through its completion.
- Mercy Corps assistance limit projects to procurement (not construction, which often resulted in permitting challenges) which would facilitate tendering and procurement. Further limiting the number of different items for procurement would result in additional efficiencies.
- Community Fair projects require an extra commitment of human resources both for organization and procurement. When choosing to undertake this type of activity, especially on a large scale that involves multiple events, a team of staff members committed to the activity should be hired and managed to ensure the timely and quality completion of the time-consuming projects.
- Community mobilization could be further increased from its already high level by adding a reward system in the process, such as special prizes (standard and procured in advance for the fair) for best presented projects.



The majority of CRDA community projects from 2001-2004 were identified through the 76 CDCs. The 29 Community Fairs resulted in an additional 152 projects. In addition 11 projects were identified through other means, such as through partnerships with other USAID projects (SLGRP), and a few special initiatives identified by Mercy Corps.



Though Community Fairs were positive events from a community perspective, they were very high maintenance and often problematic initiatives for Mercy Corps and the staff involved. This can be easily understood by comparing the two figures above. Aside from the obvious fact that the high number of Community Fair projects accounted for only a small monetary value, the projects were much more difficult to implement as they often required very diverse procurement of specialized equipment for recipients that tended to be very particular about quality and branding. In the face of the high CRDA spending targets, Community Fairs often strained management, program and procurement staff and resulted in frustration by the groups involved due to inevitable delays.

Part II: Local Economic Development

Note: In this section, each of Mercy Corps' LED activities and several key initiatives are presented. In May-June 2007, the Serbian consulting groups DCG and DTI completed an external assessment of Mercy Corps LED strategy, initiatives, projects and institutionalization. For a complete account of this work, the reader is referred to the assessment, submitted to USAID in July 2007.

LED-A: Municipal Economic Councils & LED Projects 2005-2007

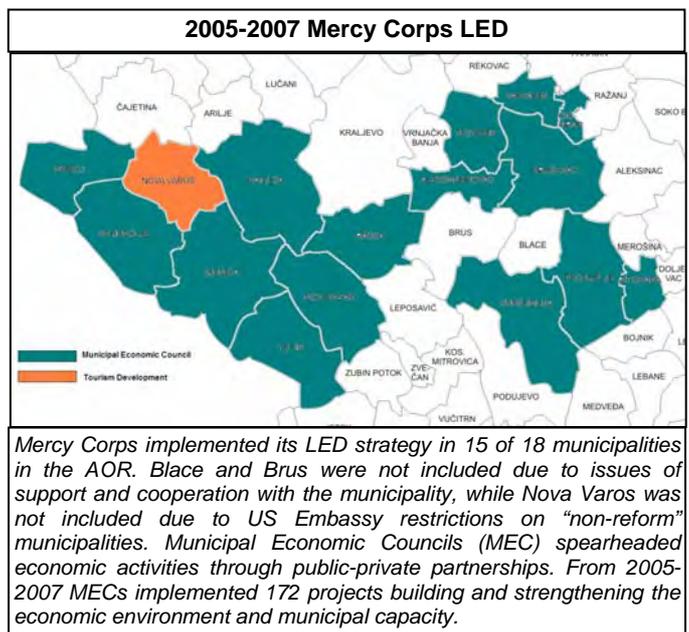
Strategy

Overview: In 2005, with the transition from CRDA to CRDA-E Mercy Corps transitioned its Community Development activities to an LED strategy aimed at creating and facilitating public-private partnerships and increasing municipal economic competitiveness while retaining the positive aspects of the community development approach of CRDA. With that in mind, Mercy Corps prepared a strategy that meets three goals:

- Improve municipal and regional competitiveness through LED initiatives.
- Utilize prior CRDA successes, directing them toward economic revitalization.
- Graduate CRDA into a more sophisticated economic model that facilitates partnerships between local government, business, and non-government sectors, and utilizes the resource network of USAID and other donor initiatives.

MEC Composition: As a common starting point, the original MEC membership was standardized among the municipalities to include key local government, business and community leaders. MECs were encouraged to enlist outside support for individual projects and activities as situations demanded; however for the purposes of starting the MEC, the following members were included.

- **Local Government:** Three members, working on municipal economic issues and/or with budget and planning authority, who lead the process and whose LED skills are developed throughout the program. The MEC coordinator was a local government representative.
- **Mercy Corps CDCs:** Five members, representing different geographic interests, whose skill sets from CRDA 2001-2004 facilitated work flow and project implementation and provided a level of transparency to the process.
- **Business Community:** Five professional members, determined jointly by the municipal government and Mercy Corps, including Chambers of Commerce, SME agencies, bank directors, institutes, associations, consultants and other business leaders.



MEC Meeting #1 Outline



- CRDA Transition
- USAID/Mercy Corps Strategy 2005
- LED Activities
- Program Design Activities
- Budgets for 2005
- Project Implementation
- Fast-Track Projects



2005 LED Strategy: In 2005, the first year of CRDA-E, MECs conducted SWOT analyses to identify LED opportunities, bottlenecks and strategic sectors; however, few of the proposed projects targeted the strategic areas identified. Also in 2005, a fixed budget per municipality was assigned based on the population and human development index (HDI) for the municipality. The response and participation by most municipalities was lower than expected, with many municipalities proposing a low number of projects that in total either met or barely exceeded their budget.

Top Bottlenecks for Achieving LED Results

- Poor Infrastructure
- Inadequate Municipal Budget
- Unresolved Property Issues, Land Registry, Devolution
- Conflicting Political Parties
- Lack of Experts in Local Government
- Inadequate Human Resources

Key Sectors that LED should Target

- Agriculture & Agriculture Processing
- Tourism
- SMEs

Top Initiatives for Public-Private Partnerships

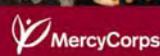
- Attract & Stimulate Local & Foreign Investment & Credit
- Plan & Implement Economic Strategy
- Support Agriculture Sector
- Foster & Improve Public-Private Partnerships
- Create Municipal Service Center (MSC or CAC)
- Establish Business Incubator or Improve Industrial Zone
- Improve Education
- Improve Municipal Marketing
- Improve Tourism

At the first MEC meeting, members and specialists identified key LED bottlenecks and opportunities that should be targeted in their municipality. This abbreviated strategic planning process assisted the MEC to select projects that maximized economic impact and provided Mercy Corps with baseline data to monitor the effectiveness of the LED strategy. The top survey results for each of the issues are shown.

2006 LED Strategy: In 2006, Mercy Corps improved the process (and project quality) by enacting two key changes. First, municipalities had to compete for resources based on quality of proposals. MECs prioritized projects, but Mercy Corps evaluation teams did the final scoring and selection. Second, Mercy Corps gathered stakeholders in each municipality, in a “Cultivating Demand” approach to solicit project proposals from three targeted sectors: i) Tourism, ii) SME Development, and iii) Vocational Education & Work Force Skills. The changes dramatically increased the number of proposals and improved quality in terms of economic focus and impact.

2007 LED Strategy: LED efforts in 2007 focused primarily on institutionalizing the councils into long-term sustainable entities. The process was completed through a series of technical trainings in LED and organizational management provided primarily by local consulting partner, DCG. The training program and strategy followed that developed by the USAID MEGA program and utilized many of the same training materials. Eleven of the 18 municipalities created LED offices within the municipal government.

“Cultivating Demand”

 RAZVOJ MALIH I SREDNJIH PREDUZEĆA  Kroz PROGRAM REVITALIZACIJA ZAJEDNICE DEMOKRATSKIM DELOVANJEM (CRDA) U Srbiji CRDA program realizuje se preko Američke agencije za međunarodni razvoj (USAID) zahvaljujući sredstvima naroda Sjedinjenih Američkih Država. Kao jedan od partnera, program implementira međunarodna organizacija za pomoć i razvoj Mercy Corps.	 UNAPREĐENJE STRUČNOG OBRAZOVANJA  Kroz PROGRAM REVITALIZACIJA ZAJEDNICE DEMOKRATSKIM DELOVANJEM (CRDA) U Srbiji CRDA program realizuje se preko Američke agencije za međunarodni razvoj (USAID) zahvaljujući sredstvima naroda Sjedinjenih Američkih Država. Kao jedan od partnera, program implementira međunarodna organizacija za pomoć i razvoj Mercy Corps.	 RAZVOJ TURIZMA  Kroz PROGRAM REVITALIZACIJA ZAJEDNICE DEMOKRATSKIM DELOVANJEM (CRDA) U Srbiji CRDA program realizuje se preko Američke agencije za međunarodni razvoj (USAID) zahvaljujući sredstvima naroda Sjedinjenih Američkih Država. Kao jedan od partnera, program implementira međunarodna organizacija za pomoć i razvoj Mercy Corps.
		

Based on the results of the LED Bottlenecks & Opportunities survey MECs identified areas where their council could be effective in addressing LED; however, many 2005 projects did not address the critical needs outlined by the group. A key component of the 2006 strategy was termed “cultivating demand.” The strategy gathered stakeholders in three sectors, SME Development, Workforce Education & Development, and Tourism to solicit priority projects in the strategic sectors. Brochures targeted stakeholders in the three sectors, providing instructions for participation, key data and potential project ideas in each sector.

Surplus Fund Programs 2006-2007: In March 2006, after conducting a detailed review of project finances, the management team identified a number of administrative savings, under-spent ICR, over-estimated accruals (mostly severance estimates), and incomplete closeout of open projects. As a cumulative result of these issues, the country team identified \$2.2 million in funds which could be invested in projects. As a result, a budget revision was resubmitted to and approved by USAID and project budgets were significantly increased for several components. In addition, a number of new initiatives were added to the LED portfolio. All of these were implemented in partnership with the MECs and are included in the LED component.

- **Recycling & Employment Alternatives Program (REAP):** REAP targets recycling initiatives in cooperation with municipal governments, communal enterprises and private collectors and processors. The program aimed to create jobs in the recycling sector by investing in recycling collection and processing.
- **Vocational Education & Workforce Skills:** Applications were disseminated to all vocational and technical schools and institutes of higher education in the AOR to directly solicit project proposals targeting improved workforce skills and education. Projects were limited to investment in equipment only (no construction).
- **Livestock Markets:** In 2006 Mercy Corps developed a design for livestock markets that improves market conditions, meets sanitary compliance issues, and contains “components” can be adapted in any setting. The

modular design included loading ramps, scale, quarantine area, and administrative building and could be constructed on existing grounds.

- **Electrical Projects for Employment:** Mercy Corps solicited projects from MECs and municipalities for rapidly-implementable electrical projects that could demonstrate the creation of new jobs.
- **Municipal Construction Equipment:** Mercy Corps solicited municipalities to compete for funds to procure construction equipment for the municipality with Mercy Corps subsidizing the lower of either 70% of the cost or \$50,000. Municipalities competed in earnest for these desirable projects.

Results

Projects Implemented: The table below presents the number and value of projects by category for the two years of LED programming (2005 and 2006) and the surplus funding programs in 2005-2006. In total, Mercy Corps implemented 171 LED projects, valued at \$9.024 million, \$5.151 million from CRDA and \$3.873 in matching contribution. (Matching contribution is the actual amount documented and collected; in actuality the amount of resources leveraged is higher lending to the fact that some match documentation remained uncollected.) The data in the table include only those projects that were administered according to the strategy outlined above and therefore do not include several important, more sophisticated projects separately implemented and completed (refer to note below the table).

CRDA-E LED Projects Implemented									
Project Type	2005			2006			Surplus Fund Programs		
	Projects	CRDA-E	Match	Projects	CRDA-E	Match	Projects	CRDA-E	Match
Municipal LED Services									
Markets (Green, Livestock, Dairy, Lumber, Goods)	12	\$379,000	\$229,000	5	\$283,000	\$197,000	6	\$269,000	\$43,000
Citizen Assistance Centers	9	\$394,000	\$276,000	2	\$62,000	\$33,000			
LED Institutionalization				6	\$106,000	\$9,800			
Infrastructure									
Electricity Supply	8	\$179,000	\$954,000	17	\$378,000	\$570,000	3	\$127,000	\$58,000
Roads, Streets, Parking	6	\$332,000	\$337,000	9	\$496,000	\$226,000			
Water Supply	3	\$87,000	\$41,000	3	\$73,000	\$27,000			
Construction Equipment	2	\$110,000	\$2,600	2	\$90,000	\$35,000	7	\$299,000	\$174,000
"Cultivating Demand" Sectors									
SME Development	1	\$9,800	\$0	9	\$216,000	\$90,000			
Vocational & Workforce Skills				6	\$96,000	\$25,000	13	\$258,000	\$92,000
Tourism	5	\$93,000	\$13,000	12	\$421,000	\$298,000			
Recycling & Employment							25	\$395,000	\$145,000
TOTAL:	46	\$1,582,000	\$1,851,000	71	\$2,221,000	\$1,510,000	54	\$1,348,000	\$512,000

These data include only those projects that were administered according to the strategy outlined in this section. They do not include several important, high-profile projects that were selected through competitions between municipalities for resources committed to specific initiatives. These more sophisticated initiatives included high degrees of phased investment, training and technical services and therefore included multiple project codes for a single project. These initiatives include: Business Improvement Districts, Placemaking®, Business Incubators, and Credit Fairs, all of which are covered separately in this report.

Strategy Refinements: The two strategy refinements from 2005 to 2006 (competitive project selection and Cultivating Demand) resulted in a 52% increase in the number of projects proposals submitted, from 144 in 2005 to 220 in 2006. Furthermore, in 2005, only six projects were implemented in the three Cultivating Demand sectors of SME Development, Vocational Skills, and Tourism. In 2006, after implementing the Cultivating Demand strategy, 27 projects in the three sectors were implemented. In general, it can be said that the quality of proposals and projects was much higher in 2006 than in 2005.

Municipal Investment Profiles: In August 2006 Mercy Corps organized Municipal Investment Profile training for representatives from eleven municipalities. Investment profiles are municipal promotional materials, typically in web presentation, booklet and/or CD format that provide investors with critical facts, resources, and investment opportunities in the municipality. The profiles typically provide facts on the local economy, labor force demographics, infrastructure, municipal and business services,



The municipalities of Cicevac, Krusevac, Trstenik and Zloradja promoted their municipalities at fairs in Belgrade and Novi Sad, highlighting investment opportunities in the municipalities.

quality of life indicators, and contact information. Representatives from SIEPA and MEGA delivered the training, explaining the purpose of an investment profile and how to collect and present investment information. Nine municipalities completed profiles; two of them attended the *Economic Potentials of Serbia* fair in Belgrade in summer 2005; six presented at the *InvestExpo Fair* in Novi Sad in November 2006.

Advocacy Committee: Mercy Corps and our clients were active members of the CRDA-E Advocacy Committee. The Advocacy Committee developed an advocacy action plan and identified common policy issues for municipalities and LED stakeholders on which to focus the attention of the republic government. Each organization brought five local leaders (two business, two public sector, one civil society) to serve on the Advocacy Committee. In partnership with the Standing Council of Towns and Municipalities, the Advocacy Committee held a national conference on Strategic Approaches to LED Planning in 2007.

Business Development Services Training of Trainers: In May 2007 Mercy Corps contracted the Kraljevo Center for Entrepreneurship to deliver a three-day workshop on the delivery of BDS services for local professionals working in municipal LED Offices and SME agencies. The workshop was attended by 16 participants and covered the following effective BDS delivery, business planning, business communication, and effective training techniques.

CRDA-E Advocacy Committee Policy Teams
Team 1: Municipal Investment Fund & Micro Crediting Issue
Team 2: Promotion of Strategic Approaches to LED Planning
Team 3: Promotion of Municipal Property & Fiscal Decentralization Legislation.
Most Important Policy Issues in South-Central Serbia
<ul style="list-style-type: none"> • Fiscal Decentralization • Devolution of Municipal Property • Development Of Entrepreneurship & Capital Investments • Devolution of Natural Resources to Local Government • Unstable Markets for Agricultural Products • Inadequate Regulations for Development Funds • Approval of the Law on Developing Local Economic Strategic Plans

Monitoring & Evaluation

M&E Initiative: In May 2007, Mercy Corps hired two local consulting firms, DCG and Democratic Transition Initiative (DTI), to conduct an extensive monitoring & evaluation and impact assessment of its LED activities and projects. The assessment covered four main areas: 1) LED Process, 2) LED Projects 3) LED Institutionalization and 4) LED Municipality Capacity Index. Since DCG played a significant role in Mercy Corps' LED Institutionalization strategy, DTI was responsible for conducting that part of the assessment, while DCG was responsible for all other areas. The report was completed and distributed to USAID, partners and stakeholders. Following is a summary of each of the main areas (with the exception of LED Institutionalization, which is covered in a later section).

LED Process – Municipal Economic Councils: The assessment found that none of the MECs currently exist in any of the 15 municipalities. However, their success can be measured by whether and how they have undergone the process of transition to a Strategic Planning Committee (SPC), Economic Development Committee (EDC), or LED Office, which happened in 80% of the cases (12 of 15). Six MECs were merged into the EDC, three are still at the stage of EDSPC, two have transitioned to Local Action Groups (under the auspices of UNDP) and two have committed their members to LED Offices. Only Kursumlija and Sjenica failed to transform MECs into more advanced participatory bodies. In all municipalities MECs were established in the same way, as instructed by Mercy Corps, thereby ensuring adequate representation of the civil society, business and public sectors; and support by the municipal leadership, except in Sjenica where it never became a functional participatory body due to political reasons. Meetings were held regularly, but never without Mercy Corps' initiative. Sporadically, rather than as a rule, MEC members reported cases of lobbying and political pressure during the project approval process.

LED Projects: The assessment team evaluated 83 CRDA-E LED projects. Projects were randomly selected but represented all types and major areas of programming. For all projects, clients were able to define at least one economic effect and list indicators of success, though this often remained in the domain of subjective judgment, not documented by written facts and figures. While a number of the projects showed clear and immediate economic effect, the lives of many were not long enough to prove their long-term economic benefit. Of the 83 projects evaluated, 68 were completed, with the remaining 15 in the final stage. Seventy-four projects achieved the projected results or properly addressed originally-identified problems; seven projects did not adequately target the results; and two are expected to achieve them in the future. For 56 projects it is realistic to expect the projected economic impacts. Other findings include:

- 75% (62 projects) evoked positive remarks from clients.
- 61% (51 projects) resulted in examples of positive practices.
- 52% (43 projects) encountered some problem(s) during implementation.
- 23% (19 projects) resulted in client complaints about Mercy Corps (mostly with respect to communication; delays in approval, procurement and delivery; and insufficient funds).

- 22% (18 projects) funds were leveraged from sources other than local government. This was the case mostly in civil works projects, where seven of eight leveraged funds from the MZ, Electric Distribution Company and Ministry of Labor.

LED Institutionalization: The assessment findings for LED Institutionalization are covered in the following section.

Municipal Capacity Index:

The assessment team followed the MCI system developed by Mercy Corps at the outset of CRDA-E, which is slightly different than that used by MEGA and DCG. The overall average score for the fifteen municipalities was 37.8 on a scale from 0 to 65; the actual range of scores is from 25 to

<p>Professional Municipal Staff Trained and expert professionals working in the municipal government provide first-hand knowledge of the community and act as advisors to, and advocates for, the city. These professionals spearhead economic strategy and are the proactive arm of local government in attracting new businesses.</p>	1 <input type="radio"/> No professional staff in municipal government dedicated to business and local economic development. Mayor serves as contact for city.
	2 <input type="radio"/> Full-time local economic development professionals exist but are not actively engaged. A change in the Mayor will likely bring about replacement of key economic staff.
	3 <input type="radio"/> Full-time local economic development staff represent city on behalf of Mayor, regularly meeting with potential investors.
	4 <input type="radio"/> Professional staff pursues new business opportunities, try to attract new businesses in line with municipal economic strategy, and regularly meet with existing businesses to better understand their needs. When a new Mayor is elected, staff will likely retain their jobs so that local economic development initiatives continue without regard to politics.
	5 <input type="radio"/> Professional staff aggressively pursues opportunities for growth and recruitment of new businesses through a concerted economic strategy. Municipal government encourages and facilitates local business associations and relies on their input into economic strategy.

Mercy Corps adopted MCI indicators from the January 2005 USAID workshop, "Local Economic Development in Europe & Eurasia: Strategies that Work." Fourteen indicators are divided into two categories: i) Preparing for LED, and ii) Proactive Local Economic Development. Each indicator is followed by an assessment of the level of development of the indicator, as shown in this example.

48 MCI points. The top five municipalities according to the MCI scores in June 2007 are Krusevac, Prokuplje, Tutin, Priboj and Prijepolje; the lowest ranking municipalities were Kursumlija and Sjenica. These results reinforce in a quantitative manner the experience of Mercy Corps in working with these municipalities. While Sjenica has been a poor performer throughout CRDA and CRDA-E, Kursumlija may have regressed over the past two years.

Municipal Capacity Index Rankings (Sorted by 2007 Ranking)								
Overall MCI Indicators			Preparing for LED MCI Indicators			Proactive LED MCI Indicators		
Municipality	2005	2007	Municipality	2005	2007	Municipality	2005	2007
Krusevac	40.0	48.0	Tutin	12.7	18.0	Krusevac	24.8	31.0
Prokuplje	33.8	46.0	Aleksandrovac	14.5	17.0	Prokuplje	21.4	29.0
Tutin	33.8	44.0	Krusevac	15.2	17.0	Zitoradja	16.2	27.0
Priboj	31.6	40.0	Priboj	13.2	17.0	Tutin	21.1	26.0
Prijepolje	34.2	40.0	Prijepolje	13.4	17.0	Novi Pazar	19.2	24.0
Novi Pazar	30.5	39.0	Prokuplje	12.4	17.0	Priboj	18.5	23.0
Trstenik	30.7	39.0	Raska	16.4	17.0	Prijepolje	20.8	23.0
Ivanjica	36.0	38.0	Trstenik	13.0	17.0	Average	21.6	22.3
Zitoradja	27.6	38.0	Ivanjica	15.6	16.0	Ivanjica	20.4	22.0
Average	35.1	37.7	Average	13.5	15.4	Trstenik	17.7	22.0
Raska	43.4	37.0	Cicevac	14.0	15.0	Raska	27.0	20.0
Varvarin	36.3	35.0	Novi Pazar	11.3	15.0	Varvarin	21.8	20.0
Aleksandrovac	38.4	35.0	Varvarin	14.6	15.0	Cicevac	23.0	19.0
Cicevac	37.0	34.0	Kursumlija	13.8	11.0	Sjenica	19.0	18.0
Sjenica	30.1	29.0	Sjenica	11.1	11.0	Aleksandrovac	23.9	18.0
Kursumlija	40.8	25.9	Zitoradja	11.4	11.0	Kursumlija	27.0	14.0

These data show the results of the MCI baseline survey in 2005 and the follow-up survey in 2007. It is important to note, however, that while the survey remained the same, the methodology differed. For the baseline, each MEC member individually scored the municipal MCI, while the follow-up assessment is based on information gathered by an outside agent and guided by more detailed sub-questions. Furthermore, there was no control group of municipalities without LED interventions. Thus, while interesting for illustrative and comparison purposes, the results likely do not present a statistically valid comparison of the state of LED before and after interventions. It should be noted, however, that the DCG approach of using outside experts to rank the MCI is a more valid approach, making the results from 2007 a more reliable and accurate assessment, and useful for future LED initiatives in those municipalities.

Recommendations & Lessons Learned: The following recommendations are excerpted from the LED Assessment:

- For the purposes of replicating the LED approach in other countries: i) the activity should have been initiated earlier in the program; ii) Mercy Corps' overall LED approach is very good and should be replicated as such; but, iii) some parts of the process are missing from the "big picture," such as strategic planning and institution building of higher forms of stakeholder involvement. These should be introduced as part of the strategy.
- It would be beneficial to mainstream a systematic anticorruption activity in the LED component, both to identify corruption points in the sectors of local government, and because it is a key interest of USAID.
- Municipalities should be encouraged to employ professional, highly competent and skilled staff able to carry out ongoing, and initiate new, activities.
- Mercy Corps staff should take greater efforts to remain informed about project status and to react on problematic projects with appropriate and timely corrective action.

- Mercy Corps should place greater emphasis on requiring regular maintenance on projects and equipment donated through CRDA-E. Municipalities perhaps need to be better educated on the importance of routine equipment maintenance, or more adept at applying it, especially for equipment such as multi-purpose construction machines and other high value equipment.
- Mercy Corps should pursue a mechanism to provide feedback to the municipalities on the outcome of external evaluations. A summary report should be sent to them with recommendations for their future actions.
- At the end of the program, municipalities should be encouraged to develop more reliable mechanisms of self-monitoring and project evaluation, as well as to record their own progress.
- Mechanisms of networking, best practices, regional cooperation and support for national level institutions should be sought within the framework of LED activities.
- Municipalities should be advised to consider their strengths and weaknesses in continuing the LED process and seek the assistance of external consultants when needed, especially in areas of LED institutionalization and strategic planning.
- The established Economic Development Committees should be assisted by other donor activities.
- The recommendations and a summary report on the municipalities assessed should be provided to other donors in the region to ensure continuity of approach and guidance in completing current and future activities.

LED-B: LED Institutionalization

Strategy

LED Institutionalization: In the final year of CRDA-E Mercy Corps focused on ensuring the sustainability of LED programming to provide a permanent mechanism or LED agency within the local governments. To this end Mercy Corps undertook an institutionalization strategy in partnership with MEGA, UNDP and local partner DCG to create municipal LED offices throughout the Mercy Corps AOR. The institutionalization strategy included:

- Three-day study tour attended by 25 MEC members from 13 municipalities and partner organizations who visited successful LED Agencies in western Serbia and Bosnia.
- MEC meetings held reporting on the study tour and presenting options for establishing an LED Office.
- Coordination with UNDP and MEGA to consolidate leaders of LED groups into one Municipal Economic Development Commission.
- In November 2006 Development Consulting Group (DCG) delivered three three-day LED workshops on fundamental LED Office functions for 45 participants from 12 municipalities. The training course and materials were developed by MEGA and are in use throughout the ten MEGA municipalities. By replicating the MEGA training, Mercy Corps contributed to the standardization of LED Offices throughout Serbia and leveraged USAID funding for LED.
- Mercy Corps contracted DCG again in March 2007 to deliver nine interactive Advanced LED Workshops for over 50 participants from 12 municipalities on the following topics: Municipal Leadership, Strategic Planning, LED Tools & Techniques, Project Management, and Project Relations & Communication. The workshops helped improve the capacity and knowledge base of LED Office staff and LED Council members.

Applying Lessons Learned
Lessons from Community Development M&E Assessment

The Mercy Corps LED team applied lessons learned from their work in Community Development to provide support for long-term sustainability of LED offices. The following recommendation from the Community Development assessment found a solution in the team's LED institutionalization strategy:

***"Group Institutionalization:** In areas with no tradition of civil society and non-governmentally led development, it is unrealistic to expect that informal groups formed by external actors and donors will be sustainable, and that democratic working methods will carry over to future activities unless steps are taken to institutionalize the groups."*

Results

Results Presentation: Much of the results and outputs in the area of Institutionalization are taken from the external LED Assessment and are therefore confirm the results reported by the municipalities to Mercy Corps. Again, for a more thorough discussion and presentation of the results, the reader is referred to the assessment report.

Quantitative Results: During the LED Assessment, the evaluators assessed the steps completed by the municipalities toward establishing a permanent LED body. The evaluation team found that:

- Twelve of the fifteen municipalities have demonstrated a commitment to LED at various levels.

- Nine of the fifteen municipalities covered by CRDA-E LED activities took significant steps toward institutionalization.
- Four municipalities have formally established LED Offices as part of municipal administration by enacting a Municipal Assembly Decision (Aleksandrovac, Krusevac, Prokuplje, Zitoradja).
- Six municipalities have not officially adopted an LED office by the municipal assembly but have already ensured some functionality of LED activities (Cicevac, Ivanjica, Priboj, Raska, Trstenik, Tutin). Five of these are still in the process of formalizing an LED Office. Novi Pazar and Prijepolje are getting ready to position LED staff members but have not yet appointed them.
- In seven LED offices, the evaluators concluded that the LED staff members possess the necessary qualifications.
- One of the most developed LED functions is the preparation of marketing and promotion materials for the municipality, such as Investment Profiles. Twelve of the fifteen municipalities have appropriate, quality presentations, investment profiles, brochures, websites and other promotional materials.

LED Institutionalization Problems Identified

- Lack of understanding for need to develop municipal administration according to citizen needs.
- Poor economic conditions and lack of municipal funds.
- Inadequate law on local self-governance.
- Inefficiency of central government.
- Poor internal and external communication.
- Poor local political environment.
- Underdeveloped infrastructure.
- Lack of qualified work force for effective LED function.
- Lack of information and data.

Monitoring & Evaluation

Commitment of Municipal Leadership				
LED Office Municipalities	Indicator			
	1	2	3	4
Aleksandrovac	Good	Good	Good	Good
Prokuplje	Good	Good	Good	Good
Zitoradja	Good	Good	Good	Good
Ivanjica	Good	Good	Good	---
Tutin	Good	Good	Good	---
Kruševac	Medium	Medium	Good	Good
Trstenik	Good	Medium	Medium	---
Čičevac	Good	Poor	Poor	Poor
Priboj	Good	Poor	Poor	---
Raška	Medium	Medium	Poor	---
Novi Pazar	Poor	Poor	Poor	Poor
Prijepolje	Poor	Poor	Poor	---

The support of municipal leadership to LED activities and institutions was measured through four indicators, which are measured as good, medium and poor:

1. LED Office reports directly to Mayor or Mayor's cabinet.
2. LED Office staff members feel included in the LED decision-making process as advisors to municipal leadership.
3. LED Office employees communicate directly with (potential) investors.
4. For municipalities with an LED strategy in place, the LED Office and Council are direct implementers of the strategy.

Recommendations & Lessons Learned: In addition to the above findings, many of which constitute a part of M&E (and were for the most part, in fact, derived from the M&E assessment) the following conclusions and recommendations were cited by the evaluation team:

Municipal Leadership Commitment: It can be generally noted that dedication to LED by the local political leadership plays a crucial role in institutionalization. This is supported by the fact that in all of the municipalities without LED offices, the mayor and other officials generally showed neither understanding, nor willingness to engage in LED efforts. To quote Mr. Milan Dzurđević, president of the municipality of Kursumlija: "If someone convinces us that this is what we need, we would be more than willing to open an LED office with their support."

Formal & Financial Sustainability: Apart from Tutin, where the agriculture development budget line item is managed by the LED Office, all other municipalities presently only provide staff salaries and office operational costs for the LED Office. In discussions with presidents and heads of budget departments, it is apparent and hoped for that in 2008 the LED Offices will have more substantial funds at their disposal.

LED Staff: In all twelve municipalities that are pursuing some form of LED institutionalization, the municipalities have selected their best available staff to work on the effort; typically, the team is comprised of several newly employed staff members, former high-achievers from various departments. Generally speaking, the offices face problems with human resources and lack English speaking and IT-literate staff. The commonly bridge the problem by relying on personal relationships with English teachers and others capable of speaking and writing English when there is a specific need.

Communication: The municipal capacity to successfully communicate was measured by both internal communication, which was found to be satisfactory in eight municipalities, and external communication, which was rated satisfactory in eleven municipalities. These data show that internal communication presents a bigger challenge, and that municipal economic development units face difficulties in communicating with decision makers and other internal departments.

Qualitative M&E Findings: Mercy Corps' LED Institutionalization efforts, in particular the establishment of LED offices, were perceived as highly useful and needed among the majority of the fifteen municipalities who participated in the program. Two of the municipalities, Kruševac and Prokuplje, opened their offices in cooperation with the MEGA program but also participated in the CRDA-E workshops and training. All of the municipalities noted that this effort should have

been initiated in an earlier stage of cooperation with Mercy Corps. The LED assessment team stated the following conclusions with respect to the institutionalization process.

- Technical assistance provided by Mercy Corps (training, study tours, consulting) was viewed to be equally important as the money invested in projects.
- Capacity for LED project preparation and implementation exists in 11 municipalities.
- None of the established LED offices maintain databases on local economy and businesses.
- Capacity to provide adequate information to potential investors and the business community was found in ten municipalities.
- In the four municipalities with established LED Offices, the Economic Development Committee has an advisory role only, except in Aleksandrovac where the LED Office is envisioned as an independent municipal department (the only other example of this in Serbia is the municipality of Indjija).
- Novi Pazar municipality has demonstrated some degree of LED institutionalization. Though the management team is dislocated from the municipal building, it acts as a sort of LED agency since it works with local partners to develop project ideas into proposals, which are processed to government bodies and international donors.
- Priboj officials maintain a strong commitment to an LED Office and institutionalization but political obstructions in the Assembly are blocking the necessary decisions and actions.
- Economic Development Committees rarely meet in the municipalities assessed. There is a tendency to react, rather than act.

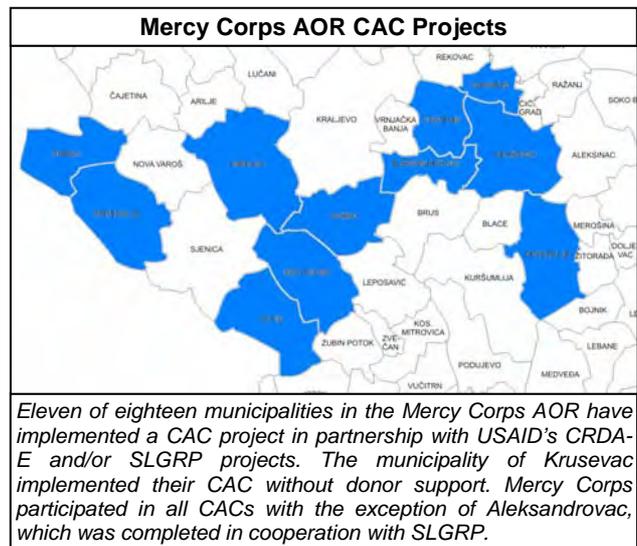
LED-C: Citizen Assistance Centers

Strategy

Citizen Assistance Centers: Citizen Assistance Centers (CACs) are one-stop centers in the municipal building that assist citizens in obtaining permits, documents and information; resolving issues with local government; lodging complaints; and providing suggestions. CACs provide a relationship between citizens and the municipal government that fosters open communication and assists the municipality in providing better, more efficient, and more transparent services; they offer local government an opportunity to demonstrate that they are responsive, transparent and reform-minded.

CAC Services: A sampling of the CAC services include:

- Accelerate business registration by providing and processing applications for farms and SMEs;
- Provide a clearinghouse and information for issuing and processing forms and documents from all municipal departments;
- Facilitate urban development by issuing construction and housing permits, assisting the work of public firms and utility companies, and tracking and promoting community development;
- Issue birth, death, marriage and citizen certificates and worker registration books;
- Provide information on local businesses, banks and lending institutions, schools, tourism, statistics, media and nongovernmental organizations;
- Conduct communal, ecology, building and traffic inspections;
- Notarize signatures on official documents;
- Maintain voter registration records;
- Process requests for children's allowance, maternity leave, veteran/disability supplements, and fellowships.



CAC Advantages	
Municipality	Citizens
<ul style="list-style-type: none"> • Reduced operating expenses. • More efficient operation. • Improved urban planning and development. • Streamlined departmental procedures. 	<ul style="list-style-type: none"> • Simplified procedures. • Quick and convenient service. • Expanded portfolio of municipal services. • Less potential for corruption. • Improved organization and development of real estate market.

CACs in Serbia: Both donors and municipalities have embraced the CAC concept and are implementing CACs throughout the country. USAID implementers helped establish and upgrade the centers through the SLGRP, MEGA and CRDA programs.

Public Relations for Krusevac CAC



When the Krusevac municipality upgraded their CAC in 2005 with support from CRDA-E, they conducted a PR campaign in the community to advertise the new services. With the software upgrade, citizens are notified via SMS when their request has been processed and completed..

Assessments & Training: Prior to implementing CACs Mercy Corps and consulting partner DCG completed municipality service assessments. The assessments determine the municipal IT networking and human resource requirements, and the distribution of work between the workstations. DCG completed the assessments for Novi Pazar, Raska, and Varvarin, while Mercy Corps completed the assessments for Priboj, Prijepolje, Trstenik and Tutin. Independent consultant Goran Gogic completed the IT design for all seven of the CACs, in addition to the software upgrade for the Krusevac municipality. Mercy Corps also provided training for municipal employees in IT system administration, CAC software, and customer service. Mercy Corps also facilitated cross-visits between municipalities proposing CACs and existing CACs in other municipalities.

IT & System Administrators: In many municipalities in southern Serbia, there is little or no in-house IT capacity. In the cases of Priboj, Prijepolje and Tutin there was virtually no IT capacity at all, neither in

terms of existing computers nor system administrator. This turned into a difficult challenge in establishing these CACs. Mercy Corps required that all municipalities hire a full-time IT Administrator and ensure that he/she is fully trained and certified in system administration in Belgrade. In some cases this training was sponsored in part by Mercy Corps.

Software Assessment & Procurement: In procuring CAC software, Mercy Corps organized presentations of the four software packages offered in Serbia: i) MEGA (affiliated with Microsoft), ii) RCUB (developed by Belgrade University and installed in SLGRP MSCs), iii) Fidiya Company, and iv) Nis municipality (developed by and for the Nis municipality and currently being marketed by them). Municipal staff, Mercy Corps, and the IT consultant evaluated each software package in terms of capability, user-friendliness, price and maintenance to choose the most appropriate product for each particular application. In the end, four of the five municipalities chose MEGA while one chose the RCUB product. It is worth noting that the first choice of four of the municipalities was the Nis municipality software, the least expensive option and a very capable and user-friendly product. However, since the software was to be procured by Mercy Corps, that package was eventually excluded from the competition based on the fact that it was not offered by a private company, plus prior complications in cooperation between USAID and the municipality of Nis.

Results

Mercy Corps Role: Under CRDA-E Mercy Corps generally assumed the role of providing the planning, development and consultation services for the CACs, along with providing the IT system, software and network. Municipalities in turn assumed responsibility for physical reconstruction. This is a reversal of the responsibilities for those CACs supported under CRDA and in cooperation with SLGRP.

CAC Summary: Below is a summary of the CACs and Mercy Corps' role in their implementation:

- **Varvarin, Trstenik, Tutin, Priboj, Prijepolje:** CACs were proposed and approved 2005 MEC projects. DCG completed the assessment and provided consulting services for Varvarin, while Mercy Corps provided those services for the remaining four.
- **Prokuplje, Ivanjica:** These two CACs were completed in cooperation with USAID's SLGRP project in 2004. Mercy Corps provided financial support for physical reconstruction while SLGRP provided the technical services, consulting and some of the IT and network hardware.
- **Krusevac:** Krusevac self-implemented a CAC in 2004-2005. Mercy Corps later provided an SQL server and several software components for the MEGA software system: Management Module, Voting Module, SMS service and Web Portal.
- **Aleksandrovac:** The Aleksandrovac CAC was completed in cooperation with DAI's SLGRP program. Mercy Corps did not participate financially or technically in this project.
- **Novi Pazar:** The Novi Pazar CAC was a 2006 initiative led by the current municipal administration of Mayor Ugjanin. The project was principally funded by the municipality in partnership with Lux Development, while

Mercy Corps will provide technical oversight, planning and design, and a small portion of funds for physical reconstruction.

- **Raska:** The Raska MEC approved a CAC project in 2006, supported by their SPS mayor, Bojan Milanovic. Mercy Corps obtained an exemption from USAID and the US Embassy to work with the SPS local government; Mayor Milanovic highlights the open door policy of the municipality and the positive customer service orientation of the staff.

Monitoring & Evaluation

General Assessment Findings: Because of the importance of these high profile projects, the LED assessment team visited five of the seven CACs supported by Mercy Corps under CRDA-E. (CACs supported under the original CRDA project and/or done in cooperation with SLGRP were not visited.) All five CACs visited were fully functional, well-designed and fully equipped. All software packages work well and the CAC staff members seem confident in using it.

Specific Findings: Several municipalities faced significant problems with finding an appropriate location for their CAC. In Tutin the CAC is dislocated from the main municipal building and occupies a space which is too small to comfortably accommodate all employees and customers. Similarly, the Krusevac CAC is not large enough considering the size of municipality and the amount of services provided to citizens and businesses on daily basis. As an example of best practice, Raska CAC employees wear uniforms, giving an impression of greater professionalism and respect for citizens.

Comment from the LED Assessment Team...
<i>"Immediately upon entering the Raska CAC, one notices the smiling faces of the neat, uniformed employees. This small investment makes a big difference and significantly contributes to the image of professionalism – a municipality which truly serves its citizens and businesses."</i>

Novi Pazar CAC: One of the last municipalities to introduce a CAC in partnership with Mercy Corps was Novi Pazar. The municipality recognizes the numerous benefits of improving municipal services and has invested significant funds into a video-surveillance system that will allow the Head of Municipal Administration to monitor the quality of the services provided. In addition, the ongoing functional analysis by UNDP/PRO should further contribute to municipal service modernization and optimization.

LED-D: Business Improvement Districts

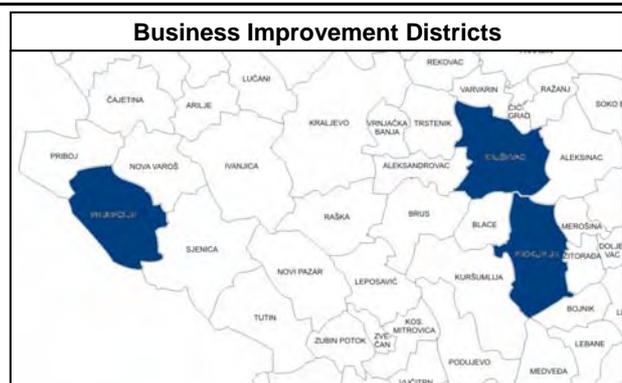
Strategy

Business Improvement District: A Business Improvement District (BID) is a strategic partnership aimed at revitalizing downtown shopping districts in city centers. BIDs renovate the basic infrastructure and streets and beautify the zone, improving the business climate and economic vitality of downtown areas. Property owners, shopkeepers and City Hall cooperate to address construction and legal initiatives that result in a successful BID project.

CRDA & CRDA-E Investments: Mercy Corps invested in three BIDs over the course of CRDA and CRDA-E. Mercy Corps led the development efforts only in the case of Prijepolje while Krusevac and Prokuplje were led by USAID's SLGRP and MEGA programs, respectively.

Krusevac BID 2003-2005: The Krusevac BID was organized through the SLGRP program by DAI and their local partners. It was one of four BIDs supported by the USAID program in Serbia; the others included Nis, Valjevo and Zrenjenin. Mercy Corps contributed \$75,000 in financial resources for the decorative paving tiles; the municipality of Krusevac invested \$659,000 in considerable infrastructure works, including a complete removal of the street and replacement of underground utilities. SLGRP invested approximately \$110,000 in development activities, consulting services, and a BID study tour to New York City.

Prijepolje BID 2005-2006: Mercy Corps and local partners and consultants led the development of the Prijepolje BID starting in 2005. Mercy Corps contributed \$122,500 to the development and construction works. Development efforts



The municipalities of Prijepolje and Prokuplje join Krusevac in hosting a Business Improvement District. Mercy Corps led the Prijepolje initiative in 2005; MEGA led the Prokuplje initiative in 2006; and SLGRP, Krusevac in 2004. Mercy Corps invested \$122,500 in development activities for the Prijepolje BID; \$74,000 in works for Prokuplje; and \$75,000 in Krusevac.

included training and consulting services to form the BID association and establish the tax structure. Municipal and business representatives visited other BIDs in Serbia in a study tour organized by Mercy Corps. CRDA-E financing for physical reconstruction was used for granite tiles, lighting, and decorative improvements, while the municipality's contribution of \$159,000 provided the remainder of infrastructure works, street paving, and other improvements.

Prokuplje BID 2005-2006: The Prokuplje BID was organized through USAID's MEGA program and their partners. In addition to the BID association, statute and aesthetic improvements, the project is providing infrastructure improvements through complete reconstruction of the street (Jug Bogdanova) above and below ground. Mercy Corps contributed \$74,000 while the municipality invested \$403,000. The BID was opened in January 2007. Mercy Corps investment included lighting and electric system and various decorative improvements.

Results

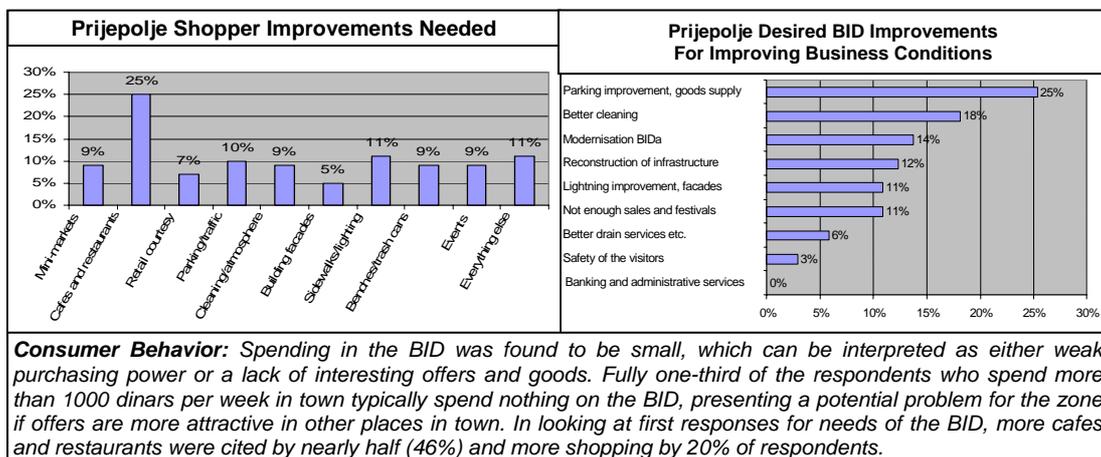
Competition: In 2005 Mercy Corps hosted a competition between the 18 municipalities in the AOR, eight of whom decided to compete for the two planned BID projects. The evaluation was based on criteria related to public-private partnerships, resource commitment, the potential of the proposed site, and extent of repairs and improvements. Prijepolje and Ivanjica won the competition from a pool of eight competitors. In early May 2006, after extensive negotiations with Ivanjica municipal officials, the Ivanjica BID was officially cancelled by mutual agreement due to failure of the municipality in meeting established deadlines. Mercy Corps continued with development efforts in Prijepolje.

Prijepolje Background: The Prijepolje BID is the traditional city center with a high density of commercial premises and the cultural and administrative center of the town. The municipality is 53% Serb and 39% Bosniak/Muslim; the BID is appropriately marked at one end by an Orthodox church and the other by a mosque. The zone is rather small with good potential for expanding into neighboring areas. The number of businesses is just above critical but sufficient for a successful BID. Local government officials and businesses were very cooperative and enthusiastic about the project and maintained relatively high interest throughout the development process.

Prijepolje BID Opening Ceremony



The opening ceremony of the Prijepolje BID marked an important day for the people in the town. In a municipality which receives little outside attention, the community and local officials organized an excellent opening ceremony that demonstrated to all the strong partnerships that made the project a success.





Development Partners: Mercy Corps utilized the services of the local consulting firm, Partnership for Development (Pfd) and BID Zrenjanin to provide development and technical assistance to the BID stakeholders. Both of these groups were formed through USAID's SLGRP program. In addition to BID topics, partners have organized training in business management, bookkeeping and accounting, laws and regulations on labor contracts.

BID Study Tour: Eight members of the Prijepolje BID association and municipal officials participated in a study tour, visiting BIDs in Valjevo and Zrenjanin. In Zrenjanin, the participants attended a strategic planning workshop that provided basic skills in LED, strategic planning, and effective public-private partnerships. By the end of the workshop, the participants had completed a strategic plan for the Prijepolje BID.

Shopper & Business Surveys and Footfalls: Shopper surveys were conducted with over 100 people by the BID Initiative Board to determine visitor and shopper habits and opinions. Information gained from the surveys, plus footfall counts at various times of the day on different days of the week, were used as the basis for forming the BID marketing and business plans.

Monitoring & Evaluation – Krusevac

Assessment: In December 2005 Mercy Corps, in cooperation with MEGA, began an assessment of the Krusevac BID with the goal of identifying and facilitating solutions for a number of issues that had come to the attention of the Mercy Corps team, and in addition, to incorporate the lessons learned from Krusevac into the strategy for future BIDS, and specifically the proposed BID in Prijepolje. Following is a summary of the basic background of the Krusevac BID and the issues that faced the BID and local government from late-2005 through 2006.

Background: Established June 2003, the Krusevac BID was planned and implemented by property and business owners in cooperation with DAI/SLGRP, Mercy Corps/CRDA, Berman Group, and the Municipality of Krusevac. The BID association "Centar" is passed a tax statute to provide special benefits to the association member businesses. With its immediate connection to the city center, the local government invested \$659,000, together with USAID investments from SLGRP and CRDA, to transform Zakiceva Street from a sleepy café-oriented side-street into a vibrant business district with nearly 3,300 m² of new business space.

History: Zakiceva was first proposed by the Krusevac local government in early 2002 as a potential BID to DAI and Mercy Corps. In immediate need of major infrastructural improvements, the street received little attention by the city works departments over the past 40 years. Since the 1960s, Zakiceva slowly transformed from a residential neighborhood to an urban street interspersed with apartment buildings, small shops and cafes. The increased concentration of multiple user structures and businesses strained the outdated, collapsing public utilities requiring immediate intervention to overhaul the utility networks. In the early 2000's Zakiceva Street had also developed an unsavory image as an area controlled by local crime groups. From 1990-2000 numerous crimes were committed on the street, including five murders. It was considered an unsafe area during evenings at and night and there was little the police or municipal administration could, or would, do to control it.

Political Developments: After the BID project was approved by SLGRP and CRDA programs in 2003 Zakiceva Street began a protracted period of construction that extended through 2005. During that time, the BID became a political tool between the two democratic political parties DS and DSS. In 2004, Dragan Azdejkovic of the DSS party was elected as mayor; after the election he quickly ensured that the forces controlling the various public utility companies and municipality solved the problems with the BID and completed the works. In June 2005, the BID was officially opened.

Issues Facing the BID: The issues facing the BID had to do with both recent and ongoing disputes and disagreements between the BID association and the local government. Certainly some of these had roots in the political developments that lingered from the construction period and elections. In general, however, the issues concerned:

- The BID association was dissatisfied with the support the BID was receiving from the municipality. They argued that the assessed taxes had not been returned for reinvestment and maintenance into the BID.

- The BID president felt that the local government should provide office space for the association. It was never completely clear whether or not this had been agreed upon in the past.
- The local government felt that the BID association, and especially the president, were not taking active leadership of the BID and managing it in the way it had been planned. Therefore, the administration argued that it was reinvesting the tax revenues, but that it was managing the maintenance and investment itself, rather than turning over control of the funds to the association.

Assessment Findings: The assessment revealed a number of interesting facts and data:

- Before the BID there were 61 businesses on the street. There was a significant drop in the number of businesses during the construction due to delays and the resulting lack of accessibility of the street to patrons. The number of businesses at the time of the assessment, April 2006, had increased to 51, but was still lower than before the BID. At the time of this writing, August 2007, there are 63 businesses on the BID; with that number likely to increase with the completion of a number of new investments.
- Six new structures were built with private investment totaling \$3.8 million. These structures added an additional 3,285 m² in business space and 4,200 m² in residential space. Compared with other BIDs in Serbia, Krusevac achieved the greatest amount of new investment by a considerable margin. By virtue of this fact alone, the BID has the potential to become the most successful BID in Serbia.

Krusevac BID – Private Investment Summary

		
Investment: \$600,000 Business: 1,200 m ² Residential: 0	Investment: \$1,688,000 Business: 800 m ² Residential: 2,400	Investment: \$540,000 Business: 600 m ² Residential: 600
		
Investment: \$313,000 Business: 450 m ² Residential: 200 m ²	Investment: \$350,000 Business: 100 m ² Residential: 600 m ²	Investment: \$304,000 Business: 135 m ² Residential: 405 m ²

The amount of private investment in new construction projects after completing the Krusevac BID clearly makes it the leader in this respect among all BIDs implemented in Serbia. After completing the BID, nearly \$3.8 million has been invested in these six new projects alone, resulting in an increase of 3,285 m² of business space and 4,205 m² of residential space. Property values increased by at least 10% in the first six months following completion of the BID.

- BID businesses reported a modest increase in sales of 10-15% since the BID opened.
- From June 2005 when the BID opened, until January 2006 when the assessment was performed, property values had grown by at least 10% according to property owners and local real estate agents.
- Due to the extended time of construction and the emphasis on infrastructure works, as well as political maneuvering, there was insufficient attention paid to developing an effective BID association. The association lacked a business plan and claimed that the municipality and Berman Group stated it would cost 1.2 million dinars (\$17,000) to manage the association. Meanwhile, they argued, the association would receive only 80,000 dinars from assessed taxes. To date, the association remains without a firm business plan and operates at a minimal level.

Facilitated Developments: As a result of the assessment, DAI and Mercy Corps had the opportunity to facilitate a number of modest agreements between the association and local government:

- December 2005: In negotiations between the BID and municipality, Mayor Azdejkovic agreed to provide the BID with office space.
- January 2006: The municipality released 80,000 dinars of assessed taxes to the BID association budget.
- March 2006: The BID office was opened and an assembly meeting called. The Zrenjanin BID manager (and MEGA consultant) presented a comparative study of Zrenjanin, Valjevo, Nis and Krusavac BIDs, including

recommendations for strengthening their effectiveness. Numerous issues were brought to light, including uncontrolled parking; unregulated traffic; inadequate infrastructure maintenance, trash and snow removal; lack of connections to the district heating system; and the immediate need for 300 new telephone numbers.

- April 2006: Meeting facilitated by MEGA between all major project stakeholders and service providers, including: Krusevac municipality, BID association, JKP, Telekom, tax administration, Mercy Corps, SBB cable TV, Gradska Toplana, and Direkcija to solve the outstanding infrastructure issues.

Future Outlook: Many of the problems of the BID have been solved since 2006, although no further assessment was completed to determine to what extent. The joint SLGRP-CRDA assessment team recommended that the BID association must improve relations with the municipality and not view them simply as a source of funding and conflict. Meanwhile, the municipality must recognize that a BID is an asset for the city and leverage this to their advantage. The Krusevac BID often lacks this understanding on both sides, as well as within the association itself between its members and management. More frequent and better organized BID Assembly meetings must be held for all BID members to voice their concerns and increase transparency.

Monitoring & Evaluation – Prijepolje & Prokuplje

General Assessment Findings: The LED assessment team visited both the Prijepolje and Prokuplje BIDs established under CRDA-E (the Krusevac BID was established under CRDA and was not in the scope of the LED Assessment). The assessment team determined that the municipalities of Prokuplje and Prijepolje both fully understand that the physical reconstruction of the streets is only an initial step in reaching the desired economic effect of the BID and that the success of the BID lies in the functioning of the public-private partnership.

- Although the number of shops and open-space events was increased, further partnership between the private and public sectors is needed. The BID managers understand that ensuring sustainability of the association and tax statutes will require joint efforts and commitment of all stakeholders and both the public and private actors.
- Neither of the BIDs has established a database with reliable, updated statistics of new shops, jobs created and direct investments. In order to establish a sound M&E system, a baseline assessment should be conducted as soon as possible.

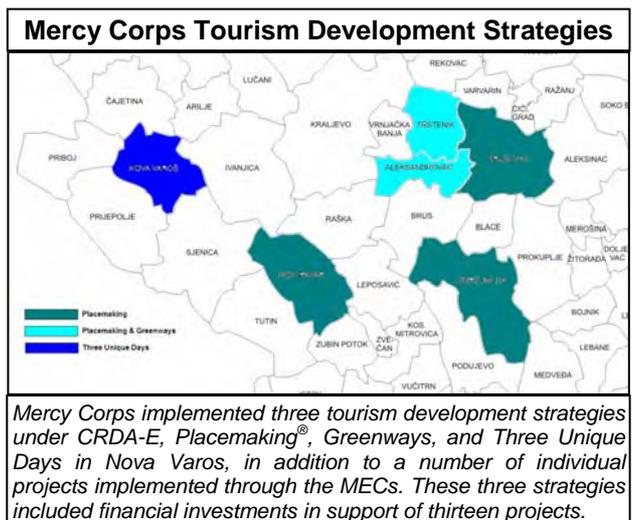
LED-E: Tourism Development, Placemaking® & Greenways

Strategy

Summary: Mercy Corps implemented a number of initiatives aimed at improving tourism development. While there were several specific projects proposed and implemented through MECs, Mercy Corps also incorporated several strategic components into the LED strategy aimed at increasing and promoting tourism. Tourism development strategies and activities presented in this section include: i) Placemaking®, ii) Greenways, iii) Three Unique Days in Nova Varos, and iv) tourism projects proposed and implemented by MECs through Mercy Corps' Cultivated Demand approach.

Placemaking®: Healthy public spaces are the springboard for revitalizing communities. That an attractive, active, well-functioning public space can jumpstart economic development in a community – from a small rural town to a big city – is increasingly recognized around the world. Public spaces are a common LED goal that local governments and private groups can collaborate on in a democratic process, and which lead to more sustainable development practices. The Placemaking® approach is based not only on ideas and elements, but on public involvement in creating and designing the space. Project for Public Spaces, Inc. (PPS), the New York based non-profit organization that pioneered the Placemaking® approach to public spaces, worked with four CRDA partners under the encouragement of USAID.

Greenways: The Greenways strategy is essentially the same as Placemaking, except that while Placemaking® generally focuses on the revitalization of urban areas, Greenways focuses on rural areas, especially routes that connect



various tourism points or destinations. Trails may be defined in the traditional sense, such as mountain trails or walking paths, but they also include bike paths and even roads. Greenways projects often include the construction or physical rehabilitation of points of interest, as well as tourism signs that point the way to various destinations.

Three Unique Days in Nova Varos: In Nova Varos Mercy Corps implemented a tourism strategy in cooperation with the Serbian consulting firm, ExperienceClub. The program was based on a competition between stakeholder groups for tourism investments in and around the municipality. The contest format required that applicants form consortia to offer the most unique three-day package of activities that the region has to offer. Nova Varos has a number of unique resources: three dammed lakes, the Lim river and spectacular Uvca canyon, rare species of birds and eagle, and a caving expedition accessible only by boat.

MEC Tourism Initiatives: As previously presented, one of the sectors of Mercy Corps' *Cultivated Demand* approach under the 2006 MEC strategy was tourism development. Based on the results of the *LED Bottlenecks and Opportunities* surveys and focus groups with MEC members, tourism was one of the strategic sectors identified. Mercy Corps and the MECs identified stakeholders in the tourism sector, facilitated SWOT analyses for stakeholders in each municipality, and produced promotional materials outlining potential strategies and project interventions.

Results

Krusevac Placemaking®: The Krusevac city center consists of the four squares, three public and one private, on each side of the intersection of the main street and Zakiceva Street (the presented previously BID). The original scope of the Placemaking® project was to revitalize the three public spaces with new designs, each one featuring a focal point to draw people into the space and create a space that citizens will use. After an initial presentation by PPS to local leaders and the broader community, volunteer citizens formed two committees, a design group and a marketing group, to lead the process. The marketing group developed and completed a survey of more than 1000 citizens, community leaders, and students on the elements of design and types of activities they would like to see. These suggestions were incorporated into the design by the design group, along with concepts from the original goals of the project.

Krusevac Promotion Events: A number of activities were organized in the Krusevac center around the Placemaking® project, including a design presentation and fundraising event for Krusevac business leaders, three public design unveilings and exhibits, a book sales fair, a Children's Mask Contest and Ball, and "Zlatna Kaciga," a children's parade through the center followed by five days of variety show events centered around the Serbian holiday, Vidovdan.

Kursumlija Placemaking®: The Kursumlija Placemaking® site is the focal point of the community – the city park forms the core of the city center but has remained run-down and under-maintained over the past fifteen years. The Kursumlija project rehabilitated the sidewalks and playground; installed new lighting, benches, trash cans, and foliage; and added a fountain. While the project is not grandiose in design, it restores the features that once made Kursumlija proud. CRDA-E invested \$30,000 while the city of Kursumlija invested \$10,000. A number of holiday events were also organized in the park to commemorate the project.

Novi Pazar Placemaking®: The Novi Pazar Placemaking® project, kicked off in April 2006 with the traditional community visioning exercise performed by PPS New York, revitalized the public park in the center of town; the park is home to a middle-century citadel, making this a unique Placemaking® site. The project concentrated on several focus points: i) a stage and spectator stands within the walls of the western bastion of the park citadel; ii) a canopy for social games with benches and tables near the citadel tower; iii) new and improved pathways and plateaus across the park; and iv) lighting and new furniture.

Tourism Development with SEDP: In Aleksandrovac and Trstenik, Mercy Corps worked with the USAID SEDP project to implement Placemaking® and Greenways projects in the municipalities of Aleksandrovac and Trstenik. As part of their tourism competitiveness strategy, SEDP identified the areas of Zlatibor and Vrnjacka Banja, two popular Serbian tourist



destinations, as the targeted geographic areas of development. Beginning in those municipalities, they worked outward to cover nearby destinations to provide day excursions for the visitors to the two resort areas. Aleksandrovac and Trstenik offer a number of attractive activities and destinations in the area surrounding Vrnjacka Banja, helping to develop the strategy to turn the spa city into a hub for hiking, wineries, and festivals. In early 2006 Mercy Corps and SEDP held two workshops: one for Placemaking® in the urban centers and a second for Greenways connecting tourism sites in the three municipalities.

Aleksandrovac & Trstenik Placemaking®: In Aleksandrovac, the Placemaking® project revitalized the main square in the city center that forms the center of activities during the annual Zupa Harvest & Wine Festival. The project provided benches, flower planters, a street clock, and improvement of the national museum. In Trstenik, the project was the river promenade, which features a number of annual events including boat races, fishing festivals, pet exhibition and a baby festival. The project renovated the pathway and provided lighting, benches and trash receptacles.

Greenways OZONE Trail Projects: The Ozone trails are a network of bicycle and foot trails and roads connecting Vrnjacka Banja, Aleksandrovac and Trstenik developed through the Greenways & Trails project. The trails provide a glimpse into life in the local countryside and its scenery, history, culture and traditions. Whether by bike or on foot, the visitor has many opportunities to explore historical monuments, romantic villas, old vineyards, villages, medieval monasteries and traditional crafts and taste the wine at Zupa's centuries old wine cellars. In the joint Mercy Corps-SEDP workshops, stakeholders developed five Greenways trails. SEDP supported mapping, promotional designs and materials, logo design and a web portal. Mercy Corps invested \$42,000 in the trails in Aleksandrovac and Trstenik, including the reconstruction an old bridge and working water mill, trail signs, bungalows, and picnic tables.

	<p><u>Trail of Great Views, Trstenik</u> Trail: 179 km long, connecting three mountains: Gledicke, Goc and Zeljin. Surface: Gravel road (140 km), forest path (29 km) and asphalt (10 km). Activities: Hiking, mountain climbing, cycling, bird watching, hunting, fishing, picking herbs, mushrooms and other forest fruit, photography, visiting monasteries and museums, tasting home made foods and drinks, walking along Vrnjacka promenade, drinking wine at the fountain and visiting local wine cellars, riding boats down the Morava River, visiting mineral springs in Vrnjacka Banja and Veluće, and, of course, enjoying fantastic views.</p>
	<p><u>Culture Trail, Trstenik</u> Profile: Hiking and bicycle tour. Surface: Asphalt, rough pavement. Attractions: Church of St. Trinity, cultural center, Katić House, Trstenik museum, iron bridge over the Morava, Church of St. Petka on Vetrenjak, Ljubostinja Monastery, return to Trstenik over the concrete bridge on the Morava. Activities: Walking, mountain climbing, bike riding, hunting, fishing, herb, fruit and mushroom gathering, photography, culture, indulging in homemade foods and beverages.</p>
	<p><u>Crafts Trail, Trstenik</u> Profile: Hiking and bicycle trail. Attractions: City square, King Dušan Street, Osaonica, Dublje, Popina, Brezovica, Rogovi, Petkovic church, Čairi, crossing over the freeway at Petoletka, Vuk Karadžić Street, city square. Activities: Walking, mountain climbing, bike riding, bird watching, hunting, fishing, herb searching, mushrooms and forest fruit, photography, learning old crafts, trying homemade food and drink.</p>
	<p><u>Zeljini Trail, Aleksandrovac</u> Trail: 15 km long starting in Mitrovo Polje, continuing to Vrana Stena, St Kozmo and Demian Monastery Pleš, fishpond in Pleš, Mitrovo Polje. Profile: Starting point is the settlement of Mitrovo Polje located in the northwestern part of Aleksandrovac, at 650-700 m above sea level. It is in close proximity of Mount Željini, above the Rasina Valley on the western side. Mount Goč is situated on its northern side. Otherwise, the site rests on two riverbanks: the Rasina River springing from the Mount Željini and Zagrza River springing from the southern slopes of the Goč Mount. Numerous streams and brooks join both rivers. They are rich in river and California trout, gudgeon and chub.</p>
	<p><u>Zupa Wine Trail, Aleksandrovac</u> Trail: 15 km long starting in the city center of the city, Museum of Wine & Vineries, Museum of Župa, Wine Cellar Ivanović, Poljana Likarevina, Drenča Monastery, Wine Cellar Minić, Wine Cellar Spasić, return via Aleksandrovac suburb, Veliko Borje, with possibility of visiting several other wine-cellars. Profile: Hiking and bicycling trail. Attractions: The tour heads out from the center to the <i>Museum of Wines and Vineyards</i> and the <i>Hometown Museum of Župa</i>, then to the famous wine cellars for wine tasting and lunch or dinner; from there, through the valley of Vukov Do. After 40 minutes of hiking, one arrives at the Lukarevina Valley settlements; and from there, the trail leads northwest to the <i>Hill of Jeldovšte</i>, offering magnificent views over lower Župa and the town of Aleksandrovac. Passing the village of Drenča you arrive at the <i>Monastery Drenča</i>, dedicated to the Holy Mother. Upon the return to Aleksandrovac, guests are able to refresh and have lunch in one of many restaurants in the city, offering an array of choices.</p>

Three Unique Days Tourism Development in Nova Varos



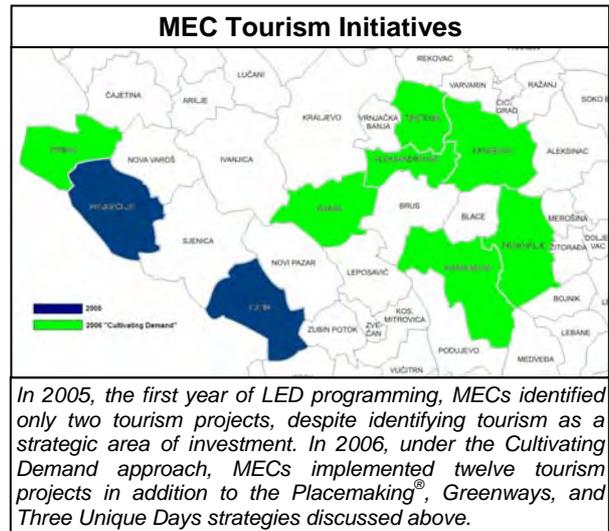
The "Three Unique Days in Nova Varos" tourism competition attracted 76 tourism operators and stakeholders in Nova Varos and nearby regions who formed twelve consortia to present their three-day package ideas. The contestants were instructed to appeal to all five senses to create a memorable experience. Each of the twelve itineraries created a different experience and included such creative offerings as "In the Blink of an Eye" and "Flight of an Eagle." In the end, the "Adventure is Our Life" team took the grand prize with a series of four packages for each of the four seasons that featured a variety of outdoor sports and adventures.

Three Unique Days in Nova Varos: In Nova Varos, Mercy Corps worked with the Serbian consulting firm, ExperienceClub to develop the "Three Unique Days in Nova Varos" tourist package. The project was based on a competition between consortia of local tourist stakeholders offering unique tourist packages of the three most unique days and experiences of Nova Varos. The competition culminated in a Jury Event in Belgrade in November 2005. The four winning partners registered a tourist association, "Gorstaci," the first independent tourist association in Nova Varos. Their package included a blend of eco-tourism activities featuring a tour of the three lakes on the Uvac River and a visit to the white-headed eagle reservation (an endangered species). The winners, which included the park rangers overseeing the Nova Varos resources, were awarded

\$20,000 worth of equipment and gear necessary for organizing the *Three Unique Days*. Representatives of the association are attending courses for tourist guides and English language through their own initiative. The group continues to innovate and plans to develop *Three Unique Days* for each of the four seasons.

MEC Tourism Initiatives: Through the 2006 *Cultivating Demand* strategy implemented with the MECs, Mercy Corps implemented twelve tourism development projects in seven municipalities, up from only two projects the year before. The types of projects implemented were quite diverse and tended to exploit existing resources and tourism assets, as identified in the SWOT strategic analysis conducted with the MECs and local stakeholder groups.

MEC Tourism Projects		
Project Type	2005	2006
Rural Lodge/Ethno-House	1	3
Museum/City Center Attraction	1	2
Sports Facility		1
Event		1
Tourism Signs		2
Destination Development (Spa, Ski)		2
Municipal Tourism Office		1
Total:	2	12



Monitoring & Evaluation

General Assessment Findings: The LED assessment team visited 14 tourism development projects throughout the AOR, reflecting the importance of these projects in the overall strategy. Most of these projects had only recently been completed prior to the assessment (or in some cases were just being completed); therefore, it is very difficult to assign any measurable increase in tourism as a result of the projects. Nevertheless, the assessment team made the following conclusions with respect to these projects.

Three Unique Days in Nova Varos: The assessment team visited three projects in Nova Varos related to the Three Unique Days strategy: i) the consultant services organizing the jury event, ii) the \$20,000 winning three-day agenda for the winning consortium, and iii) a 2005 project providing equipment for the park rangers. In the long run, these projects are perhaps the most worthwhile tourism projects funded by Mercy Corps. Mount Zlatar and Uvac Lake, along with the habitat of white-headed eagles, saved from extinction by the two enthusiastic rangers, are probably one of the greatest tourism potentials in Serbia. While the economic impact is yet to be seen in this undiscovered part of Serbia, the potential is great, much of it thanks to the equipment provided through CRDA-E, such as boats, canoes and caving

equipment. A recent visit and upcoming report in National Geographic is the best illustration of the interest of the international community in this destination. The two rangers have extreme difficulty providing animal corpses to feed the vultures and eagles. They expressed both gratitude for Mercy Corps' assistance with loaning them a Toyota Hilux, and regret that it was taken away from them. The assessors strongly recommend to Mercy Corps to reconsider donating them the vehicle. [The Mercy Corps-owned vehicle was permanently donated to the rangers at the closeout of CRDA.]

Placemaking[®]: In addition to the physical improvement of public spaces, these projects had additional impact seen through the increased citizen participation, establishment of private-public partnerships, income generation by establishing small businesses and, potentially, an economic role in attracting investors. Aleksandrovac provides one of the best examples of how Placemaking[®] projects can improve the local economy, as well as demonstrating how projects can be combined to provide enhanced results.

Destination Development: Five tourism destination projects were visited and assessed through site visits and interviews with project managers. The sites were the Sports Field in Mitrovo Polje (Aleksandrovac), Mountain Houses in Djavolja Varos and Ski Lift in Lukovska Banja (both in Kursumlija) the Ethno House in Kamena Gora (Prijeopolje), and the Rehabilitation Center in Pribojska Banja (Priboj). While none of the projects have yet created an immediate and measurable economic effect, they will likely show more tangible results in the future. Tourism in these destinations has yet to be developed and these projects should be looked upon as initial motivation to continue with improvements, or an invitation to other donors/investors to continue investing in something that may well pay off.

Public-Private Partnership in Kursumlija From the LED Assessment Team...

In Kursumlija the tourism destination projects reflected a true example of an effective public-private partnership. The private company Planinka and the municipality jointly participated in both the Djavolja Varos and Lukovska Banja projects, together investing \$188,000 in the mountain houses and ski lift, compared with a CRDA-E investment of \$96,000.

Rehabilitation Center, Pribojska Spa: One of the most significant impacts of this project is the increased interest of the patients for the services provided, and consequently increased revenue for the spa. One problem observed by the assessors was the fact that one of the devices for treating rheumatic diseases has been dysfunctional for several months. The doctors at the center have not informed Mercy Corps about the problem, and they are having serious issues with the supplier, who is delaying the repair of the device.

Tourism Signs: Tourist Sign projects are especially significant for the municipalities which have historical monuments, monasteries and other attractions. Raska emphasized good quality in their signalization project, compared with their previous one which was not in accordance with tourism standards and was produced from poor-quality materials. The measurable effects of any kind are yet to be recorded. Common to all municipalities is the fact that they do not have a practice of maintaining records on the number of tourists and do not have developed monitoring and evaluation mechanisms.

Tourism Office, Prokuplje: The creation of a branch tourism center in Prokuplje is one of the tourism projects which yielded the most measurable economic effect. The tourism center has become fully functional and already creates a profit through its activities, which include event organizing, maintaining the swimming pool and sports hall, and selling tourist packages both within and outside of Prokuplje. The mountain lodge reconstruction nearby, also supported by CRDA-E, is another potential source of municipal revenue. It must be emphasized that much of this project's success can be attributed to the outstanding capacities of the center manager. The Prokuplje tourism center is certainly among the best replicable practices recognized during the assessment.

LED-F: Recycling & Employment Alternatives Program (REAP)

Strategy

Summary: Mercy Corps' Recycling & Employment Alternatives Program (REAP) was implemented through the CRDA-E LED component in thirteen municipalities. Under the program local governments, communal enterprises and businesses had the opportunity to apply for capital investments that supported recycling activities in an economically viable way and created new jobs. REAP was implemented in cooperation with a number of public, private and international partners, notably World Bank International Finance Corporation (IFC), who provided training and consulting services to municipalities and recyclers.

Background: Serbia lags European countries in taking the necessary steps to reduce and properly dispose of its waste. Illegal landfills abound; collection systems, especially those in villages, are insufficient; waste disposal is indiscriminate and impulsive; and recycling programs are virtually nonexistent. Furthermore, there is little knowledge and poor mentality related to the issues, even among youth, who are typically eager to engage the issue.

Goals & Deadlines of the Strategies of the EU Member-States in Harmony with the Directives (table not shown in entirety)		
Waste Type	Request	Year
Communal Waste	Volume Limit – not more than 300 kg/inhabitant/year	2010
Biodegradable Waste deposited in landfill	Reduction to 75 %	2010
	Reduction to 50 %	2013
	Reduction to 35 %	2020
Package Waste	Reuse of min. 50%	2007
	Recycling of min. 25%	2010

Recycling & Employment Alternatives



REAP projects were financed in 13 municipalities. The program was received with wide interest and resulted in 48 applications, many representing innovative recycling initiatives. In all, 25 projects were financed, ten of which were municipal recycling programs; 83 jobs were created and over 100 tons of waste are expected to be recycled.

Waste & Recycling: The Serbian Recycling Agency reports that only 9% of solid waste is recycled (up from 3% in 2003). [This probably includes scrap metal which is currently recycled fairly efficiently by Roma.] Harmonization with EU member-state strategies requires a recycling rate of 25% of packaged goods. Though municipal collection systems have sprouted in a few municipalities, most have no public recycling program of any kind. There are signs of progress, however, from the private sector where three relatively large scale plastic recycling plants have been built in Batocina, Novi Sad, and Gornji Milanovac, positioning Serbia for a jump; Serbia-wide, plastic processing capacity exceeds collected quantities by twelve times.

Economic Context: Across southern Serbia, official unemployment estimates in some municipalities surpass 30%; it is small wonder that recycling and municipal collection programs are not a priority. Jobs, however, can be created through recycling initiatives. In addition to those directly employed with processing firms and through municipal collection, recycling can create a source of revenue for collectors, primarily the Roma.

Results

Summary: Mercy Corps evaluated 48 applications for public recycling initiatives and private businesses and organizations. Ten of the eighteen municipalities in the AOR applied to either start or expand a municipal recycling program. As seen in the table to the right, 25 projects were financed in the amount of \$395,000 of CRDA-E funds.

REAP Project Results				
Type	Projects	CRDA-E	Match	Jobs Created
Municipal Collection	10	\$163,000	\$56,000	37
Plastic Processing	4	\$86,000	\$48,000	15
Wood Scrap & Waste	7	\$100,000	\$29,000	21
Mixed Products	2	\$43,000	\$12,000	10
Training & Study Tour	2	\$3,000	---	---
Total:	25	\$395,000	\$145,000	83

REAP invested nearly \$400,000 in collection, processing and recycling initiatives in thirteen municipalities. A common goal of both Mercy Corps and IFC was to create a strong national network that serves the industry and fosters support for municipal start-up programs. The program has created 83 new full-time, permanent jobs, 16 of which are being filled by Roma.

**Municipal Waste Buyer
Greentech, Nis & Novi Sad**



Greentech, with a PET recycling line in Mladenovo (55 km west of Novi Sad) has processing capacity of 300 MT per month and purchases recycled plastic from municipal collection programs. They purchase baled, mixed plastic and sort and shred it at their plant. Shown here is Mercy Corps' REAP team leader with 300 metric tons of baled plastic waiting processing.

Municipal Collection Projects: Municipal collection projects generally involved procuring recycling containers and/or processing equipment such as compactors for municipal communal enterprises. Of the ten projects of this type, three were public-private partnerships between the municipality and a private firm to manage recyclable municipal waste. One of these was the Tutin Communal Enterprise which, according to Tutin officials, was the first communal enterprise to be fully privatized in Serbia.

Plastic Processing: In the area of plastic recycling, Mercy Corps sought clients that had viable business models producing an end product from recycled plastic, as opposed to merely collecting and processing the waste as an intermediary. Four plastic recycling projects were financed, all private enterprises:

Serbian Entrepreneur of the Year



Mr. Kotur, the owner of Nikola company in Krusevac has already received international attention. Besides being featured in the USAID Administrator's April briefing, Mr. Kotur was credited by Renault car company him for his innovative park where he plants a tree for every ton of plastic his company recycles.

- **Nikolo, Krusevac:** Nikolo produces plastic containers for milk and chemical products for various Serbian companies. Mr. Kotur, the owner of the company, was awarded *Entrepreneur of the Year* in Serbia. Prior to the CRDA-E investment, Nikolo did not work in recycled plastics, but immediately began producing plastic containers for non-food use using a portion of recycled plastic. Because he requires high purity plastic, he collects waste plastic from large enterprises in Krusevac and surrounding municipalities. In the yard of his enterprise he created a *Recycling Park*, where he will to plant a tree for every ton of plastic he recycles. The project was featured in a weekly update from Doug Menarchik to the USAID Administrator in April 2007.

- **Interprodukt, Nova Varos:** Interprodukt recycles HDPE (hard plastic) from computer cases, drink cases and similar items and recycles them by injection

molding the plastic into various end products including bus and theater seats. In 2005, Interprodukt recycled 40 tons of plastic waste; after the CRDA-E grant, they plan to recycle 145 tons per year.

- **Nima, Krusevac:** Nima produces plastic foil for agricultural purposes, collecting used greenhouse plastic, drip irrigation hose, seedling containers and other waste foil from the region and processing it into new foil for greenhouses and open field covering. With the CRDA-E investment, they will have the capacity to re-granulate 32,000 kg of plastic per year.
- **Vlada-Pak, Blace:** Vlada-Pak produces plastic bags for agricultural production. In 2006, Vlada-Pak recycled 10 tons of HDPE foil, 20 tons of LDPE foil, and 10 tons of polypropylene. The investment served to double their capacity and expand it to processing of polyamide, PET, and polystyrol.

Mixed Products: Two companies were financed that recycle multiple products:

- **Brdja, Trstenik:** Brdja received an 18,000€ credit from the Republic Development Fund based on its recycling plan. Brdja is a collection company that picks up recyclables from a number of clients in the area, taking virtually any product. Brdja also holds exclusive contracts with the area Roma Union to collect plastic. The company does not produce an end product but rather finds markets for virtually all they collect.
- **Novak, Prijepolje:** Novak has been in the business of producing cardboard products for a number of years, with a secondary activity of recycling waste cardboard. Prior to the CRDA-E investment, they processed 60 tons/year; after the investment they expect to increase their capacity to 100 tons/year. In addition, they plan to start processing PET recyclables and estimate processing 100 tons/year. The municipality of Prijepolje has no municipal recycling program; Novak company is negotiating with the municipality to carry out this function by placing their own containers in the town and surrounding villages.

Wood Scrap & Waste: Initially not included in the list of allowable recyclables under REAP, wood waste in the end accounted for 21 new jobs in seven wood mill companies. Besides the jobs created, recycling wood waste solves a great environmental problem of dumping waste into rivers; it reduces the amount of timber cut; and it is simple to produce a very marketable end product in processed briquettes for winter heating, a popular item in Serbian households. Seven companies were financed, all with similar equipment, to hydraulically press sawdust and wood chips into heating briquettes. This concept has great potential for expanding into a wood processors association, with members producing different products and sharing their waste; the concept was suggested by Mr. Mohammad Latif, with the idea for members to produce particle board, flake board, and other wood products in addition to the heating briquettes.

Consulting Seminars: In cooperation with Mercy Corps, IFC provided consulting visits and seminars for all applicants. IFC services, funded in part through the Austrian government, assessed each recycling initiative, identified national

**CRDA Closeout
Mercy Corps Office Recycling**



In 2006, when the REAP was started, Mercy Corps began an office recycling program. During the closeout of CRDA, Mercy Corps collected all redundant files and papers, used stationary, surplus and waste cables and supplies, and other scrap. Brdja, from Trstenik recycled two full trucks filled with waste from CRDA.

and/or international markets for clients, integrated them into those networks, and offered technical advice on making recycling efforts more efficient. A two-day seminar and study tour in northern Serbia was held in April 2007, where clients visited a number of recycling businesses and municipal programs, including the large plastic recycler, Greentech in Mladenovo.

Monitoring & Evaluation

General Assessment Findings: The LED assessment team selected 12 REAP projects for evaluation and determined that all of those visited were highly relevant projects, which meet several criteria of importance: i) introduce a completely new, more efficient and more economical system of waste management; ii) provide a good example of environmental protection mainstreaming on the local level; iii) have very clear economic effect; and iv) have income generating potentials, especially for vulnerable groups. The assessment team determined that REAP projects “significantly decrease the amount of waste, whether it is plastics, glass or paper.”

Public Awareness: The assessment team rated the REAP program as one highly suitable for replication, and in addition to focus effort on awareness-raising of citizens on the environmental issues and waste management. It was noted that a majority of the municipalities visited that participated in REAP have already started campaigns through the local media and schools.

Wood Waste Recycling From the LED Assessment Team...
<i>A briquette machine that turns sawdust and wood scrap into a burnable product is completely novel for the municipality of Novi Pazar and Serbia as a whole. In the small village of Vranovina, near Novi Pazar, Mr. Zvonko Cekanovic is still waiting for the delivery of this machine. In the meantime, he is already looking for the Serbia-wide market for his product. The compact briquettes with high caloric value are much more economical and convenient to use than wood or coal. In addition, it is an environment-friendly technology which will save wood from cutting. Once the company gets the machine, a new person will be employed to operate it and income will be ensured for the company.</i>

LED-G: Business Incubator Center

Strategy

Business Incubation: A *Business Incubator* is an organizational structure that facilitates creating successful new enterprises by providing them with a comprehensive and integrated range of services, which can include production and office space, common services, business counseling, and networking activities. Business incubation began in western countries in the 1970's-1980's as a strategy to combat unemployment by stimulating entrepreneurship. Since then it has become a popular LED instrument in developing countries with a history of dependence on state-owned enterprises, foreign investment and a weak culture of entrepreneurship.

BIC Prokuplje Former Kristal Glass Factory

<p><i>Due to the complexity of planning a successful business incubator, Mercy Corps only implemented one; nine municipalities competed for the project. The BIC in Prokuplje was likely the most time and labor consuming project for Mercy Corps under CRDA-E in terms of research and development efforts. In the process the staff and clients involved had the opportunity to become highly educated in the planning process and to put together an extensive library of incubator tools.</i></p>

Strategy: Due to the complex nature of business incubators and the high level of development efforts necessary to plan and open an incubator, Mercy Corps' BIC strategy planned for establishing only a single incubator in the AOR in a municipality chosen through a competition between interested municipalities. Applicant municipalities were required to: i) identify physical space for the incubator premises and ensure that it has clear ownership and is free of liabilities; ii) form public-private partnership(s), ideally with support of civil society as well, that outline the management and ownership structure and responsibilities; iii) ensure the financial support, both for capital investment and ongoing operational costs during the startup period; iv) present a model or list of potential incubator tenant enterprises.

Business Incubation in Serbia: When Mercy Corps began its Business Incubator initiative in September of 2005 there was only one operational Business Incubator Center (BIC) in Serbia, in the municipality of Knjazevac in southeastern Serbia. Since that time there has been considerable interest from the donor community, national government and development organizations to support business incubation in Serbia. Several new BICs have been formed or are in the planning stages in the cities of Nis, Sombor,

Novi Belgrade and Zrenjanin. While business incubation is still in its inception phase, Mercy Corps is encouraged by the results that Timok Club has achieved in Knjazevac, creating 50% job growth among its eight tenant companies and reaching financial self-sustainability after just two years of operation.

BIC Study Visit: In November 2005 Mercy Corps organized a visit and presentation at the BIC Center in Knjazevac for 27 municipal representatives from nine applicant municipalities to introduce the concept of business incubation and to provide information to the municipalities regarding the application process. The presentation was delivered by Timok Club, the organizational manager of the BIC Knjazevac. After attending the presentation and visit, the applicant municipalities returned home to identify their premises, form an effective partnership, and complete the application.

Results

BIC Prokuplje: In January 2006 Mercy Corps selected Prokuplje municipality as the winning municipality for the BIC based in large part to the strong support of the project from a cross-section of stakeholders, and excellent facilities in a recently privatized glass manufacturing company, Kristal. The factory complex has both administrative offices and two main production halls totaling approximately 2,500 m². The owner, Ekonomik 94, a Belgrade-based holding company, agreed to rent 1,300 m² to the municipality under favorable conditions.

Steering Committee: To begin the project, Mercy Corps and Prokuplje municipality established a steering committee to assist in selecting the managing organization, develop the incubator model and business plan, and register the incubator according to the ownership and management structure selected. In February 2006 Mercy Corps hired a group of external consultants from various Serbian consulting companies to conduct introductory presentations on business incubator models to the steering committee members, municipal staff, entrepreneurs, and other interested parties.

International Study Tour: In March 2006 Mercy Corps organized a business incubator study tour to Slovenia and Bosnia for members of the steering group, along with ten representatives from USAID partner organizations. An informative trip report was prepared from this visit that includes detailed information on the management and ownership structures of the incubators visited (see Annex Bibliography).

Ownership & Partners: From April through July 2006, Mercy Corps and the steering committee evaluated options for selecting a managing organization. In the end, it was negotiated for the BIC to have three partners, all with equal shares of ownership in a registered limited liability company (DOO). Details of the ownership structure and responsibilities are presented in the table below. All owners agreed to reinvest all proceeds and any profits after operating expenses back into the BIC for a period of five years.

BIC Prokuplje Ownership Summary		
Private Sector <i>Ekonomik 94</i>	Public Sector <i>Prokuplje Municipality</i>	Civil Society Sector <i>Initiatives NGO</i>
Ekonomik 94 is the Belgrade-based holding company that purchased the Kristal factory through the privatization process. The director of Ekonomik 94 is a Prokuplje native and wanted to do something for the community (so long as it was not economically disadvantageous to the company). Ekonomik 94 provides 51% of the lease for use by the BIC, free of charge, for a period of five years. Ekonomik 94 retains full ownership of the facility. Ekonomik 94 retains two seats on the five-seat Board of Directors (BOD): i) Radovan Andjelkovic, Deputy General Manager, Ekonomik 94; and ii) Vladimir Ristic, Broker, Ekonomik 94.	The municipality of Prokuplje provides 49% of the rent to the BIC to Ekonomik 94 for a period of five years. The municipality also provided 1 million dinars (approximately \$17,000) to support operating costs during the startup period. The municipality retains two seats on the BOD: i) Dragan Paunovic (President), Secretary, Prokuplje Chamber of Commerce; and ii) Ratomir Simovic, Director, Agrobank.	Initiatives is a Prokuplje-based NGO responsible for monitoring and oversight of the incubator operations and BOD. In return for the CRDA-E investment in rehabilitating the BIC premises, shares of ownership equal in value to the investment were given to Initiatives, thereby giving them a financial stake in the company and operations. Initiatives retains one seat on the BOD: Vesna Jevtovic, Financial Director, Hera.

Investors: To date, the following investors have supported, or are in the process of supporting at the time of this writing, the Prokuplje BIC:

- **CRDA-E:** Mercy Corps invested \$113,000 into the BIC initiative: \$23,000 for development activities including consulting services, legal counseling, study tours and presentations; and \$90,000 for physical improvements. Mercy Corps renovated the 250 m² administrative offices and the 300 m² top floor, which will be used for service sector tenants.

- **National Investment Plan:** Through the National Investment Plan (NIP) the Serbian government invested over \$160,000 to renovate the remaining 700 m² production spaces and construct a 700m² annex. Due to unforeseen problems with the facility, the annex was delayed. In August 2007, NIP approved an additional investment, the amount as yet undetermined but not less than the previous amount of \$160,000, to complete the renovations of the 800 m² annex and provide some remaining equipment.
- **Norwegian Government:** The Norwegian government has approved 25,000 € (\$40,000) that will subsidize BIC operational costs for one year; the funds are expected in September 2007.
- **Prokuplje Municipality:** The local government shares 49% of the lease with Economic 94 and provided one million dinars (\$17,000) to support operating costs for the first year of operation. The municipality applied for and managed the NIP investments.
- **Ekonomik 94:** Provides the premises free of charge for a period of five years with no further financial investment.
- **OSCE:** Has approved funds for free Vrenac Business English courses for BIC tenants.

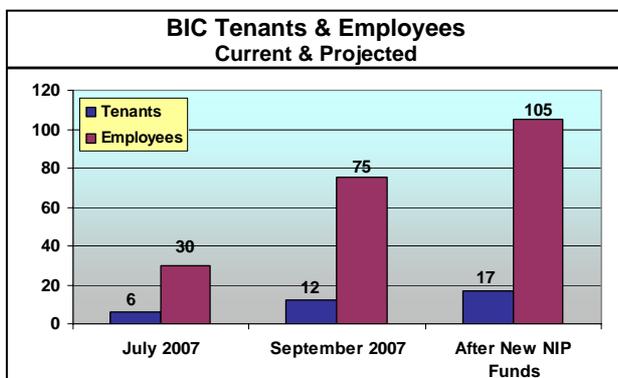
BIC Manager: In September 2006 the BOD advertised for the BIC manager and selected Mr. Alexander Jelic, a local resident of Prokuplje who holds a university degree in Economics and is a former sales manager of two large wood processing companies near the Kopoanik resort. Mr. Jelic was employed as a consultant to manage the start-up process and coordinate all planning and operations and is now employed as the full-time manager.

Business Plan: From November 2006 through April 2007, the BIC manager and consultants from Timok Club completed a thorough business plan for BIC operations for the first five years. The business plan covers in detail: i) BIC Legal Status & Organizational Concept; ii) Mission, Vision, Goals, Objectives & Results; iii) Market & Competition Analysis; iv) BIC Services; v) Pricing Strategy; vi) Promotion Strategy; vii) Admission & Exit Criteria; viii) Management & Organization; ix) Financial Plan; and x) BIC Assessment.

Tenant Selection: In January 2007, the BIC released an open competition for tenants; fifteen applicants applied in the first round of advertisement. As of July 2007, six tenants are working in the BIC:

- **Bazi-Co:** Bazi-Co is a subsidiary of Baz, a Prokuplje company that produces children's clothing; the new company will enlarge the assortment of clothing. Baz and Bazi-Co have established markets in southern Serbia, Sandzak and Vojvodina and has plans for exporting their products to buyers in Bosnia & Herzegovina. The company has seven employees in the BIC, all of them disabled persons.
- **Mreza School:** Mreza School is engaged in computer training courses targeting primarily advanced courses for high school students who want to improve their knowledge above what they receive at school, and business people who have routine need for advanced computer skills.

BIC Tenant Terms	
Basic Terms	Discount for Business Startups
Production Space: 1.00 €/m ²	Year 1: 75% discount rate
Office Space: 1.50 €/m ²	Year 2: 50% discount rate
Additional Costs: Fixed fees for common administration, security & other costs.	Year 3: 25% discount rate
Lease Duration: Four years, with fifth year optional clause.	Year 4: No discount
	Year 5: 120% of basic price (20% premium)



At present there are six tenant companies working in the incubator; together with the BIC staff, there are 30 employees. In September 2007, another six companies are expected to move in. Negotiations are underway between the BIC stakeholders and the Serbia National Investment Plan to provide funds for an additional five production areas in the annex. Once complete, the incubator will employ 105 persons.

- **Prado:** Prado is a well-known Prokuplje marketing agency dealing with publishing and production of printed advertisements and materials. Prado has agreed to provide special pricing and terms for other BIC tenants.
- **Projekt Pak:** Projekt Pak produces automatic machines for bakery and confectionery products. Projekt Pak has exhibited its products in trade fairs in neighboring countries and has several international clients. The company moved from its prior premises in order to expand its production space. The enterprise is growing and is employing two new workers following its move to the BIC.
- **Sasa Lukic:** Sasa Lukic is an entrepreneur starting an agency that specializes in minor house repairs, residential building maintenance, and catering. He has received support for his business

by both the Prokuplje Office for Refugees & IDPs and Prokuplje Municipality. The employees will be IDPs currently settled in Prokuplje.

- **Urvis Company:** The newly-formed limited liability company is engaged in collecting and recycling activities. (The company was awarded a CRDA-E REAP grant and was presented earlier in this report.) The company has several machines for processing glass and plastic and has signed contracts with the Recycling Agency and all Toplica municipalities for public utility waste. Urvis will employ disabled persons and has signed a contract with the Ministry of Labor on the use of subventions for the employees.

September 2007 Tenants: In September 2007, six additional tenants are planned to move into the BIC:

- **Fritech:** This existing enterprise produces non-asbestos brake pads and linings for all passenger vehicles, trucks and buses. The company sells its products in Serbia, Bosnia & Herzegovina, Macedonia, Bulgaria, and Romania, and they plan to enter markets in Montenegro and Italy. There are currently four employees; no additional hires are planned. Fritech was also a recipient of a Mercy Corps grant through the *Employment Expansion* program, presented later in the SME section.
- **Feroding:** Feroding is a startup enterprise with a business model and products similar to Fritech, producing brake pads and linings.
- **Arbivid:** Arbivid is a family company founded in May 2006 that produces bed sheets, textile dolls, pillows and other similar products. The company currently employs four full-time workers. Their primary market is local and regional textile shops, and has several contracts with larger companies in the Toplica district.
- **Fipet:** Fipet Company, established in January 2007, produces clothing for all age groups using various fabrics. They believe their advantage lies in interesting designs and quality fabrics. The company owner has been engaged in clothing production in France for over thirty years and she plans to use her knowledge and experience to sell Fipet's products in the French market. The company will initially employ 12-15 workers, with plans to hire another ten workers after one year.
- **Mareko:** The basic activity of this enterprise, founded in June 2006, production of PVC-coated wood, melamine faced chipboard, MDF and solid wood furniture; their market is furniture shops and construction companies. Mareko enterprise employs four people, with plans to hire an additional two next year.
- **Igor Vlahovic:** Mr. Vlahovic is an entrepreneur with a startup business plan to recycle paper and produce packaging and recycled paper products. Mr. Vlahovic already owns several machines which he plans to bring into the BIC production hall.

LED-H: Credit Fairs

Strategy

Background: Mercy Corps held four Credit Fairs in 2005-2006, two each in Krusevac and Novi Pazar. Credit Fairs offered a forum where banks and business service providers presented their services and loan products to potential clients. In addition a host of MSMEs, food processors and agricultural associations representing the most successful clients from each component of the Mercy Corps portfolio had the opportunity to present their businesses to credit providers and the broader community.

Goals: Credit Fairs provide a number of beneficial services for participants and exhibitors:

- Provide efficient forum for banks to promote loan products.
- Establish cooperation and promote competition among banks and financial institutions.
- Provide a venue for entrepreneurs to assess available credit and choose the product that best suits their needs.
- Provide a forum for BDS providers and Regional Agencies for SME Development to market their services.



The theme of the 2005 Credit Fairs was "Be Informed When You Decide." Mercy Corps prepared a credit booklet comparing the rates and loan products of all commercial lenders in Krusevac and Novi Pazar. In 2006, "Notice the Difference!" was the theme and reflected the high degree of banking competition in Serbia; in Krusevac alone 26 banks have branch offices.

- Promote cooperation among various clients, including MSMEs, food processors and agriculture associations.
- Mobilize and educate large number of MSMEs in local loan products.
- Discuss and document key credit issues in an open round-table discussion, an activity that was particularly useful for the donor community.

Results

Summary: The table below summarizes the results of the four credit fairs sponsored by Mercy Corps. Head counts conducted at the fairs estimate that between 6,000 and 8,500 people attended the credit fairs. In addition to the exhibits, the 2006 fairs hosted Credit Round Tables. In all fairs, banks and BDS providers had the opportunity to present their products and services on a central stage. Finally, each fair offered door prizes for entrants.

Mercy Corps Credit Fairs Krusevac & Novi Pazar 2005-2006							
Year	Town	Exhibitors	Banks	MSMEs & Processors	Associations	BDS Providers	Visitors
2005	Krusevac	46	15	20	5	4	2,500-3,000
	Novi Pazar	43	11	21	6	3	1,500-2,000
2006	Krusevac	48	19	11	8	10	1,000-1,500
	Novi Pazar*	50	13	(Textile Fair)	---	3	1,000-2,000

** The Novi Pazar Credit Fair originally scheduled in spring 2006 was cancelled due to violence prior to local elections. It was rescheduled in November 2006 to coincide with the annual textile fair, with the main event being the textile fair.*

Media Coverage: Credit Fairs were covered well in both local and national media, with between 40 and 50 print and media events, including five 15-45 minute television specials.

Round-Tables: Credit Round-Tables were hosted jointly by USAID's Mercy Corps CRDA and MEGA projects to discuss key issues related to SME and agriculture credit. The round-tables included representatives from 10-15 banks, agriculture businesses, MSMEs, and BDS providers and were moderated by MEGA and Mercy Corps representatives. A short summary of some of the discussions follows; while a complete transcript of the Krusevac Round Table is presented in the October 2006 edition of Mercy Corps LED News. The Round Table addressed the following issues.

- Current & Projected Interest Rates
- Foreign and Domestic Capital
- Recent Borrowing Trends of MSMEs
- Social Responsibility
- Guarantee Funds
- Potential Donor Interventions
- Agriculture Credit

Serbia Credit Issue: Gray Economy

Cash transactions were in the past (and often remain) routine. Therefore, companies cannot document their actual revenues, while banks only consider official bank transactions when calculating cash flow. So though a company may have sufficient cash flow to repay a loan, the bank will not loan the amount requested because official company revenues reflect lower than actual. Companies often therefore do not apply for the loans they actually need to grow, but only obtain credit to cover expenses and seasonal gaps from year to year. Another alternative available to companies is to pay an additional fee to insure the loan. This situation is changing, though still prevalent, especially at the local level. With the implementation of the VAT system and Ministry of Agriculture assistance, companies are increasingly making and accepting payments by bank transfer.

Commercial Credit in Southern Serbia

According to a Mercy Corps survey of local lenders in southern Serbia, commercial credit terms vary in the following ranges:

Short-Term SME Credit

Interest Rates: 1.03% - 2.60% monthly
Term Length: 3 -18 months
Loan Fee: 1.0% - 2.5% one-time fee of total loan

Long-Term SME Credit

Interest Rates: 7.5% - 12.0% annual
Term Length: 1-20 years
Bank Costs: 1.0% one-time fee for most banks

In comparing these terms it is important to keep in mind that banks use different strategies, such as fixed or declining rates, cash payouts, and other fees that make it difficult to evaluate which lender has the best terms. We have therefore refrained from citing specific banks offering these terms. For more information, you may request a copy of Mercy Corps' Southern Serbia Credit Guide.

Agriculture Loan Guarantee Fund: Komercijalna Bank responded that, "According to Ministry of Agriculture (MoA) regulations, MoA provides 90% of the funds and Komercijalna Banka 10%. The Guarantee Fund guarantees only 80% of the part covered by Komercijalna Banka. For example, if MoA funds 10,000 EUR, Komercijalna Banka 1,000 EUR, the Guarantee Fund guarantees only 800 EUR. Even in this situation, the Guarantee Fund considers this investment as risky and rejects the guarantee. Therefore, it is not only the banks who are responsible of not granting loans. It is a general conclusion of Komercijalna Banka that the Guarantee Fund constrains the process of getting agriculture loans. We have a growing concern over the fact that it has been rejecting most applications lately."

Interest Rates & Agriculture Credit: AIK Bank responded that, "The question for agriculture credit depends on the National Bank of Serbia (NBS) and its policies. Will it allocate budgets to agriculture, export, or other specific activity where commercial banks would work as

commissionaires. This is up to the NBS. Commercial banks cannot deal with national strategic development projects; this is the government's job. We must deal with and serve the everyday financial problems of our clients. This I think is the essence of the level of interest rates as it is. My opinion is that there are very real instruments that NBS can use to support commercial banks that will allow interest rates to decrease."

Municipal Guarantee Fund: The City Manager of Krusevac proposed an idea for a guarantee fund supported at the municipal level: "The local municipal management administers budget funds intended to be invested in agriculture. However, the current legislation does not permit us to grant these funds the way we have in the past because zero-interest grants are no longer permitted. Therefore, I would invite the representatives of banks to hold another meeting where we can discuss the ways these funds can be invested. Our idea is to convert the Agriculture Fund into an SME & Agriculture fund but we want to do it through the banking system. This way the loans would be granted through the banks and the risk would be shared between the municipality and the banks.

Case Studies

Summary: Since Credit Fairs were single events, there were no M&E initiatives to measure their impact. However, the fairs did provide an opportunity to prepare six case studies on Mercy Corps agriculture and food processing clients. These are presented in entirety in the October 2006 LED News; two are summarized below.

Case Study 1: Mig Promet, Krusevac

Sector: Fruit & Vegetable Processing

Annual Revenue: 45,000,000 CSD (\$703,000)

Recent Credit History: In the past year, Mig Promet has received credit in the amount of 2,000,000 CSD (\$31,000) from Komercijalna Banka (Commercial Bank). The loan duration is 6-12 months (the company was not specific though it seems the maximum repayment period was 12 months) with an interest rate of 2% per month. The company applied for a higher amount but only the portion indicated was granted. The company used the credit to: i) purchase capital equipment, and ii) purchase fruit and vegetable raw materials (presumably increasing quantities purchased during peak season). Mig Promet is considering taking more credit to purchase additional agricultural products and has spoken with Vojvodjanska Bank, AIK Bank, and Raiffeisen but hasn't taken credit from these banks, citing high interest rates and fees. The primary credit need cited by Mig Promet is longer term loans.



Mr. Turkovic explains to US Ambassador Polt how he started and grew his business from a very small operation to one that currently exports meat to a number of countries. Mr. Turkovic was selected by Ambassador Polt as an "Everyday Hero" at the US Independence Day celebration in 2006.

Case Study 2: Turkovic Meat Processor, Sjenica

Sector: Meat Processing

Annual Revenue: 170,000,000 CSD (\$2,656,000)

Recent Credit History: In 2006, Turkovic received credit twice, in both cases using the credit for "working assets." In each case the amount was 2 million CSD (approximately \$31,000) and obtained from Komercijalna Bank. The term length was six months with a monthly interest rate of 0.9% in both cases. Turkovic is considering taking on more credit from the Ministry of Agriculture to purchase additional capital equipment to comply with HACCP standards and enable them to continue exports to the EU; they are currently in negotiations over this. In addition, they are considering additional credit from Komercijalna Bank to purchase additional.

"Credit for SMEs" 2006



DOBAR POSAO



GOOD DEAL

**...KREDITI...
KBEDILI**

ZA MALA I SREDNJA
PREDUZEĆA

The 2006 Mercy Corps Credit Guide presented the terms for 73 loan products from 23 banks in Serbia providing users with an easy-to-compare format comparing term length, interest rates, fees, and other key conditions.

LED-I: Junior Achievement

Strategy

Junior Achievement: Junior Achievement (JA), an international program in over 100 countries, offers students dynamic, interactive programs for the Serbian business leaders of tomorrow through exciting partnerships between

economy and education. This unique program promotes active learning, bringing theory to life, through activities integrating classroom theory with practical real-life application. The key to Junior Achievement's success in so many diverse countries and cultures is its ability to develop the brightest young minds through a broad portfolio of interesting and creative opportunities, coupled with the support of the local business community. Time and again, JA sponsors, and JA itself, has hired former JA students into leadership roles in their companies. Mercy Corps and three other CRDA partners supported Serbia Junior Achievement to implement the program in municipalities in their respective AORs.

JA Components: JA offers numerous opportunities for students and teachers to participate in activities and compete for international scholarships. The three core activities are:

Applied Economics: Applied Economics is the core component of JA. Applied Economics is a one semester high school curriculum teaching the fundamental concepts and practical application of economics and marketing. Local business people volunteer their time once per week to visit the classroom and discuss application of key topics from students' current lessons. JA teachers attend an annual teacher training conference to receive instruction on the interactive training approach utilized by JA. Course books include Applied Economics textbooks, workbooks, and teacher's guide, plus a Consultant Handbook, which provides the consultant with a discussion guide for each visit. In many countries JA Applied Economics is approved by the Ministry of Education as an accredited alternative for economics study.

Student Company: Student Company is the most popular and well-known component of Junior Achievement. Student Company offers students the opportunity to start and operate their own company. Student groups decide the products or services that their company will offer, make a business plan, start up the business, and

hold all positions and assume all responsibilities in operating the business. Students hold all management positions in the company, maintain financial records, plan marketing and promotional activities, and make all production decisions. Students sell stock in the company to collect the necessary startup capital and at the end of the semester companies are liquidated with profits allocated according to investor shares in the company.

MESE: Junior Achievement's Management & Economic Simulation Exercise (MESE) is a computer simulation contest that matches student teams in competition with one another just like in the real world of business. Students assume the roles of corporate managers and make decisions on price, production, marketing, research & development, and plant capacity. They analyze industry reports, balance sheets, profit & loss statements and market conditions before making decisions on each variable. The contest administrator controls market factors such as strength of economy and broad consumer preferences making the outcome of the game unique every time it is played. National winners in Serbia receive sponsorship to participate in European and International MESE competitions with finalists traveling abroad for the final rounds.

Junior Achievement



By 2006 Junior Achievement expanded to 15 of the 18 municipalities in Mercy Corps' AOR. The program reached over 1200 students in the AOR since Mercy Corps began support of the program and is now taught in 28 schools.

2006 National MESE Winners



MESE is a computer business simulation where students "produce" a fictitious product. The winner is determined by retained profit at the end of the simulation. An administrator controls the macro-economic climate. In each round students evaluate company statistics and economic indicators and decide on: sales price, production volume, marketing budget, capital investment, and research & development.

Results

JA Results & Growth: The JA program reached 28 schools in the Mercy Corps AOR in the 2005-2006 school year (up from 22 schools the prior year). In total, 91 classes and 2,310 students completed the Applied Economic Course and participated in the numerous JA activities and competitions. The tables present the overall results of the JA program from 2004-2006 and a comparison of the programs over the two school years.

MEC Linkages: A Mercy Corps innovation aimed at increasing collaboration between LED initiatives involved linking local JA schools with their MEC members from the public and private sectors. Four regional conferences were held in 2006 in Krusevac, Ivanjica, Novi Pazar and Priboj. MEC representatives gathered alongside teachers and students to

highlight JA and increase local support and awareness. The conferences were sponsored by local government and community leaders who stressed the importance of cultivating a new generation of Serbian business leaders. JA students subsequently participated in mentoring visits with local government representatives and local business leaders. In Novi Pazar, the conference resulted in a signed agreement between local authorities and the Economics High School to provide financial support JA.

Job Shadow: Job Shadow takes students into the workplace to learn about careers in different business fields. Students accompany business managers and executives into the workplace to learn what the day-to-day life of real business is like. Students see and feel daily operations and decision making through the eyes of the manager. Lucky students may even assist the manager to conduct research or make the right decision. In July 2005, the Krusevac MEC hosted eighteen JA companies along with the Regional Agency for SME Development and the municipality of Krusevac. Students had the opportunity to talk with municipal officials and key business leaders and established cooperation with two important local companies: Henkel-Merima and Trayal.

MESE Competitions: In spring 2006, four teams from Prokuplje advanced to the final round of the national MESE competition, receiving 2nd, 4th and 5th places. First place was awarded to students from Leskovac. The prior year two teams from Prokuplje and Kursumlija advanced to final round. That

year, Krusevac students from the Medical High School hosted a regional MESE competition and used the opportunity to promote their business, "Licitarsko Srce," a school-run bakery. In October 2005 JA Europe organized the Hewlett Packard European MESE competition; four teams from three schools in Prokuplje and Kursumlija competed.

JA Summer Camp: The annual JA Summer Camp was held on Jastrebac mountain in 2005 and 2006. At the Summer Camp, JA groups reflect on their year, present their achievements to other groups in Serbia, and participate in numerous trainings and competitions, including the finals for national MESE and student businesses. JA teachers also participate in Summer Camp, where they learn from the students and JA Serbia on how to improve the courses in the coming year.

JA Bulgaria Study Tour: In February 2006, two students and one teacher from the Agricola Student Company in Aleksandrovac visited the Dr. Asen Zlatarov school in Vidin, Bulgaria to exchange experiences in student company management, to present their respective products and discuss the potential for future cooperation.

European Entrepreneurship Fair: JA Croatia hosted the annual Entrepreneurship Fair in Zagreb in summer 2006. Over 500 students from 22 countries across Europe attended the event. Two students from Ivanjica Technical School exhibited their student company showcasing wooden souvenirs. Students attended lectures on bar coding technology and learned about the activities of the Croatian Chamber of Handicrafts.

Junior Achievement Cumulative Results 2004-2006					
Municipality	Schools	Classes	Students	Student Businesses	MESE Students
Krusevac	5	21	582	16	52
Prokuplje	4	9	256	6	243
Ivanjica	2	8	203	6	35
Nova Varos	2	8	127	3	38
Novi Pazar	2	5	110	3	10
Priboj	2	5	107	3	29
Raska	2	5	113	1	
Trstenik	2	8	237	5	70
Tutin	2	7	143	5	
Aleksandrovac	1	3	102	3	17
Blace	1	2	63	2	18
Brus	1	2	63	2	1
Kursumlija	1	3	55	3	25
Sjenica	1	2	57	2	
Varvarin	1	3	92	3	
Total:	29	91	2,310	63	538

Junior Achievement Growth Mercy Corps AOR 2004-2006		
Results	School Year	
	2004-2005	2005-2006
Schools	22	28*
Classes	24	67
Students	541	1,769
Student Businesses	15	48
MESE Schools	7	25

JA grew considerably over the two years it was supported by Mercy Corps. While the number of schools did not dramatically increase, the participating schools expanded the program to include more classes, students and activities.



The JA student company Agricola in Aleksandrovac transformed the roof of their school into a greenhouse where they produced and sold flowers and seedlings. The company was so successful that it expanded its operations to include landscaping services. VINO ZUPA, the largest company in Aleksandrovac and one of the biggest juice and wine producers in Serbia, engaged the students to landscape their central yard. The company was awarded Best Student Company in 2005. In total, 63 student businesses were started and managed by JA students in the Mercy Corps AOR.

European Enterprise, Hungary: JA-Serbia and JA-Hungary organized the cross-border project, *European Enterprise*, in Segedin, Hungary in May 2005. Sixty JA students from Albania, Norway, England, Hungary and Serbia attended the event. Twelve students from the Mercy Corps AOR won first prize in the Enterprise "Bridge Fair," an event aimed at teaching travel and tourism business practices. Each group prepared a presentation of their country; its society, economy and lifestyle; and an example of the product or service produced by their JA company.

Szeged "JA Bridge" Fair, Hungary: Six students and three teachers had the honor of attending the "JA Bridge" Fair in Hungary in May 2006. The fair brought together JA students and student companies from across Europe to attend seminars and workshops where participants engage in cross-cultural discussions and debates on common issues and problems in their respective countries.

AmCham Conference: JA students and representatives attended a conference on the role of business education in Serbia. The conference was organized by the American Chamber of Commerce in cooperation with the Ministry of Education and Sport in September 2006.

JA Business Consultants: A total of 32 business consultants joined the JA network, working with JA classes to help students learn first-hand from actual business professionals and entrepreneurs. Consultants ranged from large state-owned companies to small private businesses and included a number of service providers.

Second Entrepreneurship Fair, Serbia: A delegation of 27 students and three teachers represented JA at the Second Entrepreneurship Fair in Belgrade.

Media Coverage: JA received strong support by the local and national media throughout Serbia. Twenty televised events and twelve newspaper articles covered JA activities at local and regional levels. For more information visit <http://www.ja-serbia.org/press/index.htm>. In September 2005 JA-Serbia produced the JA Yearbook, with 150,000 copies distributed nationally via the daily newspaper Politika.

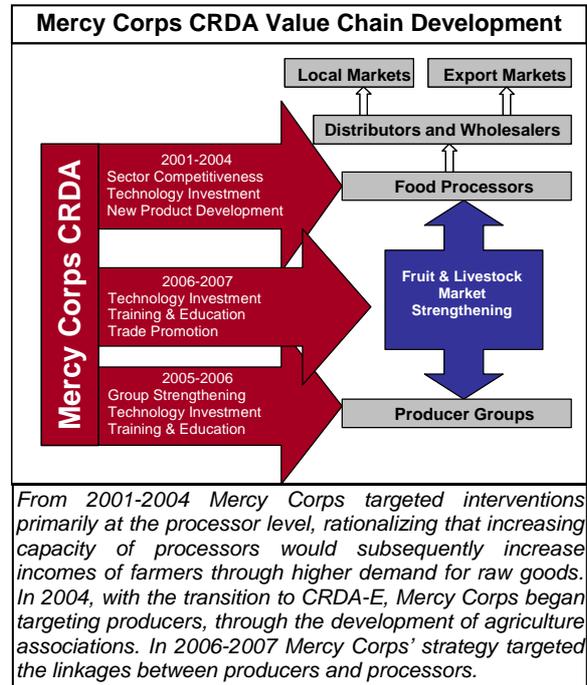
Teacher Training: Students and teachers from 22 schools in the Mercy Corps AOR are continuing JA in the 2005-2006 school year. For these schools, JA-Serbia organized an advanced three-day to evaluate the prior school year, provide resources for the new school year, and to improve JA teacher training skills.

Part III: Value Chain Development

Note: In this section, Mercy Corps' activities and results in value chain strengthening are presented. In July 2007 Mercy Corps completed and released the report, Southern Serbia Dairy Sector Value Chain: Situation & CRDA Impact. For a complete account of this work, the reader is referred to the assessment, submitted to USAID in July 2007. In December 2007 Mercy Corps will complete and release the report, Case Study on Value Chain Development for Conflict-Affected Environments: Accelerating Sustainable Growth in Post-Conflict Serbia. This study will examine the impact of USAID interventions in the dairy and mean value chains throughout Serbia.

Goal: The goal of Mercy Corps' CRDA Value Chain Development strategy was to establish and strengthen high-impact, sustainable value chains in targeted sectors by linking commercial-oriented agriculture producer organizations to regional food processors. The strategy was comprised of two key phases corresponding to the original CRDA program and the economic transition CRDA-E program.

1. CRDA: Revitalizing the food processing industry & markets for agricultural raw materials, 2001-2004;
2. CRDA-E: Forming & strengthening producer groups linked to CRDA value chains, 2005-2007.



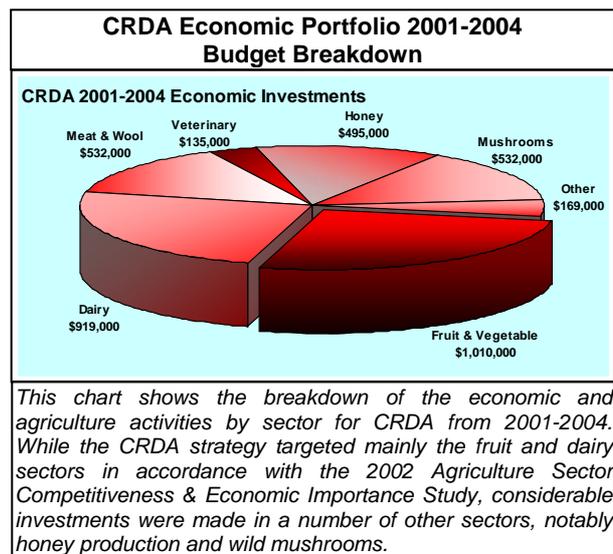
VC-A: Processor Level Interventions

Strategy

Processor Investments 2001-2004: From 2001-2004 Mercy Corps partner, Emerging Markets Group (EMG), managed the CRDA economic development portfolio. The team targeted investments primarily at the processor level under the presumption that investment at this level would both make processors more competitive and increase the demand for raw agricultural products. The outcome of this strategy was that the benefits would then spread over the entire value chain, resulting in a greater number of beneficiaries, as demand for raw agricultural goods was increased due to the expanded processing capacity. Investments in processors typically ranged from \$30,000-\$50,000, with the majority of these in the dairy and fruit sectors. From 2001-2004 \$3.88 million of USAID funds were invested in the agriculture sector under the "economic" component (compared with \$13.41 million in community development initiatives).

2001-2002 Strategy: During the first year, the team used a standardized system to identify and assess a wide variety of associations and businesses that met established criteria for inclusion in the program, mainly a demonstrated ability to further benefit low-income families and citizens that earn their livelihood in through activity in the sector. Though interventions at that time were not specifically targeting the agriculture sector, it did account for the majority of the projects implemented.

2001-2002 Application Process: The Mercy Corps-EMG team developed an application process and documentation that was in the form of a business plan and that could be used later to seek commercial financing upon graduation from



CRDA. Mercy Corps then utilized the services of Southeast Europe Enterprise Development (SEED), a multi-donor initiative managed by the World Bank Group's International Finance Corporation (IFC) to deliver technical assistance to applicant businesses. SEED and its network of local consulting firms provided applicants with Development Plans which served as a platform for three documents that were then evaluated by the team: i) Initial Financial Review, ii) Internal Enhancement Plan, and iii) Investment Overview.

Initial Financial Review: The Initial Financial Review was the first action the applicant company completed in cooperation with SEED. The aim was to assemble financial statements (Income Statement, Balance Sheet and Cash Flow Statement) that provide a realistic picture of the applicant's current and forecasted financial position.

Internal Enhancement Plan: Following the Initial Financial Review, SEED assisted the applicant in analyzing the findings and prioritizing actions to improve internal management systems and the overall financial position of the company. The aim was to develop a clear plan for the company's overall development needs, based on finances, marketing opportunities and challenges. The document provided an operational analysis of facilities, detailed corporate governance issues and training needs.

Investment Overview: Finally, SEED prepared a short Investment Overview that included a summary of all fixed assets, including proposed CRDA assets. The document focused on the investment needs of the company by developing a financing strategy based on short and medium term needs.

CRDA Economic Investments 2001-2004		
Sector	Projects	CRDA Investment
Fruit & Vegetable		
Fruit/Vegetable	26	\$1,010,000
Mushrooms	10	\$532,000
Nurseries	1	\$24,000
Livestock		
Dairy	18	\$919,000
Meat & Wool	14	\$532,000
Veterinary	11	\$135,000
Other		
Honey	11	\$495,000
Flour Milling	2	\$84,000
Bakery	1	\$33,000
Training	3	\$28,000
Total		
Total:	97	\$3,792,000

2003-2004 Strategy: After the initial year of implementing the strategy Mercy Corps and EMG re-examined the strategy in an attempt to broaden the benefits, integrate economic development into CRDA civil society goals, and improve results in specific sectors and clusters. The strategy introduced three new key elements:

Agriculture Sector Competitiveness & Economic Importance Study: In 2002 EMG conducted an assessment to identify key agriculture sectors in each of 18 municipalities in the AOR. The study collected and analyzed data across 33 agriculture sectors using 11 criteria to determine which sub-sectors would provide the greatest return on investment: economic impact, profitability, operational feasibility, investments, skills, government policy, institutional environment, activity in sector, positive linkages, magnitude of work, and time factors. The team identified sector clusters that would most impact the greatest number of people in each municipality; from this work the team decided that CRDA would target investments primarily in the fruit and livestock sectors.

Sector Working Groups: The economic development team presented the results of the study in each municipality to relevant stakeholders from the public and private sectors; through a participatory process, the team identified specific sectors and clusters to target. Sector Working Groups, consisting of 10-20 active individuals from the targeted sectors, were then formed around the identified sectors and clusters.

Action Plans: Sector Working Groups performed SWOT analyses on the identified sectors and developed an Action Plan to address weaknesses and capitalize on opportunities. CRDA resources were targeted in accordance with the Action Plans. At the project evaluation stage, Sector Working Group members evaluated and scored each application; the results were averaged to determine which projects would be financed.

Results

2001-2004 Results: From 2001-2004, the economic development team screened 352 applications from businesses, cooperatives and associations, and business service providers. From this applicant pool, 97 projects impacting 94,000 individuals were implemented with a CRDA investment of \$3.792 million. Of the 97 projects, 78 were made at the processor level, mainly in the fruit, dairy and meat sectors. Projects typically ranged in value from \$30,000 to \$50,000. A summary of the CRDA investments from 2001-2004 is presented in the table to the right.

Processor Investments: Processor investments were directed primarily at promising micro, small and medium privately-owned enterprises in the fruit, dairy and meat sectors. Investments aimed at increasing production capacities and helping processors create new product lines. Proposals were evaluated on economic impact, technical feasibility and social impact.

Fruit Processor Impact: CRDA clients in the fruit sector produced a range of fresh, frozen, and dried berry (raspberry, blackberry and strawberry) and deciduous (apples, plums and cherries) fruits to higher value-added products such as preserves, jams, frozen products or other high value product, such as chocolate covered plums. In follow-up surveys processors reported that 83% of investments positively impacted processing and storage capacity, 70% helped them introduce new product lines, and 40% improved production quality. The average increase in processing or cold storage capacity as a result of CRDA was 63%; 54% of the fruit processors supported under CRDA are ISO and/or HACCP certified.

Dairy Processor Impact: CRDA investments contributed 56.5 tons/day in dairy processor design capacity. In 2004, when CRDA transitioned to CRDA-E, this accounted for 23.8% of the total processing capacity in southern Serbia (237.0 tons/day); in 2006, these investments still account for 17.2% of the design capacity (328.2 tons/day). (Because the working capacity is dependent on many other factors, such as markets and raw milk supply, no attempt was made to estimate impact on working capacity.) Nearly all dairies responded that CRDA investments helped improve milk product quality and development of new products.

Dairy Sector CRDA Processor-Level Impact	
Processing Capacity	27.2 tons/day increase in actual processing (21% of 2004 total) 56.5 tons/day increase in design capacity (22% of 2004 Total)
Quality	100% of investments impacted quality 4 dairies HACCP/ISO certified through CRDA
New Product Development	93% of investments impact new products
Raw Milk Supply (from CRDA Producer-Level Investments)	50% of dairies increased raw milk quantity 44% of dairies improved raw milk quality 50% of dairies improved cooperation with producer networks
Infrastructure	50% of dairies with improved roads and access to raw milk producers

Processor Training & Education: Mercy Corps organized five training activities for CRDA processors; the first was provided under the original CRDA program, while the remaining four were completed under CRDA-E (after programming was targeted primarily to the producer level).

Dairy Product Diversification & Marketing: This initiative was delivered by Cornell University Professor of Food Science, John Sherbon, in cooperation with ACDI/VOCA. The two-day seminar focused on dairy product marketing, niche product development, small dairy operations, and quality in dairy processing. During his two-week assignment, Dr. Sherbin visited five dairies in Mercy Corps' AOR where he provided recommendations for growth and produced new dairy products on a pilot scale.

Supply Chain Management: All fruit and livestock processors in Mercy Corps' network participated in a workshop to discuss common issues around raw material supplies and how processors and CRDA could best address their needs. The companies presented their needs and discussed what processors and producers can do to improve the overall competitiveness of the sector. The participants also presented programming ideas on what donors can do to strengthen their respective sectors.

HACCP/ISO: From 2005-2006 sixteen food processors supported by Mercy Corps completed a six-month, eight-module ISO & HACCP training course delivered by local partner, Qualitass. The Ministry of Agriculture then subsidized 80% of the certification costs for thirteen of the companies that completed the program. In total nine of the sixteen companies that enrolled in the training are now HACCP & ISO certified, four are in the process of certification and three remain uncertified.

Training-on-Demand: In 2006 Mercy Corps introduced a program where agriculture associations and enterprises could apply for financial assistance to support training and education activities of their choice. Four processors participated in training covering: new varieties of raspberries, integrated pest management, EUREPGAP & HACCP standards, and financial management & marketing.

Trade Fair Marketing & Media Training: To prepare companies for attending national and international trade fairs Mercy Corps organized a training event on Trade Fair Marketing & Media Strategies at the Regional Chamber of Commerce offices in Krusevac. The USAID-funded Serbian Enterprise Development Project (SEDP) delivered the training, which focused on techniques for enhancing trade show performance. Topics included conducting research on target markets, collecting and evaluating business contacts, following up with potential clients after the fair, and managing the media.

Mercy Corps Client Results Novi Sad Fair 2005		
Companies	10	
New Sales	\$253,550	
New Export Sales	\$81,000	
New Employees (solely due to business generated from the fair)	Full-Time	15
	Part-Time	55
	Seasonal	239
<i>After the Novi Sad 2005 fair, Mercy Corps surveyed clients to determine the impact of fair attendance on business. As seen above, the USAID investment of \$10,600 paid off in terms of both new business and employment.</i>		

Trade Fair Representation: From 2005-2006 Mercy Corps subsidized the attendance of 57 firms at five international trade fairs. Key to this initiative was Mercy Corps' partnership with the Regional Chamber of Commerce Krusevac, who provided logistical and administrative support for all of the events. Feedback was positive, as companies were encouraged by the strong demand for Serbian products, particularly in Bosnia. The trade fairs included:

- Novi Sad Agricultural Fair, 2005 and 2006 (SRB),
- International Economic Fair in Mostar, 2006 (BiH),
- International Fair of Agriculture & Food Processing in Gradacac, 2006 (BiH),
- International Agricultural Fair "AGROS" in Banja Luka, 2006 (BiH),
- Dutch Trade Delegation, 2005 (SRB),
- Leskovac International Agriculture Fair, 2006 (SRB).

Monitoring & Evaluation

M&E Initiatives: Value chain interventions were assessed in two separate initiatives. The first initiative, *CRDA: Options for Restructuring the Economic Development Pillar*, was completed in September 2004 by EMG and resulted in restructuring value chain interventions to focus on the production level. This occurred just prior to the transition from CRDA to CRDA-E. The second initiative, *Southern Serbia Dairy Sector Value Chain: Situation & CRDA Impact*, assessed CRDA and CRDA-E interventions in the dairy sector alone. The conclusions and recommendations from the dairy assessment are presented separately in the VC-C section.

Restructuring the Economic Pillar 2004: While Mercy Corps and EMG recognized that the team had been achieving impressive results – 97 projects creating 35,000 person-months of employment and \$9 million in new income – they agreed that they should reassess the economic pillar. Specifically the team sought to:

- Reassess the economic environment and develop a suitable exit strategy.
- Examine ways to use the economic pillar resources to facilitate the flow of commercial credit.
- Overcome the absorption capacity for equipment grants to overcome a recent drop in the number and quality of applications.
- Retain the social elements of the current program.

CRDA Investment: Ljin Dairy, Raska



Ljin dairy, founded in 1991, began on a small scale marketing their products in nearby Novi Pazar. Prior to cooperating with CRDA, the company purchased 4 tons of milk per day from 300 farmers and packaged it in plastic bags for sale. Responding to consumer demand for boxed milk, Ljin partnered with CRDA to finance two new packing machines, enabling Ljin to increase its capacity by 6 tons per day. By responding to consumer demands Ljin ensures its own economic health and those of its employees. The project benefited 2,571 people and created 150 person-months of employment per year. Ljin has now expanded its business and now sells its products throughout southwest Serbia and Kosovo.

Assessment Findings: The main findings of the assessment were:

- Agriculture is the largest source of employment in the AOR and is likely to remain so or even grow in relative importance over the near term. It is more likely than other sectors to provide employment to the very poor, and both full-time and seasonal work. It is also relatively productive compared to other sectors in the AOR.
- Within agriculture, fruit and livestock are by far the most economically important sectors. The AOR has distinct comparative advantages in these sectors. However, the potential for growth in these sectors is limited by two interrelated factors: i) most farms are small (many just above subsistence level) and farmers are generally not organized into associations or cooperatives; and ii) Access to credit, particularly for small farmers, is seriously restricted by high collateral requirements, high interest rates and low liquidity among banks.
- Mercy Corps' CRDA program achieved impressive results by focusing on a single level of the value chain (first-stage processing in fruit and livestock) and a single product (relatively large equipment grants). In doing so, the team developed two important key competencies: i) detailed knowledge of the fruit and livestock sectors; and ii) expertise making grants that promote economically positive behavior. However, the program appeared to be falling victim to its own success, as the demand for equipment purchase grants for serious, capable processors and large producers seemed to be reaching its limit.

Recommendations: Particularly in light of the last point, it was clear that the program needed to change focus even to maintain its current level of impact, much less to increase it. Some of the recommendations included:

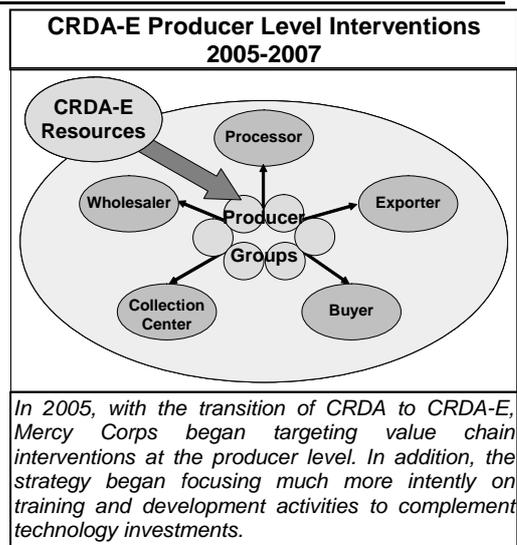
- Continue to focus on the fruit and livestock sectors but shift the focus toward support for associations and cooperatives of small producers.
- Include a mix of technical assistance, training and grants in the program portfolio. Technical assistance and training should include assistance in forming associations and cooperatives (once the farmers make the first step), business and organizational management, quality standards, and agronomy. Grants should be calibrated to the needs of the association to the extent possible: newer, less stable organizations should be eligible for smaller grants while more established ones can apply for larger grants. The team should consider the possibility of awarding more than one grant to a given association, as the prospect of a second grant can act as a powerful incentive to help organizations improve their operations.
- Work directly with client associations to obtain commercial credit, including seminars for lenders to introduce their products and hands-on assistance to associations to apply for credit. Allow clients to use equipment purchased with CRDA grants as collateral for bank loans.
- Allocate resources to seek other sources of funds that the program can help its client to access.
- If pilot activities with associations and cooperatives prove to be too difficult or costly relative to impact, consider as a second alternative expanding eligibility for the existing equipment purchase program to non-agricultural entities in selected sectors.

VC-B: Producer Level Interventions

Strategy

CRDA Transition to CRDA-E: In 2005, USAID changed strategy and shifted programming priorities to focus almost exclusively on economic development. Partly in response to this, and partly as a result of the EMG assessment in 2004, CRDA-E began targeting value chain interventions at the producer level. While the focus remained mainly on the fruit and dairy sectors, it transitioned from the processor to the producer level of the value chain, targeting agricultural associations and cooperatives. Investments also increasingly focused on training and development activities in addition to technology and capital investment.

Supply Chain Management Workshop: Prior to implementing the CRDA-E strategy, Mercy Corps analyzed the needs of one of the primary markets for producers, and one which Mercy Corps was intimately familiar – the processors. Mercy Corps organized two Supply Chain Management workshops for 24 CRDA client food processors (8 fruit, 16 dairy) to assess the needs of the processors and to determine how CRDA could help producer groups to meet those needs. The findings from the workshops are shown below.



Processor Needs from Producers Supply Chain Management Workshops	
Fruit Processor Supply Needs	Dairy Processor Supply Needs
<ul style="list-style-type: none"> • New Fruit Varieties • Better Quality of Fruits and Seedlings • More Educated Producers • Better Packaging and Storage • More Reliable Transportation and Collection 	<ul style="list-style-type: none"> • Mechanization of Livestock Production • Increased Livestock Production • Improved Quality Standards • Improved Transportation and Collection • Livestock Health and Nutrition

Processor Initiatives to Facilitate Associations Supply Chain Management Workshops	
Fruit Association Activities	Dairy Association Activities
<ul style="list-style-type: none"> • Technical Training and Education • Provision of Agricultural Inputs • Registering of Associations • Coordinating Association Activities • Establishing Contracts with Associations • Demonstration Farms 	<ul style="list-style-type: none"> • Technical Training • Provision of Livestock • Improved Transportation and Collection • Veterinary Services • Quality Testing and Analysis of Milk Production • Demonstration Farms

CRDA-E Value Chain Strategy: The CRDA-E agriculture strategy had four main activity areas: i) farmer association development, ii) production technology investments, iii) training & education, and iv) trade promotion (targeting processors and previously discussed).

Farmer Association Development (FAD) Program: The backbone of Mercy Corps' support to nascent producer groups, or "emerging associations" was the FAD program. The goal of the FAD process was to identify value chain clusters in the fruit, vegetable and dairy sectors, centered around successful processors. The FAD process is summarized below:

Step 1 – Identify Producer Groups: A group of 27 top processors were selected according to the criteria below. Those processors in turn identified over 70 potential producer groups and 1,000 farmers. Through this network of processors, Mercy Corps identified producer groups based on established criteria.

FAD Value Chain Cluster Identification	
Processor Evaluation Criteria	Producer Group Evaluation Criteria
<ul style="list-style-type: none"> • Processing Capacity • Market Access • Number of Farmers Served • Number of Separate Communities Served • Prior Cooperation & Recommendation of Other Development Effort • Geography 	<ul style="list-style-type: none"> • Cooperation & Recommendation of Processor • Number of Producers • Number of Potential Producers • Production Capacity & Cultivated Land • Access to Different Processors (Competition) • Degree of Organization
<p><i>Of the 78 processors assisted from 2001-2004, Mercy Corps identified 27 that would form the core of value chain clusters based on these criteria. From these 27 processors, Mercy Corps worked upstream in the value chain, targeting 40 producer groups for introductory FAD workshops.</i></p>	

Step 2 – Mobilize Producer Groups: Participating processors organized producer group meetings with farmers from targeted producer groups. The Mercy Corps team educated farmers on the benefits of association membership and the FAD program.

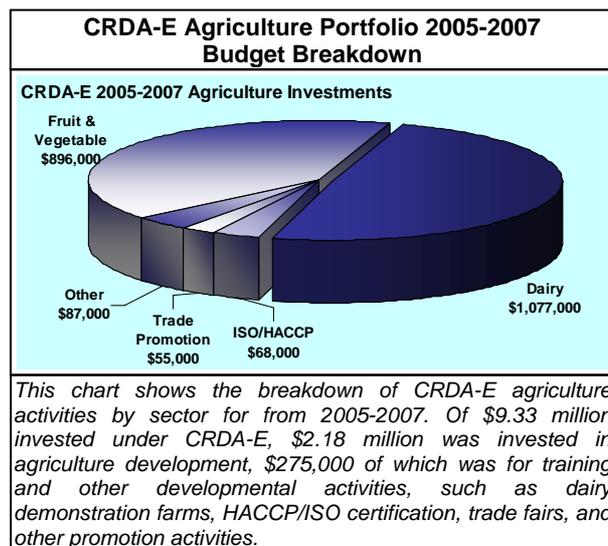
Step 3 – Conduct FAD Workshops: The Mercy Corps team delivered FAD workshops for potential producer groups. The workshops: i) provided farmers with accurate information on establishing and registering an association in Serbia; ii) informed farmers how to effectively plan and manage an association and its programs and services; and iii) provided farmers with useful strategy tools for their associations.

Step 4 – Build Capacity & Invest in Technology: Once the emerging associations successfully registered they were eligible to participate in CRDA-E training and investment programs.

Production Technology Investments: Mercy Corps investment programs for associations and cooperatives continued to focus mainly on the fruit, vegetable, and livestock sectors. The investment programs had for main objectives:

1. Increase production quality and quantity through investments in modern mechanized equipment.
2. Strengthen organizational capacities of associations and cooperatives by providing equipment that would be cooperatively managed and maintained by organization members.
3. Encourage farmers to work together to capitalize on production economies of scale.
4. Improve value-chain cooperation among producer groups and buyers.

Training & Education: In 2006, after establishing a network of over 75 expanding and emerging producer groups linked to processors in value chain clusters, Mercy Corps began channeling significant resources into a variety of training and education programs including demonstration farms, Training-on-Demand program, quality standards & certification, and a number of targeted technical training programs.



Results

Producer Group Mobilization: Mercy Corps facilitated 29 producer group meetings in 15 municipalities beginning in May 2005. Local processors, municipal employees and existing association officers joined the unregistered producer groups to begin cooperation and promote association development. Of 56 producer groups mobilized, 49 registered for FAD, representing 734 farmers.

FAD Workshops: After mobilizing the producer groups, Mercy Corps completed eighteen two-day FAD Workshops with 56 producer groups. After completing the FAD workshops, 28 of the producer groups formally registered as associations. These groups, along with existing, or “expanding” associations began participating in strengthening activities to begin jointly marketing their products and improve their physical and intellectual capital. Registered associations were eligible to participate in subsequent CRDA-E trainings, investment programs and other development activities.

Production Investment Programs: Mercy Corps administered four production technology investment programs in 2005-2006 targeting the three clients groups: i) Expanding Producer Groups, ii) Emerging Producer Groups, and iii) Value-Chain Partnerships. These programs are presented below and summarized in the table.

Investment Program	Investments	CRDA-E Contribution	Client Contribution
Investment Programs			
Fast-Track	15	\$351,000	\$173,000
Expanding Producer Groups	18	\$398,000	\$133,000
Emerging Producer Groups	26	\$291,000	\$104,000
Value Chain Partnerships	35	\$652,000	\$288,000
Training & Development Programs			
Demo Farms & Test Plots	9	\$171,000	\$77,000
Training Programs	36	\$220,000	\$35,000
Trade Promotion	7	\$55,000	\$5,200
Other	2	\$42,000	\$35,000
Total	148	\$2,180,000	\$851,000

Expanding Producer Group Investments:

Mercy Corps began producer group investment programs in early 2005 by supporting organizations that had previously applied for CRDA, FAO or other development program assistance and that had a proven track-record of success through a “fast-track” application process. Later in 2005 Mercy Corps released another investment program open to all registered producer groups. The two programs provided cultivating and quality enhancing equipment to registered, or “expanding,” producer groups.

Emerging Producer Group Investments: In late 2005, Mercy Corps released its Emerging Producer Group Investment Program targeting new associations formed through the FAD program. The investment program was open to all producer groups that completed Mercy Corps’ FAD workshops and had successfully registered as associations.

Value Chain Partnership Investments: In 2006 Mercy Corps issued its final CRDA-E investment program targeting emerging producer groups that had not previously received CRDA-E support, plus associations and cooperatives that applied jointly with a cooperating processor. Mercy Corps received an impressive 129 applications, out of which 36 proposals were approved for funding. The results showed that CRDA-E support resulted in a large number of newly formed producer groups in southern Serbia, where previously there had been few. The proposals also focused heavily on quality enhancing equipment such as lacto-freezers, milking machines and cooling chambers, rather than farm mechanization.

Training & Education Programs: Beginning in 2005 and expanding in 2006, Mercy Corps undertook a number of training and development programs activities aimed at improving the capacity of producer groups and processors. These programs are highlighted below and summarized in the table above.

Livestock Nutrition & Feeding Program: In November 2005 animal nutritionist, Dr. Roy Chapin, was contracted to help farmers improve the feeding practices in 54 dairy farmer associations and cooperatives by providing best feed formulations for dairy cows. Mercy Corps subsidized the rations for participating farmers, who measured the results of the program to monitor any increase in yield. In April 2006 Mercy Corps measured the impact on farmers who followed Dr. Chapin’s feed rations; results showed significant positive yield gains and increases in income (see inset) over a 305-day lactation cycle.

Livestock Nutrition & Feeding Program November 2005 – March 2006	
Increase in Milk Yield Per Day	1.94 L/day
Increase In Income per Cow per Day (assuming raw milk price of \$0.29/L)	\$0.57
<i>Results are calculated from milk production log sheets from 24 farmers using an exchange rate of 65 RSD/USD.</i>	

Dairy Farmer Study Tour: In April 2006 Mercy Corps organized a three-day study tour to Vojvodina and Southern Hungary for 30 leading dairy farmers, advisory service agents and journalists. The trip included visits to model dairy farms, bio-milk producers, and on-farm dairy processors, and included presentations on the Hungarian agriculture extension system and the challenges before and after EU accession.

Dairy Demonstration Farms: In 2006 Mercy Corps and institutional partners DeLaval, FAO, Reka Mleka and the Agricultural School in Prokuplje officially opened four dairy demonstration farms in Krusevac, Blace, Sjenica and Tutin. To date over 1,000 farmers have visited the farms to learn about best farm management practices, new production technologies, and proper hygiene and quality control techniques required by international HACCP and EUREPGAP standards. The demonstration farms succeeded in attracting private donations from DeLaval, the world's largest dairy processing equipment manufacturer.

Berry Fruit Demonstration Farm: Mercy Corps worked with a berry fruit cooperative and fruit processor in Varvarin to establish a berry fruit demonstration farm. The project shows cooperation between a processor and cooperative through modern greenhouse production of strawberries and raspberries for fresh sales to regional supermarket chains. The project was completed with the consultative assistance of the USAID SEDP project.



Blueberry Test Plots – In partnership with the Cacak Fruit Institute and the Krusevac Agricultural Station Mercy Corps provided 12,000 two-year-old blueberry plants, consisting of five different varieties, for 50 farmers in Krusevac, Aleksandrovac, Ivanjica and Prijepolje. Farmers competed for the projects and underwent a stringent soil and environmental condition analysis by the institutes prior to being selected for the project. The projects aim to demonstrate the economic potential of cultivating blueberries in Serbia. Mercy Corps facilitated exchange visits to blueberry plots established by IRD's CRDA project in western Serbia.

Training-on-Demand: In 2006 Mercy Corps opened its Training-on-Demand program, which allowed producer groups to apply for financial assistance to support training and education activities. In total, 26 associations and cooperatives completed training through the initiative; CRDA-E contributed \$83,543 while

clients contributed \$32,436. Training topics ranged from extending the fruit growing season, new fruit varieties, organic production, cattle breeding & feeding, and quality standardization.

Farm Information Technology: The Farm Information Technology program required participating producer groups to pass an introductory computer education training course for at least two members and establish an office with electricity and telephone connections before being eligible to receive a budget desktop computer and multi-functional printer, scanner and fax machine. In total 27 producer groups successfully completed the Farm Information Technology program in 2007.

Staff Training: Mercy Corps staff were trained in the following topics:

- Agricultural Association Development
- Agricultural Association Mobilization & Management
- Developing Farm Management Skills I, II and III

Investment & Finance Summary (19 Dairy Processors)	
Start-Up Capital	18 of 19 invested own capital
Profit Reinvestment	Rasina (47%) Toplica (90%) Raska/Zlatibor (78%)
MoA Credit	Applied: 4 Received: 2 Pending: 1
Bank Credit	Applied: 10 Received: 10
Long-Term Loan (avg.)	30,000 EUR, 12% Annual Interest, 3 years
Short-Term Loan (avg.)	29,000 EUR, 2.13%/month, 6-12 months
Greatest Problems for Accessing Outside Capital	Unfavorable Terms (56%) Difficult to Acquire (39%) Banks more interested in personal loans. No MoA credit for startups. Limited to DOO and DO businesses. Too much paperwork. Difficult to obtain information.
<i>This table presents the results of a survey of 19 dairy processors in southern Serbia with respect to credit. For comparison, a survey of fruit processors assisted through CRDA revealed that 80% applied for commercial credit through a bank, while 33% applied for credit through MoA.</i>	

- Training for Export-Oriented Processors
- Improving the Horticultural Sector
- Farmer Association Development Workshops Train-the-Trainers

VC-C: Dairy Value Chain M&E Assessment

Goals: In July 2007 Mercy Corps released the comprehensive *Southern Serbia Dairy Sector Value Chain: Situation & CRDA Impact Assessment*. The goals of the assessment were to:

- present a comprehensive, quantitative understanding of the dairy sector in southern Serbia;
- identify value chain bottlenecks and the opportunities for investment and assistance that will facilitate sector growth in most cost-effective, highest impact manner;
- evaluate CRDA interventions and strategies from 2001-2007 to determine the appropriateness and effectiveness of investments;
- provide and field test an assessment template and methodology that can be used for future program and sector assessments.

Dairy Processor Impact USAID Indicators	
Employment Generated	29,200 person-months
Additional Income Generated	\$4,466,000
Additional Agricultural Purchases	\$3,757,000
Agricultural Sales Generated	\$3,074,000
<i>The results for the four USAID indicators are shown here for dairy processor interventions. In general these indicators are subject to calculations and formulas applied to investment figures in accordance with joint CRDA partner policy. The figures, therefore, have not been confirmed for accuracy.</i>	

Findings & Recommendations: The impact of CRDA assistance on the dairy processing sector is presented in detail in the *Southern Serbia Dairy Sector Value Chain: Situation & CRDA Impact Assessment*. The reader is referred to the report, which is quite comprehensive in its content and findings. Though the report concludes that further consolidation of the dairy sector is likely, there are areas where donor interventions can continue to provide returns. Small dairies are succeeding in an increasingly difficult market, but can help secure their position and even grow by expanding their product lines in niche products. Geographically, gains can still be achieved by targeting some activities in specific regions. Even without the goal of growth, donors can help both producers and processors prepare for the future and remain competitive as the dairy market consolidates by helping to improve operational efficiency, develop marketing strategies, and conduct product financial analysis. For summary purposes, some of the conclusions and recommendations as related to CRDA impact are presented below.

Producers

Introduction: Milk producers were asked what additional support they would like to see from donors, both in terms of capital and training. Most commonly-cited capital investments were equipment, herd size and genetics (livestock were never supplied by Mercy Corps through CRDA or CRDA-E), on-farm construction, and infrastructure. Most cited training needs included quality, feed & nutrition, breeding, and training in mechanization.

Milk Production & Herd Size: Results were significantly higher for both of these indicators in Toplica and Raska than in Rasina and Zlatibor. Milk production increased 33% and 38% in Toplica and Raska from 2004-2006, while growth in Zlatibor and Rasina was 18% and 19% respectively. Herd size in Toplica grew by 90% and in Raska 65%; in Toplica and Zlatibor, herd size increased by 37% and 46% respectively. Slower growth in the Rasina region might be rationalized due the fact that it already possessed the higher milk production and second highest average herd size in 2004. However, the slower growth in Zlatibor is concerning and should be investigated further.

Recommended Support to Dairy Producers (Cited by Producers)	
Capital Improvements	Capital Equipment (80%) Increase Herd Size & Genetics (73%) On-Farm Construction Works (30%) Infrastructure (26%)
Training & Education	Production Quality Standards (56%) Cattle Feed & Nutrition (46%) Cattle Breeding (25%) Agricultural Mechanization (19%)

Recommendation: *If and when targeting dairy sector interventions in Serbia, a high level of impact can likely be achieved in the Zlatibor region. This region is one of the most remote and neglected regions in Serbia and has few agriculture extension services and support institutions. Donors should seek to fill the agricultural extension gap in this region and find ways to improve affordable and reliable access to credit.*

Producer Results: Only roughly half of dairy farmers in southern Serbia are significantly improving results from training and development activities; the other half remain stagnant. While on average all four regions achieved double-digit growth in yield per cow, herd size, and cultivated land, most of the growth was attributable to only 50% of the farmers.

These results are not surprising considering that southern Serbia has 42% of all dairy farm households in Serbia; with so many small farms, it is expected that some farms will grow faster than others. In the long-run the industry will eliminate the less serious producers from those farmers with real commercial potential. It is evident from the survey results that these two groups have already established themselves.

Dairy Farming as Viable Commercial Activity: Dairy farming is increasingly becoming a viable commercial activity rather than a household income supplement. The fact that 80% of Mercy Corps clients surveyed are selling their milk to dairies provides evidence that dairy farming is a legitimate source of income. In the more economically depressed regions of Raska and Zlatibor, household milk consumption is highest at 8% and 19%, respectively, while in Rasina it is only 3%. This would seem to indicate that as regions become more economically advanced, farmers are more willing and successful in commercializing their dairy farms for income rather than personal consumption.

Recommendation: Focus on dairy farmers with high commercial potential, as these clients are the ones that will likely have the capacity to remain competitive in the industry as increased production and quality standards become more demanding. Dairy farmers without commercial potential will be better served by helping them to transition to other rural income generating activities with greater potential for long term viability.

Forage & Fodder Production: In Raska and Zlatibor there is roughly twice the amount of farmland available for forage and fodder production as currently required to support dairy farming operations. Rasina and Toplica have much less available land and opportunities for forage and fodder production to grow their herds without purchasing or renting new land.

Recommendation: Donors working in Raska and Zlatibor should encourage serious dairy farmers to expand their herd size by increasing fodder production, using affordable credits through MoA, banks and dairies. Less serious dairy farmers should be encouraged to utilize farmland for other potential high altitude crops such as potatoes, berry fruit or medicinal and aromatic plants.

On-Farm Processing: A significant number of farmers in Zlatibor are active in on-farm dairy processing activities; a full 22% of the milk in this region is processed on-farm, primarily into cheese. While there is a strong tradition and recognition of high quality niche cheese production in the Zlatibor region, cheese production requires much more labor, potentially reducing the economic benefit. Opto International's Reka Mleka project recently did a financial analysis of cheese production in the Nis region and provided strong statistical support that it is more profitable to sell milk to dairies than it is to process it on-farm into value-added dairy products.

Recommendation: Agriculture programs working in the Zlatibor region should conduct a financial assessment on the economic benefits of cheese production versus milk production and disseminate the results to dairy associations through extension services, media, educational materials, and the MoA.

Raw Milk Prices: Raw milk prices in Raska and Zlatibor have increased by 16% and 27% respectively over the past three years, and are now comparable to those in other parts of Serbia, such as Rasina and Toplica. The reason for this is likely due to the increased demand for raw milk spurred by new and expanding dairies, some of this due to CRDA assistance.

Organized Collection Points: A majority of farmers (84%) are not selling milk through organized collection points, but instead use the services of the processor or collection company to collect raw milk directly from their farm. This is resulting in poor storage of milk, high bacterial count and overall reduction in quality, and inefficient and expensive collection costs for dairies.

Recommendation: Donors should work jointly with producer groups and dairies to establish proper collection points that keep milk secure in the cold chain; improve logistics, collection and traceability; and improve the competitiveness of small dairies and the producers they support.

Lacto-Freezers: Most dairy farmers in southern Serbia have no access to lacto-freezers due to the high initial capital investment required. This is a serious concern for milk quality, as only 22% of farmers have access to lacto-freezers that allow them to cool and store their milk before it is collected. The majority of farmers store their milk in metal or plastic cans on the side of the road awaiting collection from a processor or collection company.

Recommendation: Donors should promote the use of lacto-freezers among dairy associations by encouraging dairies to support the investment in cooperation with the farmers and associations. The use of lacto-freezers should be shared among the farmers in the community to further reduce the capital investment per farmer and to increase the benefit and improve the competitiveness of the entire value chain.

Silage Use: Only about 25% of dairy farmers are using corn or grass silage to feed their cattle. Almost all of the corn silage is used in the Rasina and Toplica regions, while farmers in the more mountainous regions of Raska and Zlatibor use mostly grass silage.

Programming Recommendation: Disseminate information on the benefits of silage on milk production and farm profitability, and implement pilot programs similar to Mercy Corps' Livestock Feed & Nutrition Program to demonstrate to farmers the benefits of silage practices first-hand. Once a feed program has been piloted with successful results it is much easier to promote and expand improved feeding practices.

Simmental Cattle: A majority of farmers (76%) are breeding Simmental cows for dual purposes in southern Serbia. These cows are preferable to higher milk-producing breeds such as Holstein as they are more suitable for dual purpose (milk and meat). Many farmers feel that the sale of Simmental beef compensates for the lower milk production.

Recommendation: Develop and provide clear financial comparative data on the economic benefits of Simmental versus Holstein cattle, taking into consideration beef sales. Results of such a study should be disseminated widely among dairy associations in Serbia.

Access to Credit: Bank credit is easier to obtain than MoA credit. Farmers who applied for loans from commercial banks were twice more likely to obtain approval than those who applied for MoA loans. The likely reasons for this are that there is much more available private credit than MoA credit and the selection procedures are more transparent. A vast majority of farmers complain that bank loans are prohibitively expensive. Over the last several years, however, commercial credit has become more affordable and several banks now have agro-loan products specifically tailored to meet the needs of farmers.

Recommendation: Facilitate agricultural credit through loan guarantee funds to make credit more affordable, disseminate credit information from commercial banks, and assist farmers with loan applications and training.

Dairy Farm Investment: Significant investments are still required at the producer level. Farmers cite mechanization, cattle breeding stock and farm facilities as the most necessary investments. Lack of such investments will prohibit growth and may prevent farmers from commercializing operations.

Recommendation: Donors should seek to develop training programs, and possibly incentives, that encourage farmers to take advantage of production economies of scale by sharing mechanization and purchasing bulk quantities of inputs to reduce costs. As mentioned previously, farmers should be encouraged to utilize credit to fund new large capital investments.

Processors

Introduction: This section summarizes the results and recommendations regarding dairy processors. When asked what additional support they would like to see from donors, dairies mentioned very similar interventions to the activities provided through CRDA: capital equipment, improved energy supply, and support to dairy farmers. Because of the high grant assistance available through CRDA, perhaps this is to be expected. However, dairies should now be encouraged to access private capital for these types of investments. It is somewhat concerning that very few dairies ranked further technical assistance as important to their operations.

Future of Small Dairies: Small dairies are unsure about the future of the industry. When asked to rank on

Recommended Support to Dairy Processors (Cited by Processors)	
Capital Equipment (84%)	Machinery, Lab Equipment, Cooling Tanks, Vehicles
Dairy Farmer Support (22%)	Herd Size, Milk Quality, Collection Stations
Energy Supply (22%)	Electricity & Gas Supply
Policy Reform (11%)	Law On National Laboratories, Quality-Based Subsidy Program
Standardization (11%)	HACCP, ISO, GMP, Organic
Marketing (11%)	Trade Fairs, Study Tours, Training
When asked what additional support they would like to see from donors, dairies mentioned interventions as those provided through CRDA: capital equipment, improved energy supply, and support to dairy farmers. Because of the high grant assistance available through CRDA, perhaps this is to be expected. However, dairies should now be encouraged to access private capital for these types of investments. It is somewhat concerning that very few dairies ranked further technical assistance as important to their operations.	

a scale of 1-5 how optimistic (5 being very optimistic) they are about their future and the future of the dairy industry in Serbia, dairies responded cautiously with an average score of 2.98. When evaluating the industry overall, dairies responded with a mix of positive and negative comments. On the positive side, dairies feel that the quantity of raw milk is increasing as farmers are becoming more educated and professional in milk production; furthermore, they feel that market opportunities are expanding. On the negative side, some feel that small dairies will disappear due to foreign competition and unstable markets, that Serbia is too small a market for the high number of dairies, and that little is being done to stop the gray economy from damaging the industry.

Dairy Industry Growth: The dairy industry has experienced impressive growth in southern Serbia since 2002 as small private companies have filled the market gaps left behind by state-owned food processing companies that collapsed in the 1990s. Raw milk processing in has grown by 174% and income from sales by 507% since 2002, with the largest growth rates in Raska/Zlatibor and Toplica, respectively. The high growth in these regions is partly due to the very low capacities that existed in 2002 and before; in 2002 the combined capacity of Raska, Zlatibor and Toplica was half that of Rasina alone. Currently the design capacities of the regions are Rasina, 122 tons/day; Toplica, 75 tons/day; and Raska/Zlatibor, 131 tons/day. CRDA investments accounted for 23.8% of the 2004 design capacity and 17.2% of the current design capacity among the southern Serbia dairies surveyed.

Operational Efficiency: Dairies are currently operating at an average utilization of only 57% (working capacity as percentage of design capacity). While working capacity has also increased dramatically (209%), the rate of utilization has increased only from its 2002 level of 51% to the current level of 57%. One main reason for this underutilization is that many new small dairies have entered regional and local markets, increasing competition for similar products. The number of dairies in the 18 municipalities in southern Serbia currently represents one-third of all operational dairies in the country, yet production accounts for less than 9% of the national total.

Regional Markets: Regional markets for small dairies are becoming very competitive. Dairies in southern Serbia sell 65% of their products in regional markets and 41% to small shops. Over the past six years, the number of dairies has grown from 11 to 19. In order to remain competitive in such a marketplace dairies must either seek to develop new product lines, expand to new markets in larger cities in Serbia, or begin developing export markets in surrounding countries.

Trainer Recommendations	
Dairy Product Diversification & Marketing Training 2002	<ul style="list-style-type: none"> • Establish testing, incentives & education to improve milk quality from the farm. • Establish routine to check and track milk quality and microbiology. • Sponsor a seminar for small dairy owners to provide them with ideas, materials, and techniques for educating their small farmers in milk quality milk. • Help form an association of small dairies to foster exchange of ideas and provide a forum for continuing technical education.
Supply Chain Management Workshop 2005	<ul style="list-style-type: none"> • Dairies should better educate producers on their raw material requirements. • Open regional laboratories for milk analysis. • Dairies and donors should cooperate to provide assistance with milking lines, cooling equipment and transportation infrastructure. • Provide education to farmers in producer group formation, livestock breeding, nutrition and feeding and milk hygiene.
<i>These recommendations were provided by the trainers and facilitators of the activities for dairy processors. Though the results are somewhat dated, many of the recommendations remain valid. In early 2005 two seminars, organized under CRDA-E for small dairies, the dairies themselves expressed interest in forming a small dairy processor association.</i>	

Recommendation: Donors can help small dairies expand markets outside their immediate region, where there is high competition from other nearby dairies, by providing marketing expertise for accessing new markets with lower levels of competition. Donors can assist by conducting and disseminating market analyses that assess markets based on geography, products, branding and marketing. Programs can also assist local companies with marketing their products through regional and international trade fairs.

Dairy Management: Dairy owners and operators have a high need for more professional management. A lack of skilled and educated employees was cited as the top production problem in all three regions assessed. A primary reason for the lack of skilled labor is that the dairies have resisted hiring professional managers to handle specific functions of the business such as marketing, operations or finance. Owners prefer to leave operational decisions to themselves or their family members, restricting their ability to effectively manage, train and educate employees for management positions. Consequently, management is overburdened, lacking in numerous skill areas, and has little time to focus attention on specific business needs.

Recommendation: Training and education programs on operations and human resource management will help dairies to develop trained and educated staff within their operations, allow them to better and more efficiently utilize their existing staff, and identify areas where new skills and experience are required.

Raw Milk Quality & Quantity: Dairy processors cite poor quality and low quantities of raw milk as a major production problem and growth constraint. The average dairy in southern Serbia collects milk from over 500 individual households (some as many as 2,000) and yet 74% of dairies still face milk shortages in the winter. The two major reasons for the seasonal shortage is that cows are generally calving in the spring and therefore not producing milk in the winter, and the lack of access to farms during winter due to poor roads and inadequate snow clearing. Milk collection from small farms dramatically increases operational costs and puts a significant logistical burden on dairies. It also negatively impacts quality control as traceability and standards are harder to employ. Because of these supply problems, several dairies have begun to invest in their own farms in order to have control over the quality of their raw milk supply and to lower collection costs.

Recommendation: *Improve raw milk quality and increase production levels and yield by continuing to work with farmer associations, cooperatives and agriculture stations so that dairies do not experience shortages, can collect milk from fewer collection stations or households, and have confidence in the quality of raw milk supplies. Dairies as well should support their best producers, encouraging the growth of the farms meeting their production and quality standards.*

Raw Milk Collection: Dairies must either invest themselves, or hire better-equipped collection providers, to improve the on-farm cooling, storage and transport of raw milk. Only one dairy owns a refrigerated collection truck and only 21% of the dairies surveyed have registered collection points. If dairies are unable to afford the necessary investment, they should consider using private collectors with cooling equipment or investigating leasing options.

Recommendation: *Improve raw milk collection by bringing together producers and processors to establish strategically positioned milk collection points. Furthermore, training and education on quality control, traceability, testing, and maintenance of collection points should be offered to producers, collectors and processors.*

Product Diversification: Dairies must begin to innovate and diversify their products if they are to remain competitive. All of the dairies surveyed produce very similar products: fresh milk, yogurt, yellow cheese and cream cheese. Individual market share for all four of these products has dropped of late as regional markets have become more competitive. Local and specialized products make up a very low percentage of sales and there are few initiatives to diversify into more niche products. In order to continue growing their markets, small dairies should conduct the necessary market research to expand production into niche products and invest in technology, education and marketing of new products.

Recommendation: *Donors can facilitate the provision of training and consulting services on new product innovation, development, and marketing. Small dairies should seek to develop competitive advantages around local specialized niche products. Donors should subsidize more training programs, such as the Dairy Product Diversification & Marketing training organized by ACDI/VOCA under CRDA in 2002.*

Access to Private Capital: Dairies should seek to access private capital in order to remain competitive. With the high level of competition in the Serbian banking sector there is adequate, affordable and available capital. After several years of successful operations these small dairies are attractive borrowers for banks. Of the ten dairies in southern Serbia who have applied for commercial credit in the past five years, all were approved. Dairies can utilize credit to make the necessary investments to develop and market new product lines.

Recommendation: *Facilitate credit for dairy processors, especially for working capital, with commercial lending institutions. Working capital is a serious need for many small dairies operating with low cash flows. Access to working capital is critical in order to access larger buyers with less frequent payment terms. Dialogue should be facilitated between lending institutions and small food processors to determine innovative ways to meet the needs of the businesses.*

Financial Analysis: Dairies need improved financial analysis, especially profitability analysis, of their product lines. Very few, if any, dairies utilize managerial accounting systems and techniques to determine their product profit margins. Dairy owners should consider employing business and financial consultants to advise and assist them with financial and profitability analysis.

Recommendation: *Donors can help by providing training and consulting services on financial planning and analysis. Dairy owners should be educated on basic managerial accounting and profit-and-loss analysis in order to maximize profits and analyze the cost-benefit of marketing initiatives and new product development. Training should clearly demonstrate the financial impact of selling to several large buyers compared with many small retailers.*

Payment Collection: Dairies are constrained with a lack of working capital due to poor payment collection. Lack of working capital was cited as the most important production problem, and payment collection as the most important problem regarding product sales. The cause and effect relationship between these two problems presents a great opportunity for small dairies: the companies should begin to market their products to larger, more reliable buyers that can ensure prompt payment of larger deliveries. Currently, dairies sell over 50% of their products to small shops and restaurants; these buyers have low cash flows and short business cycles. Furthermore, small shops are being squeezed out of the market as supermarket chains expand into the provincial cities in southern Serbia; dairies should adopt marketing strategies that capitalize on this trend. Dairies should also develop strict payment terms for small shops and withhold deliveries to regularly delinquent customers.

Supermarkets: As supermarkets increase market share at the expense of small stores, small dairies will find it more difficult to compete with the larger dairies. Dairies are already concerned that they are not able to access supermarkets because payment terms and entry fees are too high. Dairies will need to find innovative methods to compete with large producers like Imlek. Possibilities include forming a regional or national dairy association to negotiate better payment terms, negotiating with banks for favorable working capital loans, and investing in technology to develop and market more specialized niche products.

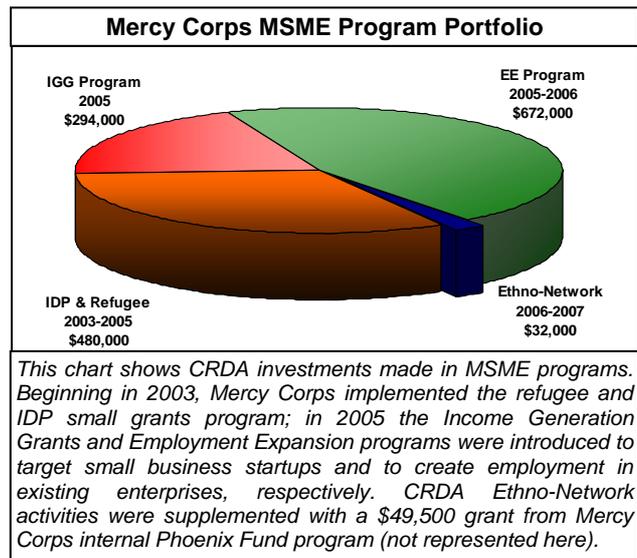
Recommendation: *Donors can assist dairy processors to develop regional or national level small dairy associations. Currently no organization exists to lobby, advocate, disseminate information or negotiate with buyers on behalf of small dairies. The recently formed Dairy Industry Forum, initiated by the SIDA-funded Reka Mleka project, aims to unite the dairy industry as a whole; however, it does not intend to focus on the specific needs of small dairies. Donor programs could help fill this gap.*

Part IV: Micro, Small & Medium Enterprise Development

Note: In this section, Mercy Corps' activities and results in micro, small & medium (MSME) development are presented. In October 2007 Mercy Corps plans to finalize and complete our assessment, Southern Serbia MSME Development & CRDA Impact Assessment, that examines the impact of the CRDA MSME programs.

MSME Programs: Over the course of CRDA, Mercy Corps offered four program opportunities to entrepreneurs in southern Serbia. Each of these is presented in turn in this section, followed by a summary of the M&E findings from the Southern Serbia MSME Development & CRDA Impact Assessment, to be released in October 2007.

- IDP & Refugee Small Grants, 2003-2005:** Provided small enterprise and agricultural grants to IDP and refugee families. This program was implemented with USAID earmark funds.
- Income Generation Grants (IGG) Program, 2005:** Targeted MSE startups, and existing unregistered businesses working in the gray economy, providing a mechanism for small entrepreneurs and family-owned businesses to plan, grow and begin working within the legal tax system as registered businesses.
- Employment Expansion (EE) Program, 2005-2006:** Recognizing that not everyone is an entrepreneur, EE creates jobs in existing, registered, financially-healthy firms by expanding enterprise working capacities through a combination of commercial credit and capital improvement grants. To participate, local businesses must receive credit through a commercial lender and agree to hire a specified number of new, permanent employees.
- Ethno-Network, 2006-2007:** Ethno-Network Rasina assists home-based women, housewives and vulnerable groups, such as orphanages and NGOs, by assisting them with production and markets for traditional Serbian handicrafts. Ethno-Network Rasina spun off from the Serbia-wide Ethno-Network initiative implemented through CRDA-E in cooperation with four of the five CRDA partners.



MSME-A: Refugee & IDP Small Grants 2003-2005

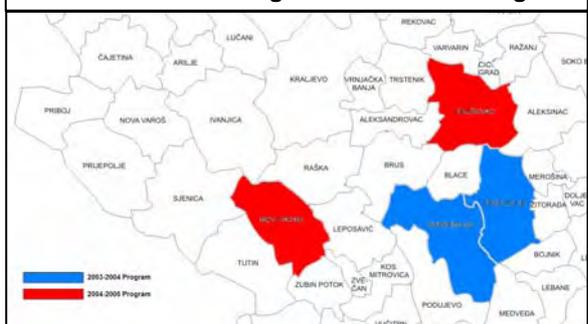
Strategy

Overview: The 2003-2005 Refugee & IDP Small Grants program was implemented using USAID funds earmarked for refugees and IDPs. The program targeted the more than 25,000 displaced persons living in Krusevac, Prokuplje, Kursumlija and Novi Pazar municipalities, seeking to provide them with medium to long-term opportunities for income and employment that would help them to meet their basic living needs and become more involved in their local host communities. The program provided the families with small grants up to \$5,000 and training in the basics of business analysis, planning, marketing, and micro-finance.

Objectives: The objectives identified for the program were:

- Provide independently-managed income generating opportunities for IDP and refugee, especially those in vulnerable living conditions.
- Help break humanitarian assistance dependency and enable

2003-2005 IDP & Refugee Small Grants Program



Mercy Corps implemented two phases of small grants program targeting refugees and IDPs from 2003-2005. In 2003-2004, programs targeted Prokuplje and Kursumlija; in 2004-2005, the program was introduced in Krusevac and Novi Pazar. In addition to changes in the targeted geography, the second phase introduced a business skills training curriculum for grant recipients to help them better establish and manage their business operations.

clients with opportunities for self-sufficiency.

- Initiate and expand micro and small business activities, particularly in rural communities.
- Enhance community relations between IDP/refugees and local inhabitants and authorities.

Applicant Interviews: All applicants were visited and interviewed to ensure that they met the requirements of the program and to review their business model. Applicants were interviewed to assess the likelihood of success of their business according to:

- **Markets:** Where will the product or service be marketed? Who is the competition?
- **Finances:** What will be the business revenues and expenses and at what price will they sell their product? How much income will they earned from the activity?
- **Grant:** Who will use the grant materials or equipment? Where will the donated equipment be located? How will the grant create a job or generate income?
- **Ownership & Management:** Who are the owners and managers of the business?

Client Selection Criteria: Client selection was made based on their ranking in the following criteria. All projects required a minimum 25% matching contribution.

- **Vulnerability:** Vulnerability of the applicant's family.
- **Feasibility:** Feasibility of the business model and utilization of existing skills.
- **Beneficiaries:** Number of persons directly benefiting from activity, with higher ranking for inclusion of women and minorities.
- **Match:** Type and amount of matching contribution.
- **Inputs:** Type and availability of requested inputs.

IDP/Refugee Status: Before the final selection was made, Mercy Corps confirmed the displaced person status through the Commissioner for Refugees lists in Krusevac and Novi Pazar and/or the municipal electorate registrations.

Business Training: After selecting the clients, but prior to delivering any granted equipment or materials, the selected clients were organized by sector and provided with a three-day course to introduce them with the basics of business analysis, planning, marketing, and credit. The course was delivered by the Kragujevac-based NGO, TANGO.

Results

Summary: Out of 600 applicants for the program over two years of implementation, Mercy Corps awarded 172 grants. The table below presents a summary of the grants organized by municipality and business activity.

IDP & Refugee Small Grants Program 2003-2005										
Sector	Number of Grants					Value of Grants (\$)				
	2003-2004		2004-2005		Total	2003-2004		2004-2005		Total
	Prokuplje	Kursumlija	Novi Pazar	Krusevac		Prokuplje	Kursumlija	Novi Pazar	Krusevac	
Agriculture	5	7	2	10	24	14,810	24,896	5,188	25,799	70,693
Livestock Activities	0	0	2	15	17	0	0	7,997	34,151	42,148
Auto Repair	4	8	3	5	20	7,662	24,565	12,802	21,368	66,397
Metal Worker	3	4	2	3	12	5,498	3,327	5,915	7,053	21,793
Woodworkers	2	3	1	10	16	8,781	17,378	3,873	39,492	69,524
Painter/Plasterer	0	1	1	1	2	0	2,000	4,017	4,638	10,655
Construction	0	1	3	9	13	0	2,887	8,825	8,045	19,757
Electrician/Electronics	1	2	1	0	5	3,425	3,620	3,366	0	10,411
Refrigeration Repair	0	0	1	2	3	0	0	3,033	5,056	8,089
Computer Services	0	1	2	1	4	0	2,700	5,679	6,131	14,510
Retail Sales	2	0	4	4	10	5,879	0	10,337	14,379	30,595
Food Service	2	1	6	1	10	3,181	3,431	18,215	6,915	31,742
Hair Salon	2	3	1	2	8	1,844	6,155	1,888	2,842	12,729
Bakery	0	0	4	0	4	0	0	11,800	0	11,800
Tailor	1	6	4	5	16	3,465	13,637	14,394	11,071	42,657
Other	3	2	2	1	8	3,792	2,775	5,960	3,809	16,066
Total:	25	40	38	69	172	\$58,337	\$109,762	\$116,043	\$195,424	\$479,566

Credit Fair Participation: At the 2005 Credit Fair, twenty IDP and refugee clients showcased their products and services in Krusevac and Novi Pazar. Participants included restaurants and catering services, auto repair shops, agricultural trainers, printing shops and beauty salons.

MSME-B: Income Generation Grants 2005

Strategy

Goal: The IGG program assisted local unemployed and redundant workers to achieve entrepreneurial self-sufficiency by focusing on business startups and unregistered family businesses operating in the gray economy through a process of business planning and competitively awarded grants.

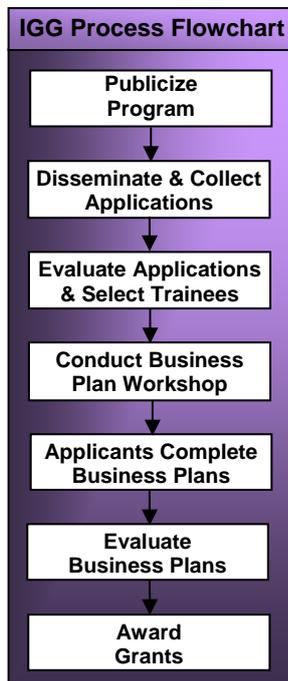
Target Clients: After two years of implementing the IDP & Refugee Small Grant program Mercy Corps identified an additional niche for the program and revised and expanded it to target vulnerable families in communities throughout southern Serbia. These municipalities have been plagued by massive layoffs in state firms and a deteriorated economy. The modified Income Generation Grant (IGG) program was designed to assist local unemployed and redundant workers to achieve entrepreneurial self-sufficiency.

Requirements: A minimum matching contribution of 25% was required. To be eligible, applicants had to have been registered with their local unemployment bureau at the time of the application, and had a sound business idea. Participating businesses were required to legally register their business and hire at least one worker.

Income Generation Grants Program 2005



The IGG program targeted municipalities with high rates of unemployment, helping registered unemployed persons start their own businesses. Official unemployment figures in Prijepolje, Prijepolje and Brus were all between 45%-50% at the time of implementation, while in Trstenik and Aleksandrovac unemployment figures were close to the average of southern Serbia, at approximately 30%. Tutin has the highest unemployment at 65% but the program was not implemented there due to a probable lack of new business opportunities.



Approach: The IGG approach is shown in the diagram to the left. Applications were available at labor bureaus. Clients completed an application outlining their basic business idea or model. The applications were evaluated to select clients to attend a three-day Business Planning workshop, after which they completed their own business plan. The business plans and clients were then evaluated for grants to help them start and legally register their business. The competitive process resulted in a pool of entrepreneurs trained and prepared to start their own businesses. The 2005 IGG program budget was \$300,000 with a maximum grant amount of \$5,000 per client.

Advantages: IGG offered a number of advantages over traditional small grants programs:

- Comprehensive business plans helped owners identify the pitfalls and challenges of their activity before they invested.
- Business Plan workshops served two purposes: i) help the owner to plan, separating the most serious applicants; and ii) provide a more clear mechanism for evaluation. These factors resulted in a higher degree of economic sustainability.
- The approach encouraged those who may have already been operating an unregistered business from their home to expand and legalize their business and workers, better integrating them into the local economy.
- Provided local labor bureaus with a stake in the planning, implementation and results of the program.

Business Plan Training: The Kragujevac NGO TANGO, with an extensive background of micro and small business training, led business planning workshops in five municipalities. The workshops were practical, interactive and hands-on. Participants were grouped according to the type of business so that the trainings were targeted on specific sectors or activities, allowing the trainees to learn from and share ideas with one another. The TANGO trainers provided trainees with business plan templates and advice tailored to their specific businesses. Twelve three-day seminars provided practical and custom instruction on:

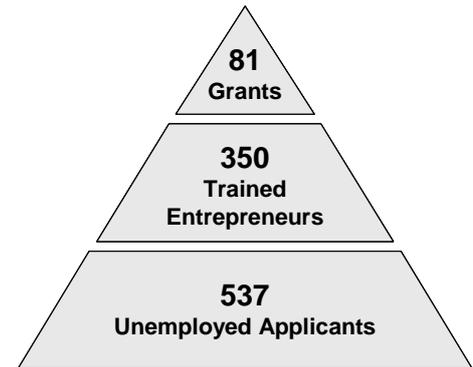
- Day 1: Entrepreneurship & Management,
- Day 2: Marketing & Financial Analysis,
- Day 3: Financing, Registration & Legal Issues.

Business Plan Evaluation: Upon completing the seminars, participants prepared their business plans using the outlines provided during the workshops. Grants were awarded based on completed business plans, much as if applicants were applying for commercial credit, adding a greater degree of competitiveness, quality and planning to the process. Selection criteria included market assessment, economic feasibility of the business model, quality of the business plan, use of available skills, degree of vulnerability, and availability of inputs requested.

Results

Overall Results: The unemployment bureaus in the five targeted municipalities distributed and collected 537 applications over a five-week period in June-July 2005. The applications were screened, resulting in the selection of 350 applicants who were then trained and assisted in developing their own business plans. As a testament to the training methodology, 330 of the 350 trainees completed all three days of training; the average score in trainees' assessments of the program surpassed a score of 4.0 on a scale of 1-5. Of the 330 applicants who completed all three days of training, 247 completed and submitted a business plan. Of those 350 trained entrepreneurs, 81 were selected to receive grants of basic capital equipment to help them start their business (four were later cancelled due to inability to meet matching contribution requirements).

Competitive IGG Selection Process



This diagram illustrates the competitive nature of the IGG program and shows how the program used those competitive elements to prepare and select clients with the most viable business plans. Besides awarding grants, the IGG program trained 330 would-be entrepreneurs in business planning and management. Although 249 of these trainees were not awarded a grant, they improved their skills in business planning, financial analysis, and marketing. As a testament to the quality of training, 330 of the 350 applicants completed all three days.

IGG Results by Municipality						
Municipality	Unemployed	Official Unemployment	IGG Applicants	Invited to Workshop	Completed Business Plan	Approved Grant
Trstenik	4,419	28%	142	90	68	26
Brus	2,313	49%	67	40	32	7
Aleksandrovac	2,387	33%	65	40	27	7
Priboj	6,607	49%	139	90	60	19
Prijepolje	7,077	47%	124	90	60	22
Total:	22,803		537	350	247	81

Financial Analysis: Mercy Corps invested \$294,000 in the program, including the training and public outreach campaign. An analysis of the program concludes:

Mercy Corps Investment: \$294,000 (\$284,000 in grants)

Average Grant: \$3,688

Jobs Created: 95

Donor Investment per Job: \$3,094

	Income Generation Grant Program 2005-2006											
	Number of Grants						Value of Grants (\$)					
	Trstenik	Aleksandrovac	Brus	Priboj	Prijepolje	Total	Trstenik	Aleksandrovac	Brus	Priboj	Prijepolje	Total
Agriculture	12	4	2	1	4	23	\$31,010	\$15,944	\$6,238	\$2,187	\$11,050	\$66,429
Livestock activities	1	0	1	4	4	10	3,377	0	3,663	9,673	16,330	33,043
Auto repair	1	1	0	1	3	6	2,761	4,000	0	4,007	11,288	22,056
Metal worker	0	0	0	1	0	0	0	0	0	3,070	0	3070
Woodworkers	2	1	1	2	1	7	7,322	3,000	3,062	7,709	3,736	24,829
Painter/Plasterer	0	0	0	2	3	5	0	0	0	6,820	8,051	14871
Construction	0	0	0	1	1	2	0	0	0	3,061	8,556	11617
Bookkeeping	0	0	1	0	0	1	0	0	2,722	0	0	2722
Computer services	1	0	0	1	0	2	3,600	0	0	3,690	0	7,290
Food service	1	0	0	1	0	2	3,853	0	0	2,620	0	6,473
Decoration services	2	0	0	0	0	2	8,273	0	0	0	0	8,273
Bakery	0	0	0	0	1	1	0	0	0	0	3,842	3,842
Tailor	1	0	1	4	0	6	4,084	0	2,274	9,961	0	16,319
Other	2	1	1	0	5	9	7,502	3,000	4,717	0	10,387	25,606
Total:	23	7	7	18	22	77	\$71,782	\$25,944	\$22,676	\$52,798	\$73,240	\$246,440

This table shows the results of the IGG program by municipality and business sector. While the greatest number of projects was in the agriculture sector, a strategic decision was made to not support projects that involved donations of livestock. The figures shown here vary slightly from the final results due to currency fluctuations, variations between contracted and paid values, and amended specifications based on equipment available on local markets. The figures presented in the text are final and accurate.

Advantages: The EE program offered a number of advantages over other MSME programs:

- The approach promotes and builds on the impact of commercial credit.
- The program provides full-time jobs in existing enterprises and since all of the enterprises have received credit from a commercial lender, they are proven to be a good credit risk, an indicator that both the company and job created will be sustained.
- The equipment donated provides capital for the growth of the enterprise, further strengthening both the job created and the enterprise.
- The credit may be used to further capitalize the business, provide short-term operating capital, purchase raw materials and supplies, or procure additional new equipment and technology. Repayment of the commercial credit is counted as a matching contribution.
- Tracking the sustainability of jobs is relatively simple as the local labor bureaus can easily assume that responsibility. This also provides the labor bureaus with a stake in the planning, implementation and monitoring of the program.
- By capitalizing enterprises though EE Mercy Corps supports enterprise growth, facilitates servicing of current loans, and provides future collateral for the business.

Strategy Changes: EE initially planned to identify EE partner banks with a development mandate. Three banks, ProCredit, Micro Development Fund and Opportunity International, initially agreed to partner with Mercy Corps to implement the program. The idea was to draw on the client networks of these partner banks to inform and recommend applicants from their client bases. However, after three weeks of cooperation with these partners, fewer than ten applications were received. As a result, the program was restructured to allow an enterprise to apply based on credit from any commercial lending institution.

Type of Business	Average Monthly Salary
Woodworking	\$385
Bakery	\$380
Aluminum & PVC Works	\$365
Auto Repair	\$278
Bookkeeping	\$252
Metal Working & Processing	\$245
Tailors & Sewers	\$240

These figures present the results of a follow-up assessment to determine the salary levels paid by clients of the EE program.

Results

Results: In two years of the EE program 421 production-based firms applied and 121 applicants received grants (average grant \$5,838). As a result, 222 jobs were created. The majorities of businesses were production-based and included clothing, paper and plastic, print shops, windows and doors, soap and shampoo, and even a brake pad manufacturer. The data in the table, organized by loans per bank, summarize the results.

Analysis: The donor investment per job created for the EE program was \$3,027. While this figure increased from the 2005 figure of \$2,600, the enterprises financed in 2006 were generally more sophisticated, with more unique business plans. Also in 2006 Mercy Corps targeted larger firms more likely to absorb additional positions; as a result, the average loan size increased from \$4,370 in 2005 to \$6,600 in 2006. Finally, the municipalities of Krusevac and Novi Pazar (representing by far the strongest potential applicant pools) were excluded in 2006 to provide opportunities to smaller, more economically challenged municipalities.

CRDA-E Investment: \$672,100
Jobs Created: 222
Number of Clients: 121
Client Match: \$704,400
Cost per Job: \$3,027

Bank	Loans	Average Loan	Existing Employees	New Employees
ProCredit	20	\$4,130	64	37
Komercijalna Bank	19	\$3,500	53	35
Republic Development Fund	14	\$16,840	58	27
Delta Bank	13	\$2,490	37	20
Vojvodjanska Bank	10	\$5,200	36	21
Meridian Bank	6	\$2,813	11	9
Agrobank	6	\$3,165	18	7
MicroDevelopment Fund	5	\$3,300	11	9
Jubanka	3	\$3,880	8	10
Credy Bank	3	\$3,040	10	8
Niska Bank	3	\$2,510	4	3
Raiffeisen Bank	2	\$4,940	3	3
Nacionalna Stedionica	2	\$23,200	7	6
Aik Bank	2	\$13,500	8	5
Kulksa Bank	2	\$5,500	5	3
Cacanska Bank	1	\$10,900	2	2
Opportunity International	1	\$6,000	2	2
National Bank of Greece	1	\$6,000	1	1
FG Eurobank	1	\$4,800	2	2
LHB Bank	1	\$4,350	3	2
Eksim Bank	1	\$4,000	2	2
Findomestic Bank	1	\$2,900	4	3
Metalis Bank	1	\$2,800	2	2
Societe General	1	\$2,500	4	3
Total:	121	\$706,400	362	222

The pilot (\$200,000) EEG program in 2005 has expanded in 2006 (\$400,000) to cover ten municipalities and includes all those not covered by any previous Mercy Corps SME program. Absent from the 2006 program are the large municipalities of Krusevac and Novi Pazar as the program targeted smaller municipalities with lower levels of economic development. Institutions with a current or prior development mandate are highlighted.

Monitoring & Evaluation

M&E Assessment: Mercy Corps MSME programs are assessed in the forthcoming *Southern Serbia MSME Development & CRDA Impact Assessment*, to be released in October 2007. The conclusions and recommendations presented here are a result of both the opinions of surveyed IGG and EE clients as well as the evaluator's recommendations based on the analysis of programming documentation and survey results. Since the procedures for the both programs were very similar (generally excepting the EE loan requirement and the IGG business plan) the conclusions and recommendations are presented jointly for both programs. The recommendations focus on suggestions for prospective donors working to strengthen the Serbia MSME sector on the type of approach and assistance most suitable for MSMEs. For a complete account of Mercy Corps CRDA work in the MSME sector, the reader is referred to the full assessment report.

Project Application & Selection: All clients surveyed were asked to evaluate Mercy Corps' application, selection and implementation processes, and to provide suggestions for their improvement. An overwhelming majority of all IGG and EE clients (58 of 59 surveyed, or 98%) indicated no problems in the application and selection processes, and felt that applying for Mercy Corps programs was straightforward and clear, with easy-to-understand guidelines and rules. A full 88% of the clients sampled had no suggestions on how to improve the application and selection procedures.

Selection Transparency: All clients agreed that the selection procedures were fair and transparent. Only one IGG client argued that there was a small number of undeserving clients, though this was based on hindsight through his observation on post-grant performance, rather than the original business plan. (Obviously, if non-selected applicants were asked the same question, one might expect different results.)

Comparison with Other Programs: Many of the clients from Sandzak, where there are currently a number of international programs operating, compared their Mercy Corps application experience with that of other donors currently working in the region. They all observed that the other donors generally had more complicated policies that the clients were often unable to meet, either because of overly complex application forms or high costs of collecting project documentation. (For example, professional business plans had to be submitted in both Serbian and English, which could not be completed by the beneficiaries themselves, but had to be outsourced to specialized professionals).

Employment Expansion Teodora Finished Wood Products, Raska



In 2004 Teodora began producing semi-finished wood furniture, producing just enough to remain in business but not enough to expand their operation. After receiving a Mercy Corps capital improvement grant Teodora's owner, Dragoslav Perovic, signed contracts with Swedish and Slovenian firms for parquet flooring. The granted equipment allows him to meet European standards not attainable on their previous equipment. The firm has plans to further increase production by 30% and employ two more workers by the end of 2006. One unemployed person was hired as a direct result of the \$4,000 grant to complement four existing employees.

Recommendation: Donor programs should structure project documentation to a level consistent with the technical skills of enterprise owners, as well as their financial capacity. It is important for clients to be able to plan their own businesses, rather than outsource that task to a third party. Donors should be aware that 70% of the MSE owners (those surveyed in this assessment) have only a high school diploma and may therefore be unable to independently complete professional business plans. Training and business plan templates can therefore be valuable tools for implementing MSME programs. Besides an arguably bad practice, outsourcing business plans to consulting agencies is expensive (costing up to \$600) and can be an impediment for many MSEs, considering their average monthly personal incomes of \$900. Finally, the smaller the enterprises targeted by the program, the simpler the program requirements should be.

Enterprise Sustainability: The credit requirement for EE clients helped Mercy Corps identify which clients were credit-worthy and likely to remain sustainable in future, facilitating the selection process. In the IGG program project selection was more difficult as it was much more difficult to predict the future sustainability of business start-ups. Imposing the commercial credit requirement for EE clients provided a solid guarantee of the enterprise's future viability, as 100% of the EE clients surveyed are currently operational and planning for further growth; 91% of those clients indicated that the credit requirement did not present a problem and was a good practice. Of the IGG clients surveyed, 7% plan to shut down their operations, primarily due to poor market demand for their products or services.

Recommendation: Requiring commercial credit as a precondition is a good practice and indicator of enterprise sustainability. In addition to improving the quality of potential projects, it also has a positive impact on the currently low level of citizens' trust in the banking system. Donors may even choose to place further requirements on the use of the credit, so that when combined with a grant, will ensure the desired productivity improvement or capacity increase. When investing in micro or start-up enterprises or in cases where commercial credit cannot be used to evaluate the clients' merit, family members' involvement in the enterprise can be used as a good indicator of the enterprise's future sustainability. This assessment concluded that family-owned and operated businesses tend to have more entrepreneurial owners and workers who are more eager and committed to ensure their business' survival in the market.

Employment Creation: Employment creation through the EE program proved extremely successful, surpassing the expected results by 55%. The primary goal of EE was employment generation (not enterprise sustainability) as each participating client was required to hire additional worker(s). The figures reported by clients in the development contracts signed with Mercy Corps resulted in the creation of 222 new full-time jobs in 121 enterprises (an average of 1.83 jobs per enterprise). The 33 EE clients selected for the survey agreed to hire 51 new workers, but in actuality hired 79, surpassing the requirement by 55%. The 79 new workers in 33 enterprises results in an average of 2.39 jobs per enterprise.

Serbia Credit Issues

Processing/Administrative Fees: Can add up to 2% per month in some banks; 1% is average.

Operating History: As a minimum, the company must work at least six months, but the general condition for most banks is at least one-year. The client must open an account with the bank and be legally registered.

Grace Period: At the very least, 3 months, while a number of banks will provide a 6 month grace period depending on the intent of the loan.

Equipment Brand: Three of sixty clients surveyed (5%) argued that the impact of CRDA on their businesses would have been larger if they were allowed to buy more expensive equipment, under an agreement that would allow them to cover the difference the cost of the desired brand of equipment and the low bidder. [In some cases this was allowed, when the specification was met, but in general Mercy Corps procurement regulations required awarding procurements to the low bidder.] In this way, the clients could have obtained the equipment most desired. In some of the cases cited, clients were required to make additional unanticipated investments to procure supplementary equipment to make the granted equipment functional.

Recommendation: Donor programs involving equipment grants should require that donated equipment is of a nature so as to fundamentally increase capacity or production and avoid very specialized equipment that fills a particular and small niche in the enterprise's production. This would help ensure that donated equipment results in a clear increase in capacity for the enterprise, simplify procurement procedures for the implementer, and perhaps result in a higher level of client satisfaction if clients manage their own procurements of highly specialized and brand-sensitive equipment. Similarly, programs should avoid purchasing equipment that requires supplemental components for proper operation unless the client is already in possession of those components or makes the investment prior to receiving the donation. In this way, cases of underutilized equipment can be avoided.

Equipment Type: Four clients (7% of the total, and all EE clients) stated that more information regarding the type of equipment allowable for donation would have improved the process. Also, some clients were not aware that Mercy Corps donations were procured free of the 18% Serbia VAT tax; hence they requested smaller capacity or lower quality than desired in order to remain within the grant limits. Two clients surveyed (3%) indicated that their initial requests were returned (air conditioners) and they were required to make a new request. (Mercy Corps sought to donate equipment which had a clear impact on the enterprise's productivity or growth, which is the probable explanation for rejecting these requests.)

Recommendation: In order to avoid delays and ambiguities in the project selection process, detailed information on eligible types of enterprises and acceptable donations should be provided to the applicants and clients early in the process. Ideally, the application package and instructions should already contain this information.

Delivery Period: While 98% of the IGG and EE clients encountered no problems in the application and selection procedures, 82% of clients did express issues with the implementation of the projects. The most significant issue cited (78% of those who experienced problems and 63% of all clients) was delays in equipment procurement and delivery, sometimes exceeding three months. Of the total number of clients, 33% waited three to six months for delivery, 29% waited six to nine months, and 16% waited from nine to twelve months.

Contractor Professionalism: Seventeen of the sixty clients surveyed (28%) experienced problems with contactors' services and professionalism. Most commonly cited problems were: i) difficulty in identifying three vendors to provide bids that meet specifications (41% of those who cited problems); ii) lack of training and instruction by the selected

contractor (35%); and iii) delivery of poor quality equipment (24%). In addition to the technical problems this posed it also partially contributed to the delivery delays previously cited by 63% of all clients. In some cases where the clients have seasonal fluctuations in their business activity, the delays caused them to miss an entire season; causing a degree of frustration with Mercy Corps by the clients.

Procurement Staffing: The MSME programs required the tendering, procurement and delivery for approximately 400 pieces of equipment for each of the three project selection cycles (one IGG and two EE). Much of the equipment involved highly specialized machines for a particular type of business, often which was difficult to procure on the Serbian market. Mercy Corps employed only two procurement officers who were also managing procurements for other components of CRDA, notably the Local Economic Development and Agriculture Development components. Moreover, many of the procurements involved delinquent or late contractors, inability to collect a minimum of three bids, failure of vendors to meet specifications and deadlines, and sometimes subsequent re-tendering or cancelled procurements, all of which required additional attention by the procurement and project officers.

Recommendation: *Implementers should ensure that their procurement departments are sufficient to support the size and scale of the program and try to distribute procurement workloads throughout the year to minimize periods of excessively high and low workloads. In addition, program staff should work harder to synchronize their procurement requests, especially those that involve equipment that can be procured from the same vendors, so that the procurement department can reduce the number of tenders issued by consolidating requests. The procurement department should maintain a formal vendor performance database and stop signing agreements with poorly performing contractors. Finally, clients should be provided immediately upon project approval with realistic expectations for delivery and given guidelines that will assist them in helping to expedite procurement and delivery.*

Mercy Corps Staff Performance: For the most part, clients were “extremely satisfied” with Mercy Corps performance, with 88% of those surveyed (100% of EE and 74% of IGG) giving the team a rating of “5” on a scale of 1 to 5. These 88% stated that they maintained regular contact with project officers and that the officers were able to offer helpful advice, consultation or assistance whenever needed. Five IGG clients (19%) were “generally satisfied,” giving Mercy Corps staff a rating of “4,” but citing minor technical issues, such as problems with equipment specifications, lateness of Mercy Corps staff in completing paperwork, or unmet expectations (in these cases the expectations involved Mercy Corps assistance in identifying markets). The remaining two IGG clients surveyed (7%) rated Mercy Corps performance with a “3” or lower and cited procurement delays and/or bad quality equipment. Numerous clients also indicated that having a Mercy Corps office in their municipality would have improved the process.

Recommendation: *Implementers should expand and improve the means for information dissemination to better reach potential clients outside of the municipal urban centers. Methods can include increasing the staff visits and exposure in the field, utilizing local unemployment bureaus as outreach partners, attending or organizing town meetings or other forums where new programs can be presented, and posting program information at key community gathering places, such as MZs and community centers. This is particularly important for employment programs, as the rural unemployed do not typically attend workshops and seminars organized by the National Bureau of Unemployment.*

Future Areas of Investment: The overwhelming majority, 89% of all IGG clients, expressed a need for more equipment to expand, while only 4% stated that assistance in market analysis and access is most needed for their future success. The remainder was not sure what type of assistance was most needed. Among EE clients (typically larger enterprises than IGG), the perceived need for additional equipment was lower (58%) than with IGG; 15% stated a need for materials and/or work space renovation or expansion; 18% cited participation in study tours, trade fairs, trainings or market analysis; and 9% were unsure about the type of donor assistance program most suitable for their future development.

MSME-D: Ethno-Network Rasina 2006-2007

Strategy

Note: *Ethno-Network began as a joint CRDA-E implemented in cooperation with four partners. Ethno-Network Rasina (ENR) spun off from the Serbia-wide Ethno-Network initiative and targeted producers only in the Rasina region of Serbia – Krusevac, Aleksandrovac, Trstenik and Cicevac. In addition to the CRDA-E resources, the initiative received a grant in the amount of \$49,500 from Mercy Corps’ international Phoenix Fund, which was included as cost share for CRDA. The results of the entire initiative are presented in detail in the Phoenix Fund final report, Seizing Markets through Saving Traditions: Ethno-Network Rasina. For a complete account of ENR, the reader is referred to that report.*

Goal & Objectives: Ethno-Network assists primarily women-owned micro-businesses, home-based women and housewives, and vulnerable groups such as orphanages by assisting them with production and markets for traditional Serbian handicrafts. The handicrafts trades are being lost by younger generations as the country shifts from an agrarian to industrial and high-tech society. The goals of Ethno-Network are to i) promote handmade Serbian ethno-products by bringing together producers of traditional handicrafts into a wider network, ii) assist in the development and design of marketable products, and iii) promote the products and establish markets. Within the Rasina network (ENR) the project focused on five activities. Within the five activities previously mentioned, the program has the following objectives:

1. **Assessment:** 1) Assess all current and potential members and develop a complete database of active members and their products. 2) Compile a material cost database with wholesale prices, retail prices, and potential margins for raw materials.
2. **Organizational Development:** Provide organizational & technical assistance to 50 Ethno-Network clients divided into three groups based on interest and activity levels. The baseline data included nine groups, three of which are officially registered; 122 total members; 80 active members; working in four municipalities: Krusevac, Trstenik, Cicevac, and Aleksandrovac.
3. **Education:** Establish Ethno-Center available to new and existing members which offers trainings on traditional production techniques and provide demand-driven training courses to members.
4. **Design & Marketing:** Develop new product lines, new assortments of products, and improve existing designs of 70 members.
5. **Promotion:** Develop and implement basic promotion strategy and provide training for Ethno-Network members. Develop promotional materials and web site, plus basic product labeling tags & materials for each individual group.

Results

1. Assessment

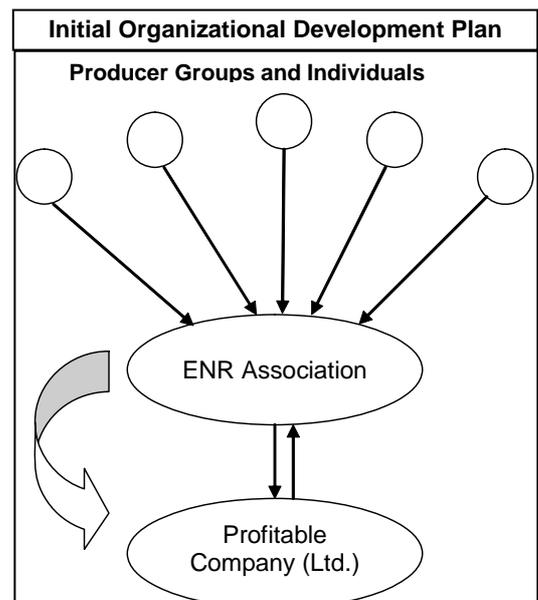
Membership Database: Individual visits were made to over 130 ethno producers who expressed interest in joining Ethno-Network. Of these, 50 can be placed in the core “economically active” category and an additional 59 who are active either as hobbyists, or as part-time members (due to time constraints and/or geographic proximity). A complete baseline database with key data for all members was completed.

Material Cost Database: A material cost database, including the retail, wholesale, and VAT-free prices for commonly used materials was developed and provided to the members. The purpose of this database is to provide the information necessary to develop a “revolving fund” for material purchases. This is discussed further later in the report.

2. Organizational Development

Overview: Ethno-Network Rasina comprises nine groups and 109 members in the Rasina district of Serbia. Five of these groups are economically active, three of which are officially registered as some form of business, while the remaining four groups are more accurately characterized as hobbyists. Mercy Corps contracted the Serbian consulting agency TANGO to assist with the organizational development of ENR and its members. TANGO provided monthly organizational development training over a period of five months, helping the members form and register their association and work with them to develop their charter and guidelines. Each month the association management was given a list of tasks that should be completed prior to the next consulting date.

Development Model: During a three-day retreat in February 2007, TANGO and the members met to plan the organizational development strategy. The outcome of this workshop is shown in the diagram: the nine individual groups form and register an association; that association, in turn, is the sole owner of a for-profit, limited liability company (Ltd) which serves as the sales outlet for the association (since the association itself cannot legally sell products and earn a



This diagram shows the initial organizational development plan for ENR. The plan was later modified to allow a simpler and less costly organizational structure that still retains the for-profit arm of ENR. The long term goal of ENR remains to form the Ltd, as shown in the diagram.

profit). The Ltd. then provides operational capital back to the association through profits. An added benefit of the association is that it can access donor funding in the future. The following organizational development activities have been completed.

Organizational Framework & Business Plan Training Seminar: A three day seminar, attended by 47 members, focused on the organizational model, individual interests, and benefits of association. The seminar provided an overview of the legal requirements for various organizational and business entities under Serbian law and an overview of the business planning process.

Management Training: In May 2007, Mercy Corps staff and TANGO consultants closely worked with the manager of the ENR Association to provide intensive training on the following topics: i) roles & responsibilities of the manager, ii) communication with the managerial board, iii) membership benefits & activities, iv) transparency of work and good communication, v) involvement of the managerial board and members, and vi) tasking members with assistance and activities when necessary.

Sales & Marketing Training: In May 2007 Mercy Corps and the Rasina Regional Chamber of Commerce organized sales and marketing training for ENR members. The training was held at the RCC premises in Krusevac and facilitated by the TANGO business and marketing consultants. The workshop facilitated the development of a draft plan for the formal marketing of ethno-products; provided a discussion forum for quality, pricing, and product lines; and identified organizations, institutions and private companies that would support and provide local markets and promotion of ethno-products. The outcome of the seminar was draft versions of business and marketing plans which were later reviewed and approved by the members.

Registration of ENR as For-Profit Company: ENR management and Mercy Corps staff met with representatives of TANGO in June 2007 to discuss several issues related to the proposed organizational structure and Ltd registration. After beginning the registration process it became apparent that perhaps the association and its management was not prepared for the management and financial burdens required for the Ltd firm. As a result, the strategy was altered to, rather than immediately form the Ltd, to take two smaller initial steps: i) utilize the existing registered firms who are members of the association as sales outlets for all members; and ii) to register a separate small enterprise retail store whose sole purpose is to market the good of ENR. These options still allow the members to market their products for a profit, though without some of the full advantages of the Ltd. ENR is currently utilizing existing members with registered businesses to market its goods. A majority of members (95%) still express optimism at the future registration of the Ltd despite significant expenses and administrative obligations.

Quality Board: The association management board voted to establish a quality board for goods produced to ensure minimum and uniform quality of production for the various product lines.

Membership Fees: ENR members agreed to a 200 dinar/month membership fee paid to the association to cover basic operational and administrative expenses for maintaining their office and activities. Though a relatively nominal amount, the association will generate further revenues from commissions on sales at organized events and through the Raw Material Revolving Fund (presented below).

Raw Material Revolving Fund: The design consultant developed a financial plan to provide ENR with a far more sustainable source of income for the association and its activities. The scheme relies on purchasing raw materials at wholesale prices and reselling the materials to the members at higher rates than those paid, yet lower than members currently pay at retail outlets. Initial figures show that the revolving fund (initially \$5,000) can be increased by 10% to 15%, or approximately \$750, each time the fund "revolves." As a result, it is in the association's interest to sell more raw materials to members, which in turn encourages the association to help members market their goods so more can be produced.

Raw Material Revolving Fund Pricing Scheme						
Name	Price VAT-Free (Mercy Corps Initial Cost)	With 18% VAT (ENR Future Cost)	Price plus:			Retail Price
			+15%	+20%	+25%	
Una	44,00	51,92	60,00	62,30	64,90	85-100 dinars
Nova	52,00	61,36	70,56	73,63	76,70	85-105 dinars
Sculgarn	30,00	35,40	40,71	42,48	44,25	60-75 dinars
Tina	32,00	37,76	43,50	45,31	47,20	75-95 dinars
Glicer	48,00	56,64	65,13	68,00	70,80	95-110 dinars
Perigran	18,00	21,24	24,42	25,50	26,55	45-50 dinars

Revolving Fund Figures: According to research and buying experience the price difference between retail and wholesale outlets for raw materials was higher than expected, generally 50%-60% and reaching up to 150% for some sale products. A percentage is added to every wholesale price as shown in the table, resulting in a source of revenue for

the association. The final price for members is not be less than 30% lower than in retail shops. Any increase above the lowest discounted level can continually increase the amount of money in the fund. These funds can be used for future events, salaries for managers and consultants, and other expenses.

Office Space: The municipality of Krusevac agreed to provide ENR with 35m² of office in the center of the city free of charge for a period of three years. The center serves as an office, display gallery, sales outlet and space for raw material storage and distribution. The space authorization papers have been signed with the municipality and the space was renovated with an investment aided by CRDA-E. Basic furnishings were donated to ENR from the Mercy Corps office during the closeout of the CRDA project.

Cooperation with Regional Chamber of Commerce: The Krusevac Chamber has been instrumental in assisting ENR with organizational development activities. In addition to numerous formal and informal consulting services and legal advice, the Chamber will host an exhibit space in their new premises. In cooperation with the National Labor Bureau, the Chamber will engage up to two persons (a lawyer and administrative assistant) to assist the work of ENR Association for the upcoming year. [This recent practice in many Serbian municipalities provides young people with job experience for which they are paid nominal salaries to help the city.] The Chamber enlisted the support of their web designer to create the ENR website (www.etnomrezarasina.org), CD presentation and promotional catalog. Currently, the Chamber is working with ENR to develop an action plan for future cooperation that includes networking, establishing contacts with prospective clients, providing logistical support for purchases and deliveries of products and raw materials, and assisting promotional materials and events. The Chamber will continue to provide support and services to ENR after Mercy Corps completes its current mission.

3. Education

Training & Production Workshop: The Community College in Krusevac provided ENR with a 36 m² work space which will serve as both a production space and training room for ENR members and local citizens. ENR and the Community College have signed an agreement which defines the roles and responsibilities of both parties, outlining equipment usage terms; maintenance responsibilities; and planning and organizing sewing, looming and ceramic courses for both ENR members and interested citizens. The basic principles of the agreement included that: i) Community College will provide the workshop space free of charge through 2008; ii) Mercy Corps will donate to ENR pottery, sewing and looming equipment as planned; iii) after 2008, if ENR is allowed to stay in the premises, Community College will assume ownership of one pottery wheel and kiln; iv) ENR and the Community College will share the equipment – ENR for its activities and training, and Community College may use the equipment for its fee-based training activities.

Gold Thread Embroidery: In May 2007 the Belgrade Ethnographic Museum provided a gold embroidery course to ten ENR members, hosted by the ENR member, Jefimija orphanage in Krusevac. The six-day course combined sessions of basic and advanced embroidery techniques. This traditional and near-forgotten technique was used in Serbia's past for creating beautiful designs on clothes using gold thread; today it can be found only in museums and on the clothes of folklore groups who promote the traditional folklore dance and music of Serbia. There are few people in Serbia left who know this technique, which become apparent when searching for a knowledgeable educator for this course. All members who attended this course received a trainer's certificate and now are certified trainers themselves, which is a very important and marketable service for the ENR association.



Looming: In June 2007 local trainer Sanja Sarcevic (a looming expert from Belgrade) provided a looming course to ten ENR members from seven groups, combining both basic and advanced techniques. The ten-day course took place at the ENR production space in the Community College in Krusevac. All trainees, even those with limited or no prior experience, showed great interest and enthusiasm for this course. Ms. Sarcevic is very famous in this technique and she taught them many techniques including time-saving tips such as saving time in preparing the loom (they learned to cut the time from eight hours to just four). Trained members plan to provide a similar course to all other members interested in learning the looming techniques. Trainees also expressed interest in joining in some cooperative effort with Ms.

Sarcevic. All trainees received the book *Bible of Looming* and learned how to read and use patterns and designs from book in creating their own products.

Ceramic Course: In June 2007 independent trainer Marija Milin provided a ceramic course to ten ENR members from six groups. The eight-day course took place at ENR space in the Community College in Krusevac and focused on producing ceramics on pottery wheels. Since no members were currently producing ceramic products, this course was especially useful in helping diversify skill sets and providing the skills for producing new product lines. Participants learned both basic and advanced techniques in ceramic including how to use pottery wheels and ceramic ovens, and how to recycle ceramic materials for reuse. All trainees received an instruction manual. As a result of the training, many members have begun producing ceramic products.

Production Equipment Donation: Through the Phoenix Fund, Mercy Corps procured ceramic stoves and pottery wheels, industrial and specialized sewing equipment, and looms at a total cost of \$27,000. Nearly all of the equipment had separate specifications, meaning that almost no two donations were identical, thereby providing: i) a much higher level of capability to produce different items and techniques; ii) a degree of specialization between members; and iii) a system of reliance and orders between members for specialized intermediary products. The table to the right summarizes the equipment donations.

Ethno-Network Rasina Equipment Grants			
Production Machine	Quantity	Location	Client
Ceramic Stove	2	Krusevac	ENR Production Space
	1	Cicevac	Red Cross NGO
	1	Aleksandrovac	Razlicak Business
	1	Krusevac	Jefimija Orphanage
Pottery Wheel	1	Vrnjacka Banja	Riznica NGO
	5	Community College	ENR Production Space
	1	Cicevac	Red Cross NGO
	1	Krusevac	Jefimija Orphanage
Loom	8	Krusevac	ENR Production Space
	1	Cicevac	Red Cross NGO
	1	Krusevac	Agro Mreza NGO
	4	Krusevac	ENR Production Space
Sewing Machine	4	Krusevac	ENR Production Space
	2	Krusevac	ENR Production Space
	1	Krusevac	Etnos Business
	1	Krusevac	Svilen Konac Informal Group
	1	Trstenik	Jefimijin Vez NGO

4. Design & Marketing

Design Consultant: Mercy Corps contracted a local design & marketing consultant to do assess the level of product offerings, ascertain the need for a dedicated design consultant, determine the products with the greatest market potential, and propose new designs and enhancements in present product offerings that will appeal to target markets. The consultant produced over 100 original sketches for modern ethno clothing with a focus on retaining the hand-crafted quality; the consultant continues to provide ongoing design consulting on an individual basis, providing guidance on quality improvements of crafts and souvenirs, packaging, and branding and labeling.

Packaging Improvements: The design consultant provided numerous improvements in the packages for the members' products. One example is replacing plastic bags for jewelry with quality cardboard triangular boxes with decorative colored stripes and labeling. The consultant trained the Jefimija orphans to produce the packages which will provide a cost savings for members as well as a source of income for the orphanage.



Quality Improvements: The quality of ethno-products has also visibly improved. The Crocy Company in Krusevac (ENR member) has agreed to provide sewing services and use of industrial equipment at a discounted rate for members, resulting in significant quality improvements. The recent delivery of equipment procured through the Phoenix Fund presented prior will continue to provide improvements as well as significantly more efficient production techniques.

Target Market Development: The design consultant advised ENR members to focus less on quantity and more on producing marketable products. One of the greatest tests for ethno product marketing occurred at

the tourism fair held from April 26-29 in Belgrade where the ENR was successfully sold products and established market and cooperation. In May and June 2007, the local design consultant established contacts with prospective clients such as tourism organizations, hotels, tourism households, and cultural centers. The organization regularly receives orders from the the tourism organization in Kragujevac.

5. Promotion

Promotional Materials: In cooperation with the Krusevac Regional Chamber of Commerce, ENR now has numerous quality promotional materials, including a website (www.etnomrezarasina.org), CD presentation and promotional catalog. The association and its activities have been highly promoted in the region through electronic and print media, including numerous television appearances.

Promotional Events: Members participated in 29 events organized and attended by Ethno-Network Rasina; total sales generated at these events was 570,780 dinars, compared with expenses to attend the events of 495,600 (approximate exchange rate = 60 dinars/USD). Promotional events included tourism, souvenir, and ethno fairs (including the Belgrade Tourism Fair); Women's Day with Princess Katarina; and fashion shows (including the highly publicized and attended show in Belgrade, organized by Ethno-Network Serbia).

Monitoring & Evaluation

Summary: A full report on the progress against all indicators is presented in the Phoenix Fund final report. The conclusions and recommendations are summarized below:

Assessment: The planned assessments were completed and proved invaluable first steps throughout the remainder of the project duration. Both databases were updated regularly and referred to repeatedly; both the organization and Mercy Corps staff came to realize the value of these assessments early in project planning.

Organizational Development: The association is functioning and its members are working cooperatively to fill orders and increase their business. The association is, however, still young and struggles with the issues which affect many similar startups, particularly those such as this with many members and competing interests. It was originally anticipated that ENR would form a Cooperative, which arguably is the most logical model but was not desired by the members. Alternatively, an association is simple to register and manage, but it cannot conduct business per se or realize profits. This led to the organizational structure previously presented whereby the members form an association and that association is the sole owner of a limited liability partnership (Ltd). This model, however, places a high financial burden on the members. At present, ENR has solved the issue by selling products through registered member businesses.

Recommendation: One wise decision made by the Mercy Corps team was to involve trained business and legal consultants in the initial stage of development to review potential organizational models with the members and management and advise them on the legal intricacies of the various possibilities. Listening to the members and their needs resulted in a high degree of buy-in by the clients.

Organizational Development – External: The initial level of support for ENR from CRDA-E was \$10,000, which was invested almost exclusively on promotional activities to increase the exposure for the products. This practice led to two later challenges when the Phoenix Fund grant was awarded and the budget increased:

- Though arguably effective in increasing incomes in the short-term, the strategy did little to help the organization develop a long-term vision and prepare it for self-sustainability. When the team began working with the increased budget, ENR members were not as yet organized in any official capacity and virtually lacked any organizational skills. This lack of developed capacity caused setbacks in schedule and lowered expectations of results as the team had to essentially start from the beginning.
- The promotion events organized required levels of coordination and preparation, which up to that point had been essentially managed by a single Mercy Corps staff member. This set a precedent of Mercy Corps providing not only financial support to ENR, but a system whereby Mercy Corps was managing and providing all organizational and logistical support as well. With the Phoenix Fund investment, management and the team required that the members begin implementing tasks themselves, a practice which was often a struggle for the staff members. Despite efforts to reverse this expectation, ENR management sometimes still operates under the presumption that certain tasks should be Mercy Corps responsibility (despite the fact that both CRDA and Phoenix Fund activities are complete).

Belgrade Hyatt Hotel Fashion Show



Fashion shows offer unique and highly visible promotion venues. The June 2006 show at the Hyatt Hotel in Belgrade was attended by top representatives of the fashion industry in Serbia. ENR participated in eight fashion shows, and used the shows as supporting activities for other community events.

Recommendation: The implementing partner should resist providing support to fledgling organizations with the aim of increasing short-term incomes. The organizations are likely better served by the implementer investing first into helping develop a strong and functional organization. Related to this, it is probably more effective to work with more developed organizations at the start; or in the case of facilitating new organizations such as ENR, to task them with developing a foundation prior to financial interventions, and assisting them with training and overseeing implementation objectives that they meet on their own initiative.

Organizational Development – Internal: As the organization developed the importance for strong leadership and vision became increasingly clear. The organization has 109 members from nine separate organizational entities, plus individuals. The leaders of these entities, especially the three businesses, are clearly the most qualified to manage the association, though they also lack the incentive because of their existing responsibilities. No clear leader has emerged with the willingness and vision to manage the association; the current interim president, elected by the members, likely lacks the capacity. Further to all of this are the often conflicting priorities and interests of the 109 separate members and nine different organizations. Though a solid foundation has been laid, the organization needs improved skills and leadership at the management level to grow into a successful enterprise.

Recommendation: This recommendation involves the implementer's role in a client's course of action. While in many cases ENR management recognized the logic in consultant recommendations, in other cases they chose to forego the recommendations and pursue a different course that may not be in the organization's long-term best interest. Ultimately, both the decisions and success of ENR are in their hands. With this project, Mercy Corps has attempted to provide ENR and its management with the most sound consulting available but has given the association the freedom to act on its own will and interest with no interference or interruption of support should they differ. For startup organizations such as ENR, perhaps the luxury of additional time would allow the organization to evolve in a more organized manner, rather than pushing organizational development to happen at a rapid pace to coincide with donor goals.

Education: All training and education goals were met with the exception of consolidating training centers and workshops to the one in Krusevac. Improvement of basic business and computer skills of the organization's management are needed. The Microsoft Office course in late August will help, though probably not sufficient for long-term needs of the organization. It had been expected that the elected management would possess stronger business and management skills.

Size & Scope: Ethno-Network began with the plan of a Serbia-wide network of handicrafts producers; this plan was supported by four of five CRDA implementing partners that covered the majority of the country. However, the approaches were not uniform, the vision was often not shared among all the partners and stakeholders, the type and degree of investment was not consistent, and there was minimal coordination. In the end, however, none of this is necessarily negative. Eventually USAID stepped in and conducted an assessment of the initiative through the Serbian Enterprise Development Program (SEDP). The assessment determined that:

Recommendation: "Rather than create an umbrella network, support a handful of commercially minded and entrepreneurial groups at the ground level. As these expand, they can absorb other individuals and groups. We believe that the probability of success will be higher if such a network is built from the ground up, rather than from the top down. It will take longer and is lower profile, but has a better chance of outlasting donor support." ENR fulfills this criterion; the question remains can the organization function in such a way that the margins necessary for sustaining the organization allow competitive pricing in the market. Until now, with their very low overhead (donated office space by municipality) and donor subsidies ENR appears to be competitively positioned.

Project Management & Closeout

CRDA Closeout: At the time of this writing, September 2007, the CRDA project has been successfully and completely closed down. All offices were closed, staff severed, assets liquidated and leases terminated. All official project, financial and procurement records were shipped to Mercy Corps Portland for storage. The financial books, covered separately, are complete and closed with the exception of a relatively small amount of accruals related to expatriate vacation benefits payout.

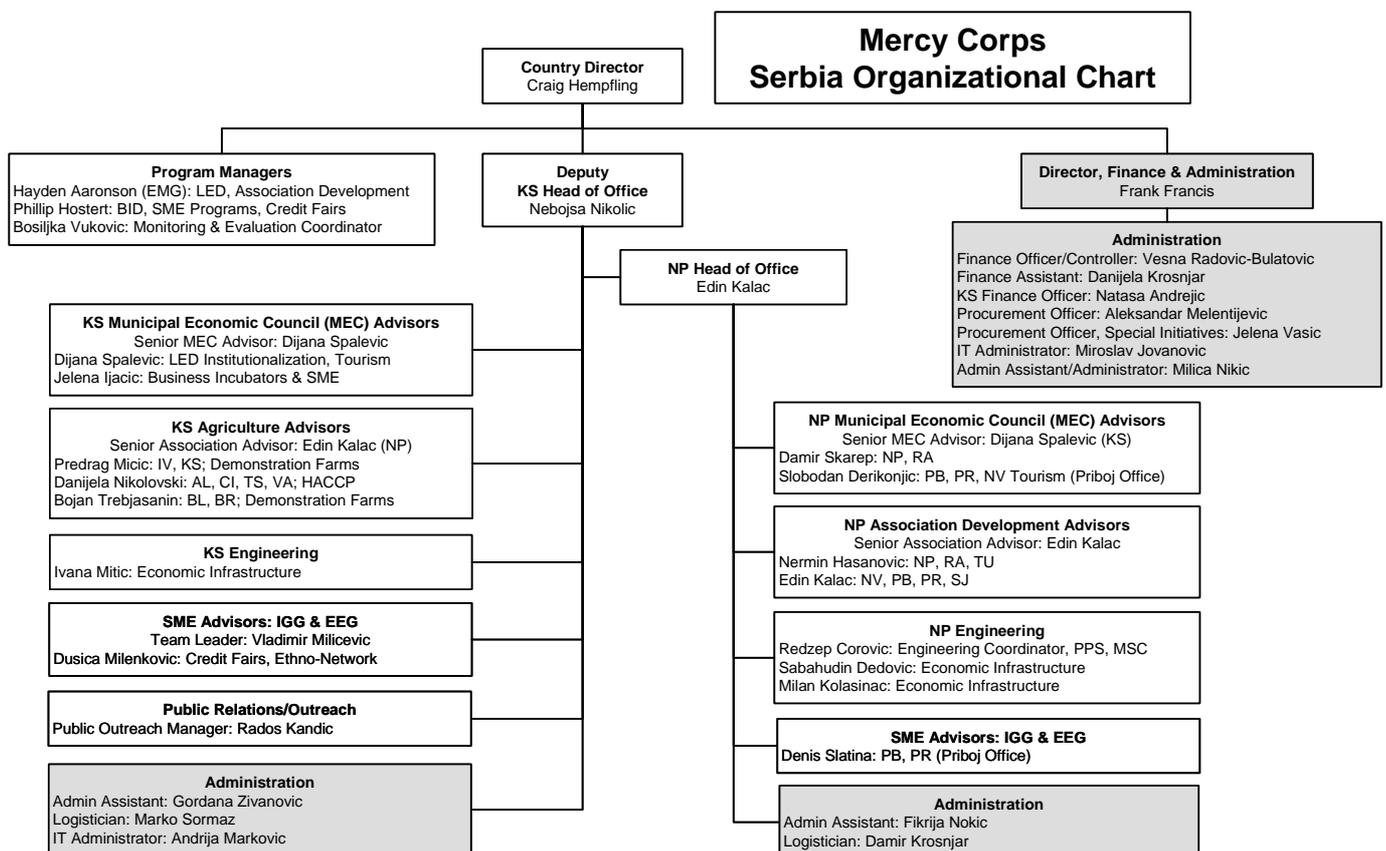
Project Completion: All CRDA and CRDA-E projects were completed prior to the July 14, 2007 cooperative agreement end date, though a handful of payments were made to vendors after this date. The Web-PRS system has been updated and checked for accuracy against the financial management and match accounting systems. Web-PRS is accurate and up-to-date and can be considered an accurate record of Mercy Corps CRDA and CRDA-E projects.

Office Closures: The Belgrade, Novi Pazar and Priboj offices were all closed on June 30, 2007. The Krusevac office remained open for CRDA closeout activities through July 31, 2007. One floor of the Krusevac office remains open to date for managing the USAID-funded *Case Study on Value Chain Development in Post-Conflict Environments* project, funded through the AMAP IQC mechanism.

Staff Attrition & Severance: Mercy Corps began severing redundant staff members in October 2006, beginning with much of the engineering staff. On June 30 the majority of the remaining staff members were terminated so that only a small core group remained for the final closeout up to July 15, 2007. While many of the staff members accepted new positions elsewhere in Serbia, the remainder was severed in accordance with local Serbian law and as approved by USAID. Of particular note, four staff members accepted positions on SCOPES, one was employed by MEGA, four were hired by UNDP's PRO project, and one was hired by USAID in their Novi Pazar office.

Asset Disposal: The four Jeep Cherokees purchased with USAID funds were auctioned in April and June 2007; the sales proceeds were returned to the CRDA program and invested in additional projects.

Organizational Chart: Below is the Mercy Corps CRDA-E organizational chart in the final months of the project.

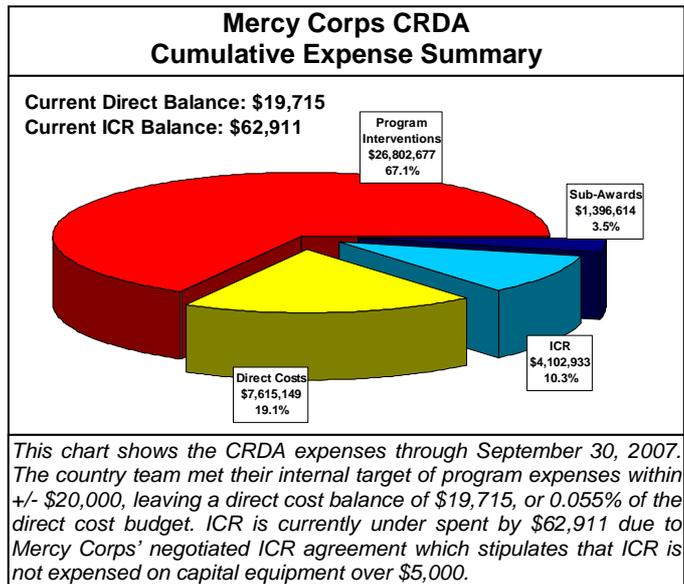


Financial Summary

Financial Performance: The chart to the right shows Mercy Corps expenses according to the four budget reporting line items and our financial performance for implementing CRDA. The tables below outline our expenditures and accruals.

Financial Management: Since the inception of CRDA:

- 67% of billed expenses, nearly \$27 million, were spent on direct investment into the projects described in this report.
- Over 90% of CRDA-E expenses were invested into economic development activities, with Community Fair activities and payments of delayed or delinquent projects accounting for the remainder.
- Documented matching contribution is nearly \$19 million.
- Mercy Corps cost share will be met once remaining accruals have been cleared. Mercy Corps Phoenix Fund grant for Ethno-Network Rasina supplemented CRDA-E activities in the amount of \$49,500.



Mercy Corps CRDA Project Expenditures

Award Number: 169-A-00-01-00125-00
 Reporting Period: 10/1/05-3/31/06

Line Item Description	Budget	Prior Period Expenses 12/31/2006	Current Quarter Expenses 07/01/07-09/30/07	Cumulative Expenses 07/15/01-09/30/07
Direct Costs	7,705,950	7,221,505	343,491	7,564,996
Contractual/Sub-Grants	1,396,614	1,396,614	---	1,396,614
Program Interventions	26,731,591	25,312,076	1,258,428	26,570,503
Total Direct Costs	35,834,156	33,930,194	1,601,919	35,532,113
Indirect Costs	4,165,844	3,928,037	159,873	4,087,911
Total USAID Contribution	40,000,000	37,858,232	1,761,792	39,620,024
Total Cost Share	315,390	251,383	45,879	297,262
Total Activity Costs	40,315,390	38,109,615	1,807,672	39,917,286

Mercy Corps CRDA Accruals

Award Number: 169-A-00-01-00125-00
 Reporting Period: 1/4/07-6/30/07

Reporting Period: 1/4/07-6/30/07 Line Item Description	Budget	Cumulative Expenses	Sep 30, 2006 Accruals
			Total Obligated
Direct Costs	7,705,950	7,564,996	5,394
Contractual/Sub-Grants	1,396,614	1,396,614	---
Program Interventions	26,731,591	26,570,503	---
Total Direct Costs	35,834,156	35,532,113	5,394
Indirect Costs	4,165,844	4,087,911	809
Total USAID Contribution	40,000,000	39,620,024	6,203
Total Cost Share	315,390	297,262	---
Matching Contributions	6,313,391	18,907,418	---
Total Activity Costs	46,628,781	58,824,704	6,203

Annex Bibliography

This bibliography includes all of the reports, assessments, studies and newsletters prepared and previously submitted to USAID in prior semi-annual and annual reports, plus any recent additions. Brochures, promotional materials, success stories, news clippings and policy guidelines, many of which were included in prior reports, are generally not included. Should any reader require a copy of documents listed below or any of those types not included below, contact either Mercy Corps' Serbia or Portland offices.

Each of the activities outlined in this report also has associated with it a logical frame matrix and Gantt chart schedule, as well as either a work plan or concept paper prepared by the Program Manager responsible for the project and used as a management tools to track and evaluate activity performance against the plan. In addition, most of the program activities also had a number of tools, brochures, applications, and assessment forms. Client databases with profiles and contact information are also available for all activities. Though they are too numerous to list here, Mercy Corps encourages the sharing of these resources and will gladly make them available to readers with interest.

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3. Dairy Sector Value Chain Situation & CRDA Impact Assessment: Southern Serbia 2001-2007. Author: Hayden Aaronson; Editor: Craig Hempfling. July 2007.
4. Serbia CRDA Project LED Activity Monitoring & Evaluation Assessment Report. Author: DCG Consulting Group. July 2007.
5. Comparative Analysis of the Community Attitudes and Behaviors Survey (CABS) Data, Mercy Corps CRDA Assessment, Oksana Chikina, Fall 2004.
6. Design, Monitoring & Evaluation Guidebook. Mercy Corps. August 2005.
7. USAID Memorandum of December 5, 2003 from Art Flanagan, GDO Officer to CRDA COPs and M&E Units; Subject: Basis for Calculating Person Months Resulting for Economic Projects, Construction Contracts, and Commodities.
8. ADF Memorandum of November 9, 2004 from ADF to CRDA Econ Pillar Discussion Group; Subject: Agreements Reached at Oct 18 meeting (CHF Belgrade) on USAID Economic Pillar Indicators: Employment Generated, Increase in Agricultural Sales, and Additional Income Generated.
9. Collection of M&E Indicators Summary Sheet for CRDA, undated and unaddressed with content similar to USAID and ADF memorandums.
10. CRDA Monitoring & Evaluation: Principles, Concepts and Practical Implementation of Performance Measurement, ADF, May 2003.
11. ADF/CRDA Performance Measurement Plan and Tools.
12. ADF/CRDA Performance Data Table, October 2005.
13. Scopes of Work: M&E Scopes of Work for all of the above assessment initiatives.

Activity & Program Reports

14. Seizing Markets through Saving Traditions: Ethno-Network Rasina. Phoenix Fund Final Report. Authors: Dijana Spaljjevic & Ivana Stevanovic; Editor: Craig Hempfling. August 2007.
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16. Fruit & Livestock: Helping Producers be Competitive in Southern Serbia through CRDA. Economic Development Input for Year 4 Work Plan. Attachment in 2005 Work Plan. October 2004.
17. CRDA: Options for Restructuring the Economic Pillar. Attachment in 2005 Work Plan. DTT Emerging Markets, Ltd., Joe Dougherty. September 2004.
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19. Strategy for CRDA Reproductive Health & Family Planning Earmark Activities CRDA Year 4. October 2004.

20. Reproductive Health Care Strategy Paper. 2003.
21. Family Planning Reproductive Health Report. 2003.
22. CRDA Annual and Semi-Annual Program Reports. 2001-2007.

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23. LED Monthly: Mercy Corps Serbia Local Economic Development. "CRDA in Transition" Issue. March 2005.
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28. Mercy Corps CRDA Strategy 2005: An Integrated Approach to Community Economic Prosperity. Strategy book outlines all components in 2005 CRDA-E portfolio. February 2005.
29. Community Mobilization in Urban Centers: Community Fairs & Participation in Cities. Michelle Rebosio, Mercy Corps. 2004.

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32. EUREPGAP Basics. Emerging Markets Group. Attachment in 2005 Work Plan.
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34. Business Incubator Center Prokuplje: Tenant Selection Strategy. Timok Club. December 2006.
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Annex

Web-PRS Reports



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Total Number of Projects			
Report date: 05-Oct-2007		Upon request of: Craig Hempfling	
Grouped by grantee			
CRDA Grantee	MC	Republic	Serbia
District	All	Municipality	All
 GO TO CHARTS			

MC	
Project Status	Number of projects
Completed	1,318
Cancelled	55
MC number of projects: 1,373	
Grand Total number of projects: 1,373	



Number of Communities, Municipalities and Clusters			
Report date: 05-Oct-2007		Upon request of: Craig Hempfling	
CRDA Grantee	MC	Republic	Serbia
District	All	Municipality	All
 GO TO CHARTS			

Communities		
Grantee	Number of Communities	Total Population
MC	170	747,411

Clusters		
Grantee	Number of Clusters	Total Population
MC	44	426,542

Municipalities	
Grantee	Number of municipalities
MC	18

Note: In certain cases, clusters can be made up by all communities within a particular municipality or by all communities within one NGO's area of responsibility.

Click [here](#) to see detailed lists of communities and clusters

Grand total number of communities: 170
Grand total number of municipalities*: 18
Grand total number of clusters: 44

(*) This is the number of currently active municipalities that have projects entered in Web-PRS.

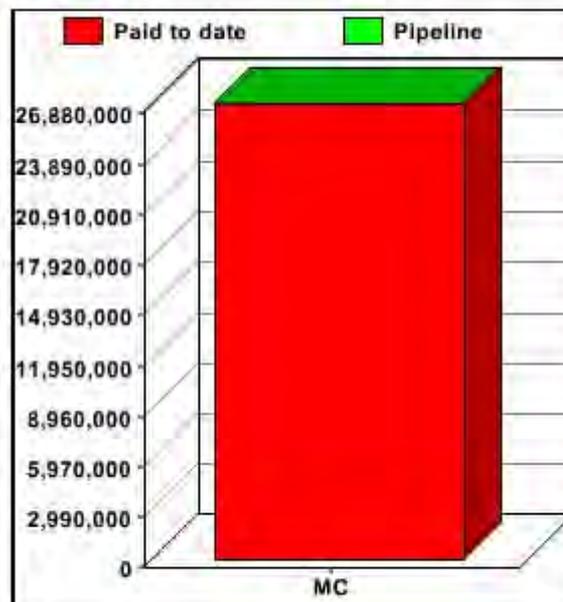


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Project Total Payment Report			
Report date: 07-Oct-2007		Upon request of: Craig Hempfling	
CRDA Grantee	MC	Republic	Serbia
District	All	Municipality	All
 GO TO CHARTS			

MC		
CRDA Share	Paid to date	Pipeline
\$26,881,169.86	\$26,881,169.85	\$0.00
Grand Total		
\$26,881,169.86	\$26,881,169.85	\$0.00





Reproductive Health Report			
Report date: 05-Oct-2007		Upon request of: Craig Hempfling	
CRDA Grantee	MC	Republic	Serbia
District	All	Municipality	All
 GO TO CHARTS			

Grantee	Number of projects	USAID funds	Total contracted	Total paid	Total counterpart contribution
MC	21	\$684,063.23	\$665,571.73	\$687,182.18	\$154,138.89
Grand Total Reproductive health: 21 Grand Total Spent: \$684,063.23					



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Beneficiaries Report by Gender			
Report date: 05-Oct-2007		Upon request of: Craig Hempfling	
Grouped by Gender			
CRDA Grantee	MC	Republic	Serbia
District	All	Municipality	All
 GO TO CHARTS			

MC			
Number of projects	Male	Female	Total
1,318	2,237,188	2,522,118	4,759,306

Grand Total Male: 2,237,188
Grand Total Female: 2,522,118
Grand Total: 4,759,306
Grand Number of Projects:
1,318

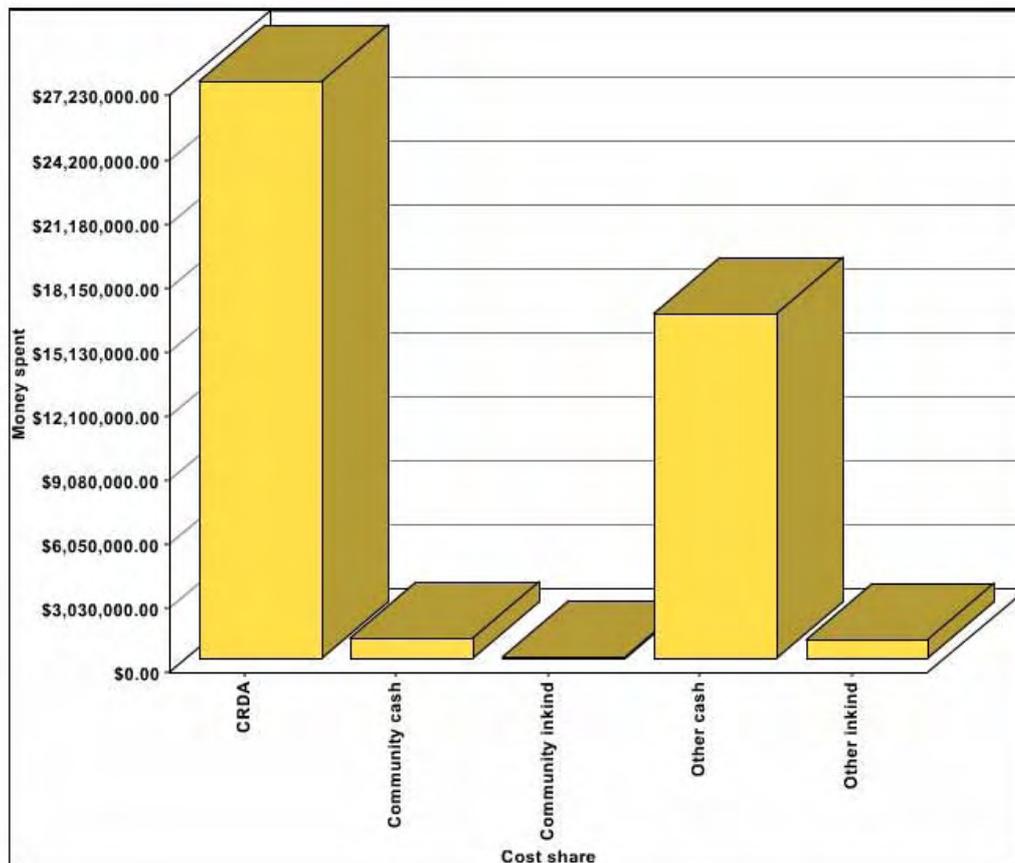


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Cost Allocation Report			
Report date: 05-Oct-2007		Upon request of: Craig Hempfling	
CRDA Grantee	MC	Republic	Serbia
District	All	Municipality	All
 GO TO CHARTS			

CRDA Share	Community cash contribution	Community inkind contribution	Other cash contribution	Other inkind contribution	Total Cost
MC					
\$27,229,379.33	\$2,903,333.53	\$254,250.24	\$16,332,668.90	\$918,583.38	\$47,638,215.38
Grand Total					
\$27,229,379.33	\$2,903,333.53	\$254,250.24	\$16,332,668.90	\$918,583.38	\$47,638,215.38





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Indicator Report - Summary			
Report date: 05-Oct-2007		Upon request of: Craig Hempfling	
CRDA Grantee	MC	Republic	Serbia
District	All	Municipality	All

Code	Description		Impact*	Unit	
2.1.1.1	Number of projects implemented by the committee	[Excel detailed view]	887	project	
2.1.1.2	Beneficiaries of improved social and economic infrastructure	[Excel detailed view]	4,330,137	people	
2.1.1.3	Beneficiaries of improved environmental infrastructure	[Excel detailed view]	429,251	people	
2.1.1.4	Employment created	[Excel detailed view]	70,649	71,556	person/month
2.1.1.5	Additional income generated	[Excel detailed view]	17,641,268	17,439,718	\$
2.1.1.6	Increase in agricultural sales	[Excel detailed view]	29,253,314	22,519,184	\$
CRDA-E IR 1.1	Number of full time equivalent jobs (FTE) created	[Excel detailed view]	0	0	jobs
2.1.1.7	Increased access to family planning and reproductive health services in communities	[Excel detailed view]	21		project
2.1.4.1	Minorities or women comprise at least 30% of community committee membership	[Excel detailed view]	41 of 121 (33.88%)		committees
2.1.4.2	Number of cluster projects	[Excel detailed view]	140		project

To view detailed data for each indicator, please click on indicator description.

***Note:** For Indicators 2.1.1.4, 2.1.1.5, and 2.1.1.6, the left subcolumn contains 'Current' and the right subcolumn contains 'Target' figures.