



USAID
FROM THE AMERICAN PEOPLE



EVALUATION

Mid-Term Performance Evaluation of the USAID/ Kosovo Loan Portfolio Guarantee (LPG) Project with Raiffeisen Bank JSC

July 5, 2012

This publication was produced by Weidemann Associates, Inc. for review by the United States Agency for International Development under Rural and Agricultural Incomes with a Sustainable Environment (RAISE) PLUS Contract No. AID-AEG-I-OO-04-00010, Task Order No. 38.



USAID | **KOSOVO**
FROM THE AMERICAN PEOPLE

MID-TERM PERFORMANCE EVALUATION OF THE USAID/KOSOVO LOAN PORTFOLIO GUARANTEE (LPG) PROJECT WITH RAIFFEISEN BANK JSC



June 26, 2012

This publication was produced for review by the United States Agency for International Development. It was prepared by Mendez England and Associates

**Mid-Term Performance Evaluation of the USAID/Kosovo
Loan Portfolio Guarantee (LPG) Project with Raiffeisen
Bank Kosovo JSC**

Final Report

Prepared under RFTOP No. SOL-167-12-000011

Submitted to:

USAID/Kosovo

Submitted by:

Tom Easterling (Team Leader)
Laura Qorlaze (Finance and Budget Analyst)

Contractor:

Mendez England & Associates
4300 Montgomery Avenue, Suite 103
Bethesda, MD 20814
Tel: 301- 652 -4334
www.mendezengland.com

DISCLAIMER

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

CONTENTS

EXECUTIVE SUMMARY	1
1.0 INTRODUCTION.....	3
1.1 Evaluation Data Limitations.....	4
1.2 Acknowledgement.....	4
2.0 BACKGROUND.....	5
2.1 Development Credit Authority, DCA	5
2.2 USAID/DCA Loan Portfolio Guarantee with RBK	5
2.3 Other USAID/DCA Loan Guarantee Programs in Kosovo.....	6
2.4 Overview of the Kosovo Economy	7
2.4.1 Dependence on foreign aid and remittances	7
2.4.2 Foreign Direct Investments.....	7
2.4.3 Development of Micro, and Small and Medium Enterprises (SME)....	8
2.4.4 Trade	8
2.4.5 Agriculture	9
2.5 Overview of Kosovo’s Banking Sector.....	9
2.5.1 The Micro Finance Institutions (MFI) Sector.....	10
3.0 ANALYSES.....	11
3.1 Implementation Effectiveness	11
3.1.1 Effectiveness of Project Management Team	11
3.1.2 Rapid Entry into the Market for Agro Lending	12
3.1.3 RBK Policy Changes under the DCA.....	13
4.0 IMPLEMENTATION IMPACT.....	17
4.1 Direct Impact – Quantitative and Qualitative Impact	17
4.2 Secondary Impact	18
4.2.1 Impact on Incomes and Employment	18
4.2.2 Impact on Ethnic Minority Groups in Kosovo	19
4.2.3 Impact on Females	20
4.2.4 Impact on Agro Lending by Other Commercial Banks in Kosovo ...	21
5.0 SUSTAINABILITY OF FINANCIAL ACTIVITY.....	23
5.1 Sustainability of RBK’s Lending Activity with Small-Scale Clients in the Agriculture Sector	23
5.2 Sustainability of RBK Agro Loans after the DCA Loan Guarantees End.....	24
5.3 Sustainability of RBK’s Small-scale Agricultural Borrowers	24
6.0 PROJECT RELEVANCE	25
6.1 Relevance of the LPG Project.....	25
6.2 Relevance to USAID/Kosovo’s Country Development Strategy	30
6.3 Relevance to Kosovo’s Economic Development Priorities	26

7.0	SUMMARY OF FINDINGS, CONCLUSIONS, RECOMMENDATIONS	27
7.1	Summary of Findings.....	27
7.2	Conclusions.....	28
7.3	Recommendations.....	30

ANNEXES

ANNEX 1:	Sources of Information	32
ANNEX 2:	Work Calendar.....	35
ANNEX 3:	Evaluation Work Plan (Including Evaluation Questionnaires, Checklists, and Discussion Guides).....	38
ANNEX 4:	Evaluation Report Draft Outline.....	46
ANNEX 5:	Illustrative Interview Questions.....	49
ANNEX 6:	People Met	62

TABLES

Table 1:	RBKs Key Financial Indicators
Table 2:	Kosovo's Main Economic Indicators
Table 3:	Trend of Exports and Imports 2006 - 2011
Table 4:	Trend in Lending
Table 5a:	Interest Rate for Agro Loans (DCA)
Table 5b:	Interest Rate for Agro Loans (Agro & Other Micro)
Table 6:	Cost of DCA LPG / \$1 Million Guaranteed Amount
Table 7:	Summary of Survey Results
Table 8:	DCA Loans Split by Threshold Amounts
Table 9:	DCA Loans by Tenure
Table 10:	DCA Loans Split by Type of Borrower
Table 11:	Agro Loans by Sub-Sector
Table 12:	Impact of DCA Loan on Employment and Income by Sector
Table 13:	Estimate of Employment and Income Generated from DCA Loans
Table 14:	Estimate of Number of Ethnic Minority Benefiting from DCA Loans
Table 15:	Estimate of Percentage of Ethnic Minority Benefiting from DCA Loans
Table 16:	Estimate of Percentage of Females Benefiting from DCA Loans
Table 17:	Estimate of Impact of DCA Loans on Female Loan Co-Signers
Table 18:	RBKs Agro Loans vs PCBs Agro Loans
Table 19:	RBKs Agro Borrowers 2007 - 2011
Table 20:	RBKs Agro Loans 2007 - 2011
Table 21:	Defaulted RBKs Agro Loans Under DCA
Table 22:	Loan History of Borrowers Surveyed

FIGURES

- Figure 1: Split of FDIs by Sector
- Figure 2: Agriculture Trade Deficit 2006 - 2011
- Figure 3: MFIs Loans vs Banks' Loans
- Figure 4: Structure of Micro-Lending Officers
- Figure 5: DCA Loan Disbursement
- Figure 6: Collateral vs Loan Amount

ACRONYMS

AMIK	Association of Micro-finance Institutions of Kosovo
BKT	National Commercial Bank, Albania (Banka Kombëtare Tregtare)
CBRK/CBK	Central Bank of Republic of Kosovo
CEE	Central and Eastern Europe
CEO	Chief Executive Officer
CMS	DCA Credit Monitoring System database
DCA	Development Credit Authority
EBRD	European Bank for Reconstruction and Development
EU	European Union
EDP	Economic Development Plan
FTE	Full-time equivalent (employment)
FY	Fiscal Year
GOK	Government of Kosovo
ha	Hectare
IQC	Indefinite Quantity Contract
KBA	Kosovo Bankers' Association
KCBS	Kosovo Cluster and Business Support project
LPG	Loan Portfolio Guarantee
MFI	Micro Finance Institutions
MAFRD	The Ministry of Agriculture, Forestry and Rural Development
NGO	Non-Governmental Organisations
NLB	New Ljubljana Bank, Slovenia (Nova Ljubljanska Banka)
NOA	New Opportunities in Agriculture project
PMP	Performance Monitoring Plan
PCB	ProCredit Bank
RZB	Raiffeisen Central Bank Austria AG (Raiffeisen Zentralbank Österreich AG)
RBK	Raiffeisen Bank of Kosovo
RFTOP	Request for Task Order Proposal
SMEs	Small and Medium Enterprises
TEB	Turkish Economic Bank (Türk Ekonomi Bankası)
UNMIK	United Nations Mission in Kosovo
UN	United Nation
US	United States of America
USAID	United States Agency for International Development
USG	United States Government
WB	The World Bank

EXECUTIVE SUMMARY

This is a report on the mid-term evaluation of the USAID/Kosovo Loan Portfolio Guarantee (LPG) project with Raiffeisen Bank Kosovo JSC (RBK). The LPG project is presently being carried out by USAID/Kosovo in collaboration with RBK and with the support of the USAID/Development Credit Authority (DCA) in Washington, DC.

The evaluation was conducted during the period of May – June, 2012, by a team of two international consultants that consisted of an Agribusiness Specialist and a Finance and Budget Analyst. The main objective of the evaluation was to analyse the LPG project in terms of its effectiveness, impact, relevance, and the sustainability of its agricultural and agribusiness lending program. Secondary objectives were to determine: 1) the LPG project's effect on employment and economic growth in the agriculture and agribusiness sub-sectors; and 2) RBK's performance in lending to these sub-sectors compared to the performance of other banks.

Summary of Findings

1. The USAID/Kosovo's LPG project has had an impact on agro-lending that far exceeds the amount of its exposure and its program costs. The USAID-supported training helped RBK, Kosovo's second largest bank, to expand its loan program into agriculture and agribusiness. RBK's senior bank management is fully committed to the DCA loan guarantee program and this commitment has filtered down to the bank's operating staff. Furthermore, all the major commercial banks in Kosovo are now actively seeking to expand lending to the agriculture and agribusiness sectors.
2. USAID/DCA expenditures are highly leveraged and provide a large multiplier effect on available agro-lending. The LPG project encouraged lending to the agricultural sector at a critical time. RBK's initiation in agro-lending was a break-through in Kosovo.
3. RBK modified its agro-lending policy to change its classification of agro-lending from a restricted market to a target market. The interest rate policy adopted by RBK for DCA-guaranteed loans was to reduce its interest rate for agro-loans by 1% compared to non-agro commercial loans of similar size. However, RBK has made no changes to its requirements for collateral applicable to agro-loans.
4. Despite some difficulties encountered in the loan process by a number of small-scale borrowers of DCA-guaranteed agro-loans in terms of understanding the terms of the loans provided by RBK, the respondents interviewed by the evaluation team gave a generally high rating to RBK.
5. The main two concerns of RBK clients surveyed by the evaluation team were the bank's high interest rates and collateral requirements, both of which they considered to be too high.
6. Most of the DCA-guaranteed loans were assigned to livestock and crop production, which provide a relatively limited impact on employment. Grain crops, whose production and harvest tend to be mechanized processes, provide a modest amount of income and employment. However, since these are food crops for both people and animals, they are an important element in the family's food security. Certain crops, including high-value horticulture production, greenhouse production, and commercial poultry production, provide a substantial impact on farm employment and income.
7. The LPG project has helped to increase the availability of longer-term financing for agro investments. The DCA is bringing small-scale agro lending into Kosovo's financial mainstream
8. LPG's direct impact on ethnic minorities and women is limited. However, the project's indirect benefits for women are considerably higher, since they frequently participate as members in family businesses that receive guaranteed loans.
9. RBK's agricultural and agribusiness lending program is entirely sustainable, as are a great majority of its small-scale borrowers who are also productive members of Kosovo's agricultural sector.

10. The USAID LPG program is entirely relevant to Kosovo's development priorities and to USAID's development strategy for Kosovo.

Conclusions

1. The LPG project has achieved its purpose. The project has been an effective mechanism that facilitated the expansion of RBK's loan portfolio into agriculture and agribusiness.
2. Under its agro-lending program, RBK has provided important ground-breaking avenues for agricultural credit such as small agricultural loans to small farmers, term loans for agricultural investments for as long as five years, and repayment schedules that reflect cash flow from crop cycles.
3. Despite the success of the LPG project, there still remains a tremendous unfilled demand for agricultural credit in the country. There is insufficient competition in the financial community that serves this market.
4. Senior RBK management buy-in, their continued commitment to the guarantee program, as well as the effective, collaborative working relationships that USAID has maintained with RBK, were key factors in the positive results achieved from the program.
5. The DCA is an effective development tool that can facilitate the availability of credit for diverse sub-sectors and groups such as export agriculture, micro-credit, and women.
6. Borrower training would help the lending process in Kosovo. Many small-scale borrowers do not fully understand the loan process and the legal obligations they incur. In some cases, they were upset at the cost of borrowing. A one-day loan training program, provided by an organization such as Association of Microfinance Institutions of Kosovo (AMIK), would be a good investment to make sure the borrowers fully understand the loan process and their obligations under the loan agreement.
7. The DCA is most effective as an agricultural development tool when it is linked to integrated value chain development, i.e. dairy, horticulture, or honey production. The effectiveness of DCA as an agricultural development tool can be further enhanced if it can be linked to out-grower schemes. For the greatest development impact, DCA agro-lending should be reinforced by production technical assistance.
8. Valuable information on the impact of the loan guarantee program on economic development indicators could be generated without great difficulty by the implementing bank.

Recommendations

1. The evaluation team strongly recommends that USAID continue to use DCA loan guarantees as a tool for Kosovo's economic development, particularly in agriculture.
2. For new banks entering future DCA loan guarantee programs, USAID should ensure the commitment of banks' senior management to the program by requiring that a specialized staff for agro-lending be created and trained, as part of the guarantee agreement.
3. USAID should support newly-participating banks in the guarantee program with initial training in agro-lending. The Kosovo Bankers Association (KBA) should be considered as a future trainer, through a train-the-trainer process. To the extent possible, loan guarantee programs should reinforce and support agricultural and agribusiness development projects carried out by USAID as well as other donors.
4. USAID should explore the possibility of supporting a training program for small-scale borrowers in the agricultural sector, to be carried out in cooperation with AMIK.

5. USAID should negotiate with the participating banks, under future DCA loan guarantee programs, to provide information on a limited number of development indicators such as the impact of the loans provided on employment, product sales, and asset growth.

1.0 INTRODUCTION

This is a report on the mid-term evaluation of the USAID-funded LPG project with RBK. The evaluation was conducted under USAID's Evaluation Services Indefinite Quantity Contract (IQC). The LPG project is presently being carried out by USAID/Kosovo in collaboration with RBK and the support of the USAID/DCA in Washington, DC.

The LPG project began on September 30, 2006, and will end on September 29, 2013. The maximum, cumulative loan amount guaranteed under the agreement between USAID and RBK is \$10 million. The purpose of the LPG project is to strengthen RBK's ability to provide loans to Kosovo's agriculture and agribusiness sub-sectors, with the overarching objective of stimulating economic growth in the country. The DCA guarantee was specifically designed to promote the development of a commercial agricultural sector in Kosovo and, thus, lay the groundwork for greater import substitution and job creation at the national level.

DCA guarantees constitute a legally binding agreement backed by the U.S. Government to share in up to 50% of a private lender's realized losses on uncollected principal. The instrument used in Kosovo is a loan portfolio guarantee (LPG), which involves one lending institution – RBK - and multiple borrowers in the agriculture and agribusiness sub-sectors that are contained within these borrower groups that were specified by USAID.

The LPG's evaluation was conducted during May - June, 2012, by a team of two international consultants composed of an Agribusiness Specialist and a Finance and Budget Analyst. The team was assisted by a local consultant who provided logistics support and interpretation services. The purpose of the evaluation was to provide USAID with an objective external evaluation of the LPG project. Furthermore, the evaluation's findings, recommendations, and conclusions were to provide USAID with an analytical foundation of whether the LPG resulted in improved terms for borrowers and their livelihoods.

The evaluation's main objective was to analyse the USAID/Kosovo's LPG project in terms of its effectiveness, impact, relevance, and the sustainability of its agricultural and agribusiness lending program. This was carried out by means of a quantitative analysis of the data available from the RBK data center in Pristina and the USAID/DCA Credit Monitoring System database that is accessible through the Internet; and by qualitative means through interviews with RBK and project beneficiaries.

The evaluation had also two secondary objectives: 1) Determine the LPG project's effect on employment and economic growth in the agriculture and agribusiness sub-sectors; and 2) Determine RBK's performance in agriculture and agribusiness lending compared to the performance of other banks that did not participate in the LPG project.

Over the course of the evaluation, the team interviewed over 42 past and present RBK clients who had taken loans under the LPG project to learn their experience as borrowers of RBK commercial loans, and their perceptions of their banking experience. The team also interviewed key members of the financial community, including leading commercial banks and micro-finance institutions, senior staff members at Kosovo's Central Bank, KBA, AMIK, as well as key USAID officials, RBK management and technical staff in Kosovo. These field visits and interviews were clustered around the following locations: 1) Pristina; 2) Peje/Kline; 3) Podujeve/Vushtrre; 4) Lipian/Shtime; 5) Gjakova/Kamenice; and 6) Drenas/Ferizaj. All of the individuals interviewed by the team and their contact information are shown in Annex VI of this report.

The team also reviewed: financial information provided by RBK; background information on the LPG project in Kosovo and DCA programs worldwide; Kosovo's agricultural and economic statistics and

agricultural policy; country briefs and analyses provided by the Ministry of Agriculture, Forestry and Rural Development (MAFRD) and international organizations including the World Bank; and reports published by relevant USAID projects in Kosovo.

The evaluation objectives were achieved primarily through a qualitative analysis of information derived from project reports and interviews with LPG project management, project beneficiaries, relevant third parties, RBK, and other commercial banks and financial institutions in Kosovo. For those parameters for which data does not exist, such as the impact of DCA loans on economic growth and employment and their impact on ethnic minorities, the team has estimated these values for different loan types based on field interviews with the representative sample of 42 loan beneficiaries.

Over the course of the evaluation, the team members worked for one week reviewing background information, developing the evaluation work plan and the evaluation design. They spent a total of 16 days on field work in Kosovo. The work calendar for the evaluation is included in Annex II.

1.1 Evaluation Data Limitations

The data collection process of the LPG project evaluation had some limitations. For example, upon the team's arrival in Kosovo, it was realized that some of the information expected to be obtained from either the USAID/DCA Credit Monitoring System (CMS) or the RBK's data system was not available. Furthermore, in some cases, individuals selected for interviews were not as forthcoming with information as the team had initially hoped. Other limitations included:

- The impact of agro-loans on development indicators such as employment, income, and assets is not monitored since a formal performance monitoring plan (PMP) was not established for these parameters. The evaluation team has provided estimates of these parameters based on the information derived from field interviews.
- Data on the ethnic background of DCA borrowers are not maintained by RBK; therefore, the evaluation team estimated the impact on ethnic minorities based on field interviews. Partial data on the gender of borrowers is available from mid-year 2008 forward, when the bank began collecting this information; however, only male borrowers were reported even though females sometimes co-signed on family loans. Team members were given access to a limited number of RBK loan files and were able to take a data sample to estimate the impact on females.
- Other commercial banks in Kosovo were not willing to share information on their respective loan portfolios, or to provide comparative data on agro-loans. The team was able, however, to glean some information on the relative importance of agro-lending to these bank's overall portfolios from discussions with their representatives and from public sources.
- The staff at RBK was generally hesitant to provide information requested by the team due to concerns for confidentiality. However, after several attempts and an intervention by USAID, most of the critical information was eventually provided by the time that the field work ended.
- The RBK borrowers to be interviewed by the evaluation team were selected at random. Some of those selected were not willing to be interviewed by evaluation team members, undoubtedly due to the normal reluctance of villagers to discuss their private financial affairs with strangers. Others could not be located after having moved or because the bank had otherwise lost contact after loans were repaid. In those cases where borrowers were unwilling or unable to be interviewed, the RBK branch offices provided the names of replacements who were interviewed by the evaluation team.

1.2 Acknowledgement

The evaluation team deeply appreciates the support that it received from the micro- and agro-lending staff at RBK, as well as from the USAID/Kosovo teams at the Economic Growth Office and the Program and Project Office over the course of this evaluation.

2.0 BACKGROUND

2.1 Development Credit Authority (DCA)

USAID's DCA utilizes partial credit guarantees as a catalyst to mobilize private capital for sectors otherwise underserved by financial markets. Partial credit guarantees encourage lending by financial institutions to locations and subsectors where financing is unavailable or inaccessible, and where market imperfections make lending opportunities unprofitable. In general, as lenders gain familiarity and experience with investing in traditionally underrepresented sectors, they overcome their reluctance to engage with these markets and continue to provide their services without further need for a guarantee. The guarantee mechanism also enables USAID to substantially leverage its development investments. The USAID/DCA website reports that by using credit from private sources to finance local investments, credit guarantees leverage on average \$25 in loans for every \$1 expended by USAID.

RBK JSC was originally founded as the American Bank of Kosovo in November 2001. It was renamed in 2003 following its acquisition by Raiffeisen International Bank-Holding AG, which currently owns 100% of the bank's shares. Raiffeisen International is a fully consolidated subsidiary of the Raiffeisen Zentralbank Osterreich AG (RZB) Group, which is the parent company of the Raiffeisen Banking Group, Austria's largest banking group. Through its subsidiaries, RZB provides a full range of commercial, investment and retail banking services in Austria and throughout Central and Eastern Europe (CEE), where it ranks as one of the leading universal banks in the region. In late 2011, RBK had 9 branches and 44 sub-branches throughout Kosovo, and was the second largest bank in Kosovo in terms of total assets. The bank provides a wide range of banking products and services to all categories of customers including individuals, small and medium enterprises (SMEs), and corporate clients. In 2011, RBK was awarded the title of "Bank of the Year" in Kosovo by the renowned magazine of the Financial Times Group, *The Banker*.

The following table provides an overview of RBK's current financial situation:

Table 1: RBK's key financial indicators

Indicators	2010	2011	Increase/Decrease (%)
Total Assets	679,200	682,800	1.74%
Deposits	579,900	570,000	-1.71%
Loans	530,600	518,900	-2.21%
Equity	91,500	99,100	8.31%
Profit after Tax	10,200	12,400	21.57%
Number of Staff - FTE	684	708	3.51%
Business Outlets	50	52	4.00%

Source: Raiffeisen Bank Kosovo Annual Report

2.2 USAID/DCA Loan Portfolio Guarantee with RBK

In September 2006, USAID signed a seven-year, \$10 million LPG agreement with RBK to cover loans made to private farmers and private enterprises engaged in agricultural production and agricultural processing. The DCA guarantee was specifically designed to promote the development of a commercialized agricultural sector in Kosovo and, thus, lay the groundwork for greater import substitution and job creation at the national level. The guarantee mechanism was designed to: finance the purchase of agricultural inputs, equipment, and livestock; facilitate the improvement and expansion of processing and storage facilities; and assist with the distribution and marketing of agricultural products.

RBK was chosen to participate in the initiative because it was one of the larger banks in Kosovo with the managerial soundness and institutional strength that satisfied the requirements to serve as a DCA partner. Moreover, RBK had expressed a serious interest in expanding its agricultural lending

activities, and had recently introduced a new financial product geared toward agribusiness lending that was largely designed by USAID's Kosovo Cluster and Business Support (KCBS) project. At that time, USAID/Kosovo also approached a second large bank, ProCredit Bank (PCB), as a possible partner. Although PCB had already developed a strong agricultural lending portfolio, it was heavily involved with European donor programs in collaboration with the European Bank for Reconstruction and Development (EBRD), and decided against participating in the LPG project with USAID.

When the DCA agreement was signed in September 2006, RBK was providing minimal lending in the agricultural sector. In addition, its lending activities in Kosovo were governed by the credit policies set by its parent company in Vienna. At that time, lending sectors were divided into three market categories: a) target; b) restricted; and c) excluded, with agriculture loans falling into the restricted category. This meant that all loans made in the agricultural sector had to be placed under the DCA guarantee or given special approval. With its successful record of agricultural lending, RBK has been able to re-classify the agricultural sector as a target market. Thus, the DCA guarantee has played an important role in influencing bank lending policies and practices in Kosovo.

After getting off to a somewhat slow start, due in part to delays in obtaining environmental clearances from USAID, utilization of the DCA guarantee accelerated quickly during fiscal years (FYs) 2007 and 2008 and was fully utilized by the end of FY 2008, which ended on September 30, 2008. This increase was possible mainly due to a large increase in RBK's agricultural lending staff. At the outset, USAID obtained a commitment from the bank that it would establish and train a specialized staff for agricultural lending that would ensure its capability to develop and manage agricultural loans, and therefore to fulfil the purpose of the Kosovo LPG program. Within a period of 18 months after the agreement with USAID was signed, RBK had fully staffed and trained its agricultural loan officers at its Pristina head office as well as at its eight branch offices.

USAID worked closely with the Chief Executive Officer (CEO) of RBK during the design and early initiation of the LPG program. Senior RBK management buy-in and their continued commitment to the guarantee program are considered to be key factors in the results achieved from the program. Since these early discussions, USAID and RBK have continued to maintain effective, collaborative working relationships.

At the outset, it was envisioned that the DCA partial guarantee would provide the impetus for RBK to broaden its lending activities to include additional players in agricultural value chains and provide longer term financing for investments such as farm facilities and equipment. Since then, the bank's exposure in this market has steadily grown along with its commitment to promote the development of this sector. It is therefore fair to say that the DCA guarantee has had a positive impact on the bank's operations and on the business interests of its clients.

Implementation of a loan guarantee program in a particular country is the responsibility of the USAID Mission for that country, with staff support for program design and monitoring provided by the Development Credit Office in Washington, DC. In the case of Kosovo, RBK is required to pay fees to USAID for its participation in the LPG project. The fees include an origination fee in the amount of 0.125 % of the \$10 million guarantee ceiling (\$12,500) that is paid at the beginning of the guarantee period, and a utilization fee amounting to 0.5% of the average amount being guaranteed for each six-month period over the life of the guarantee. In exchange, the DCA will reimburse RBK the amount of 50% of its losses of loan principal (not interest). In addition, the USAID/Kosovo Mission was required to make an initial, intra-agency transfer of funds to DCA in the amount of \$507,000 - known as a "subsidy" - which is determined by DCA's risk assessment for Kosovo.

2.3 Other USAID/DCA Loan Guarantee Programs in Kosovo

In 2011, USAID/Kosovo, together with RBK and Banka Ekonomike e Kosoves, launched a \$2.08 million guarantee program (\$1.04 million for each bank) to support lending in Kosovo to create jobs and foster an entrepreneurial culture for Kosovo's youth. In RBK's case, there is little overlap between the youth program and the loan guarantee facility for agro-lending.

In September 2011, a similar DCA loan portfolio guarantee agreement, with a guarantee limit of \$2.5 million was signed by USAID/DCA and TEB. This project is also designed to stimulate agro-lending in Kosovo. In this regard, USAID/Kosovo was the beneficiary of an unused guarantee facility that was re-assigned by DCA/Washington to the Kosovo Mission in late 2011, and went into effect at the beginning of 2012.

Another DCA loan portfolio guarantee agreement with a reported guarantee limit between \$30 million to \$40 million is presently being designed by the DCA. Its purpose is also to stimulate agricultural lending in Kosovo. If this project goes forward as currently planned, it will involve six commercial banks, as well as MAFRD as the entity that provides the guarantee funds. USAID/Kosovo and USAID/DCA will provide oversight and monitoring of this agreement, as they normally do. The involvement by MAFRD as the funding agency is a highly creative approach that should bring added policy benefits by directly involving the Government of Kosovo in agro-lending.

2.4 Overview of Kosovo's Economy

The following table presents a summary of the main economic indicators for the past 6 years:

Table 2: Kosovo's main economic indicators

	2006	2007	2008	2009	2010	2011
Nominal GDP (mln Euros)	3,182	3,411	3,849	3,868	4,113	4,319 (*b)
Remittances (mln Euros)	467	516	535	506	512	393 (*a)
FDI (mld Euros)	295	441	367	291	362	253
Trade Balance (mln Euros)	(1,195)	(1,141)	(1,730)	(1,770)	(1,851)	(2,167)
Inflation (%)	0.6%	4.4%	9.4%	-2.4%	3.5%	7.3%
Population (mln)	2.03	2.12	2.16	2.20	2.22	1.7 (*c)
GDP per Capita (Euros)	1,515	1,605	1,784	1,766	1,850	n.a.
Registered Unemployment (%)	44.9%	43.6%	47.5%	45.4%	45.4%	45.3%

(*a) Figure refers to Q1, Q2 and Q3 of 2011; (*b) Estimation; (*c) April 2011 census which did not cover the whole territory
Source: Statistical Office of Kosovo, Annual Reports of CBK, World Statistics

2.4.1 Dependence on Foreign Aid and Remittances

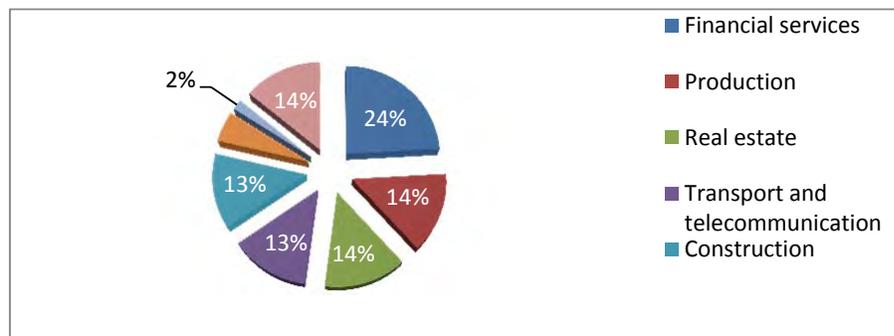
Following the end of the war, Kosovo received substantial foreign aid from international organizations as well as remittances from Kosovo emigrants employed abroad. According to the Remittances Survey of 2010, conducted by UNDP, about 20% of households in Kosovo receive remittances. In 2011, about 57% of remittances came from Germany and Switzerland where most of Kosovo's emigrants live.

2.4.2 Foreign Direct Investments

Despite significant efforts made by the Kosovo government to promote Kosovo to foreign investors, the level of FDIs in Kosovo is the lowest in the region. Some of the factors that seem to have a negative effect in attracting foreign investors include: a young legal system that does not provide a solid base for investment security; perceived political instability resulting from partial international recognition and events taking place in the north of Kosovo after the declaration of independence; and the fact that Kosovo is a small market with a low level of consumption, inadequate development strategy with distinguished competitive advantage.

The chart below provides additional detail on composition of FDIs by type of industry. In 2011, only 2% of FDIs were directed to the agriculture sector. As the data on agro-processing is shown as part of processing sector rather than agriculture, the FDIs in agriculture might be slightly higher than shown in the graphic below (see Figure 1).

Figure 1: Split of FDIs by Sector



Source: CBK's Bulletin of Statistics, 2011

2.4.3 Development of Micro, Small and Medium Enterprises (SMEs)

After the war, a new private sector with SMEs developed quickly throughout Kosovo and it still continues to develop bolstered by foreign donor programs as well as local financing. However, there are some significant barriers to the further development of this sector such as poor legislation and accountability in law implementation and taxation as well as expensive and unreliable electricity and access to financing. Today this sector is a large contributor to Kosovo's GDP and is the one that will help in decreasing unemployment and smoothing the negative effect of the withdrawal of foreign administration and reduction of the foreign aid. There are about 45,000 active SMEs in Kosovo, with about half of them engaged in the trade industry. Enterprises with nine or less employees represent about 98% of registered enterprises, which create close to 60% of total employment.

2.4.4 Trade

Table 3, below, summarizes the trade activity of Kosovo in the last six years. The trade deficit is still very high and stands for an unbalanced economic development of Kosovo and the low level of local manufacturing, services and agriculture activity. By the end of 2011, the trade deficit in Kosovo reached €2.2 billion, representing an annual increase of 17.1%. During this period, exports recorded an annual growth rate of 6.3% while imports recorded an annual growth rate of 15.6%.

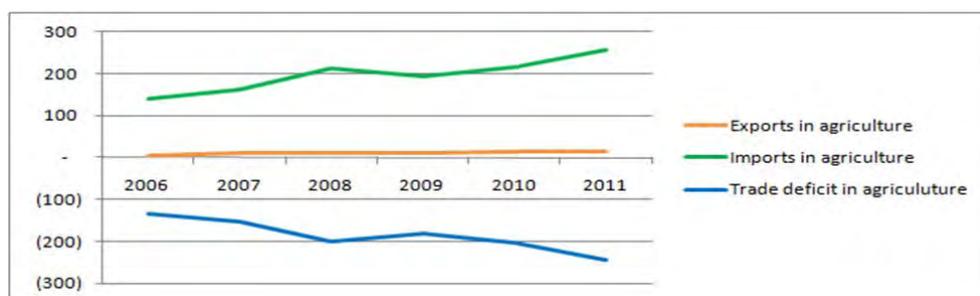
Table 3: Trend of Exports and Imports 2006 – 2011

In Million Euros	2006	2007	2008	2009	2010	2011
Total Exports	110.8	165.1	198.5	165.3	294.0	312.5
Agriculture Exports	5.5	9.7	10.2	10.7	13.1	13.0
Total Imports	1,305.9	1,576.2	1,928.2	1,935.5	2,144.9	2,479.3
Agriculture Imports	139	162	212	193	215	256

Source: CBK's Bulletin of Statistics, 2011

Due to a constant increase in imports, the trade deficit in agriculture from 2006 – 2011 has deepened from €133 million to €243 million. Exports have kept more or less the same level (see Figure 2):

Figure 2: Agriculture Trade Deficit 2006 - 2011



2.4.5 Agriculture

Agriculture is one of the most important sectors in Kosovo, contributing about 20% of GDP. However, this sector is affected by many problems and it is the most underfinanced in Kosovo. In fact, in 2011, lending to agriculture represented only about 3.5% of the total lending portfolio for that year. In addition, lending and other finance products provided to this sector seem to be inadequate and prices and other financing terms such as collateral are very high, thus making it very unattractive for this sector to collaborate with banks.

Agriculture is seen by Kosovo banks as risky, given its susceptibility to weather conditions, poor quality of imported inputs which compromise production, fragmentation into a vast number of individual land-owners, competition disadvantages in the region, non-compliance with international standardization requirements, etc. The high fragmentation of land and the absence of cooperatives or large organized farms do not allow the development of economies of scale or proper planning and execution of investments in agriculture. However, despite the perception of the banking sector, the agriculture sector has an overall good repayment rate for loans that is even lower than other sectors of the economy. Given the suitable weather, climatic and cultural conditions, as well as its current underdeveloped status, agriculture remains strategic for the development and growth of Kosovo's economy in the short and medium term.

Based on the above, the MAFRD has prepared an agricultural and rural development master plan for 2007-2013 in close cooperation with municipalities, NGOs as well as other relevant government institutions. However, despite the initiatives taken by MAFRD and a number of NGOs, Kosovo's consolidated budget allocates very limited funds to the agriculture and rural development.

2.5 Overview of Kosovo's Banking Sector

The top five banks operating in Kosovo are ProCredit Bank Kosovo, RBK, Nova Ljubljanska Banka Prishtina, Turk Ekonomik Bankasi, and Banka Kombëtare Tregëtare Prishtina.

ProCredit Bank (PCB) was established in Kosovo in 2000 (as the Micro Enterprise Bank) and was the first bank to start banking operations in Kosovo immediately after the war, serving at that time primarily as a saving bank. In 2003, PCB strengthened its lending operations and entered the market for agro-lending by primarily financing small farmers. Presently, PCB focuses on lending to micro, small and medium-sized enterprises (MSMEs) including agro-enterprises. PCB is also the leading bank for agro-lending, followed by RBK.

Nova Ljubljanska Banka (NLB) under its present name was established in 2007 as a subsidiary of Nova Ljubljanska Banka Slovenia. The bank acquired two locally owned banks (Kasabank and Banka e Re e Kosoves). NLB has a small agro-loan portfolio, consisting of a few loans with larger companies.

Banka Kombëtare Tregëtare (BKT) has been registered in August 2007 as a branch of BKT Albania, which is owned by a Turkish group. BKT is not currently engaged in agricultural lending but has in the past issued a few loans in food processing.

Turk Ekonomik Bankasi (TEB) is a Joint Venture of TEB Turkey and BNP Paribas, which started operating in Kosovo in January 2008. TEB is currently the fourth-largest bank in Kosovo and is showing aggressive growth and plans to become the third largest by the end of 2012. In January 2012, TEB started issuing agro-loans under DCA facility, with a guaranteed amount of \$1.1 million.

The banking sector in Kosovo is concentrated, with the two largest banks - PCB and RBK – having around 63% of the market share. However, in the last six years the banking system in Kosovo has seen a significant growth. The growth in total assets had a slowdown in 2010 due to uncertain market conditions but picked up again in 2011 with total assets increasing by 8.3% and reaching €2,660 million, while total equity grew by 10.8% to €255 million. Also, the loan portfolio has increased quickly from 2006 to 2011, as illustrated by Table 4 below:

Table 4: Trend in Lending

In Million Euros	2006	2007	2008	2009	2010	2011
Services	376.4	518.0	704.8	670.5	715.3	824.3
Industry, Energy & Construction	97.7	144.5	160.2	236.7	269.3	284.7
Agriculture	16.4	29.0	37.4	38.2	38.2	40.5
Total Loans	490.5	691.5	902.4	945.4	1022.8	1149.5
Growth Total Lending y/y		41%	30%	5%	8%	12%
Growth Agro Lending y/y		77%	29%	2%	0%	6%

Source: CBK's Bulletin of Statistics, 2011

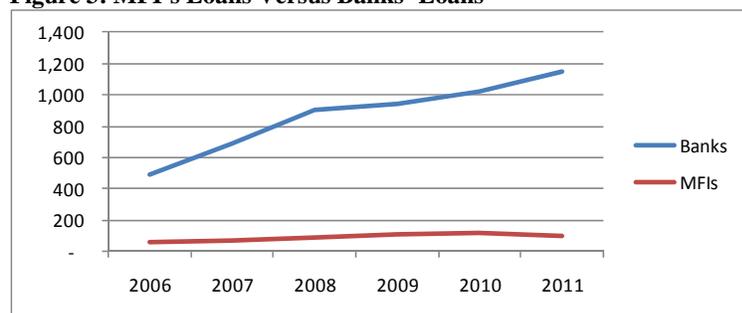
The agriculture sector showed an increase in lending of 6%; however, the share of agriculture to total lending remains insignificant, at about 3.5%.

On a positive note, the interest spread between loans and deposits began decreasing in 2008. However, in 2009, as a result of the worldwide financial crisis and a more conservative asset and liability management by commercial banks, the spread began increasing and has continued until 2011. Interest rates for loans vary from 6% for cash over loans¹ to more than 20% for household overdrafts and credit cards as well as for micro and agriculture business loans.

2.5.1 The Micro Finance Institutions (MFI) Sector

The MFI sector in Kosovo developed after the 1999 war, mainly as a result of donor-based initiatives to provide economic relief and recovery in a post war situation. Micro lending is one of the primary lending activities in Kosovo. This is dictated by the structure of Kosovo's business environment that is characterized by micro and small businesses. Despite their initial growth, MFIs have faced significant difficulties in the last few years due to increased competition from banks, unclear regulatory regime, and the inability of many MFIs to create a business model that is relevant to the needs of the market. Also, new legislation introduced recently requires tighter requirements for licensing, regulation and supervision of these institutions, and eliminates their role in deposit mobilization. This has placed MFIs in a different situation that requires that they develop a new business strategy.

Due to these factors, as well as high interest rates for micro finance, the MFI sector in Kosovo has seen a decrease in its market size and market share in the last few years. The following chart compares the trend of lending of the MFI sector to the banking sector for the last 6 years.

Figure 3: MFI's Loans Versus Banks' Loans

Source: CBK's Bulletin of Statistics, 2011

Currently, the MFI sector is shrinking to about 6% of the whole lending market in Kosovo, and the average loan amount issued by MFIs is about €1,800. Based on data provided to the evaluation team by AMIK, micro finance plays an important role in rural credit. On average, for AMIK's members, slightly more than 2/3 (68.53%) of their micro-lending is directed to rural borrowers, and the rest to

¹ Cash Collateral

urban borrowers. Considering the very slow development of the corporate economy in Kosovo as well as other cultural elements that affect the way the business is conducted, micro businesses and their corresponding needs for micro-credit will remain an important element of Kosovo's economy for the mid to long term.

3.0 ANALYSES

The following sections relate to the team's analyses of the USAID/Kosovo LPG project and respective findings in terms of its effectiveness, impact, relevance, and sustainability.

3.1 Implementation Effectiveness

3.1.1 Effectiveness of Project Management Team

As described in Section 2.0: Background, before the DCA agreement was signed with RBK, USAID had obtained the full commitment of the Bank's CEO and its senior management to engage in the loan guarantee program, and to incorporate the internal changes that were required in RBK's operations. Furthermore, this commitment filtered down to all bank operating departments and business functions, including Risk Management, Credit, Marketing, and Branch Management. Of particular importance was the management commitment to back the program through internal marketing and internal capacity building. These early commitments were critical to the overall success of the DCA program since many banks are not willing to participate in loan portfolio guarantees, for the following reasons:

- The DCA increases lending costs to the participating bank (through the payment of fees to USAID) that the bank may not be able to recover from the increased lending activity.
- The additional reporting requirements required by USAID/DCA for the loan guarantee portfolio are substantial.
- The required initial environmental impact analyses and reporting for agricultural loans, as well as additional reporting requirements for certain investments, is an added burden to DCA loan administration.

These factors also highlight the importance of bank management commitment to the DCA program, and the bank's willingness to "stay the course" over the life of the loan guarantee program.

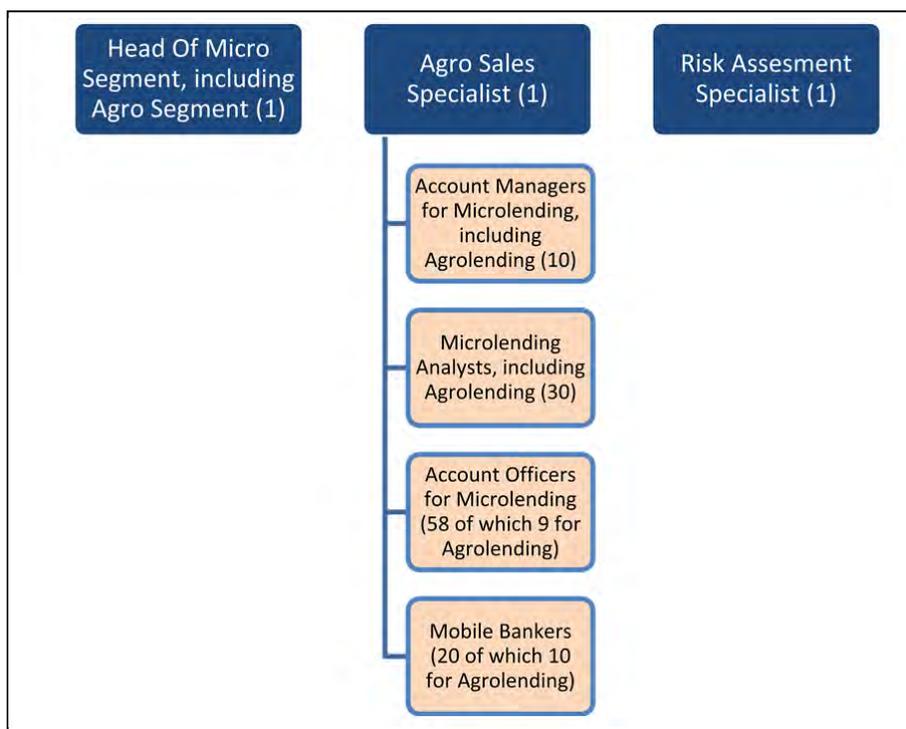
Another key requirement of RBK under the DCA loan guarantee program was to provide and train a dedicated staff of loan officers to facilitate agro lending. Even before the DCA loan guarantee project went into effect, RBK, with the support of the USAID-funded Kosovo Cluster and Business Support (KCBS) project, initiated a training program in agro-lending that was provided for its loan officers by the World Learning Organization. World Learning is an international NGO based in Vermont that supports education as a tool for international development. This initial training was reinforced by an additional KCBS-supported training program in agro-lending for RBK staff that was conducted in June 2009, and was provided by ShoreBank International, a financial consultancy provider.

As shown by the earlier Table 1, RBK has a total full-time equivalent (FTE) staff of 708 people at 52 business outlets including 9 branch offices throughout Kosovo. RBK services its agro-loans largely through its micro-lending staff; however, some 21 mid- to senior-level staff members are fully dedicated to agro-lending. Their functions and locations are described as follows:

- Agro Sales Specialist at the headquarters (1)
- Risk Assessment Specialist at the headquarters (1)
- Account Officers at branches (9)
- Mobile Bankers at branches (10)

The loan officers involved with agro lending are all university educated with some 20% graduated in agriculture or related fields. The organizational structure of RBK’s agricultural loan support staff is shown in the following figure:

Figure 4: Structure of Micro-Lending Officers



Despite the strong leadership and committed staff at RBK, the bank had difficulty in integrating its information system with DCA’s requirements, and on reporting the results. Periodic reviews of borrower files revealed discrepancies between the information contained in the loan files and what was reported by the CMS. Frequently, semi-annual reports submitted by the bank to DCA in Washington had missing information, including updates of disbursements and payments by RBK.

Initially, the bank failed to institute adequate systems for routinely updating the information required by DCA. Instead, bank staff entered data into the CMS manually on a semi-annual basis in a laborious process that required staff to come into the office on weekends to complete the reporting task. However, by mid-year 2008, these problems were almost completely resolved and reporting has continued since that time with minimal problems.

While its trained, committed, and highly motivated staff has been instrumental in RBK’s entry into agro-lending, the bank itself has gained considerable benefits from its association with DCA. The loan guarantee program has provided a bootstraps benefit that gave a window of time to the bank to acquire the technical knowledge it needed to assess the risks and to make agro-loans safely. In other words, the DCA helped the bank to do something that it otherwise would have not done – at least, not until well into the future.

Findings:

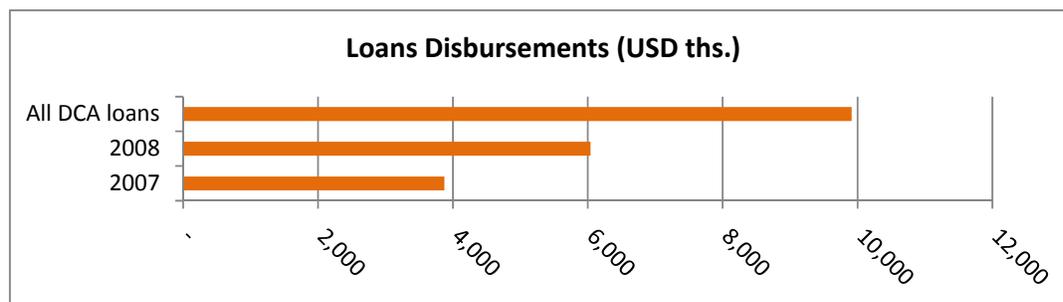
1. The USAID-supported training helped Kosovo’s second largest bank to expand its loan program into agriculture and agribusiness. It provided specialized training to loan officers who had no knowledge of the agricultural sector. Training served to increase the bank’s loan portfolio and to enhance the capability of its staff to make successful loans.
2. RBK’s senior bank management is fully committed to the DCA loan guarantee program, and this commitment has filtering down to the bank’s operating staff.

3.1.2 Rapid Entry into the Market for Agro Lending

With a fully committed management team along with motivated staff trained in agro lending that was occasionally reinforced by supplemental technical training, RBK’s entry into this new market for agro-lending was quite rapid.

Of the total guarantee limit of \$10,000,000, the amount of \$3,871,125, or 38.71%, was disbursed by RBK in the guarantee program's first year. The amount of \$6,040,808, or 60.40%, was disbursed in the second year, which effectively reached the practical limit of the guarantee. The total loan amount disbursed over the two years was \$9,911,934, or 99.12% of total guaranteed amount. In other words, the loan portfolio guarantee amount was fully committed in only 24 months. This is a reflection of the strong leadership exercised by RBK management when the LPG project began. Figure 5 below shows this in graphical form:

Figure 5: DCA Loan Disbursement



Source: CMS Data

As of April 30, 2012, the number of loans that remain outstanding is 70, with a total amount outstanding (principal and interest) of €341,703, of which €228,499 (67%) appear to be past due between 57 and 702 days in arrears.

Finding: The strong commitment by the management and staff at RBK to the DCA LPG project resulted in the utilization of almost the entire loan guarantee amount in only two years.

3.1.3 RBK Policy Changes under the DCA

3.1.3.1 Lending Policy

As a result of its involvement with the USAID/DCA/LPG project, RBK made a number of changes in its lending policy. The most important of these was the change in its classification of agro-loans from a restricted market to a target market. Before RBK signed the loan guarantee agreement, only its headquarters office could authorize agricultural loans in Kosovo. After the agreement was signed, only guaranteed loans were provided to agricultural borrowers. However, as RBK gained more experience with agro-lending and reported positive results for this sector, its policies have changed and agriculture is now a target market. Its staff seeks borrowers in the agriculture and agribusiness sectors.

During the team's interviews with RBK's senior managers for micro- and agro-lending, they indicated that a possible change in RBK's lending policy could also take place under future DCA loan agreements. The bank is considering a move toward lending against cash flow, instead of considering collateral-based loans exclusively.

3.1.3.2 Interest Rates

Another important policy change made by RBK for DCA guaranteed loans was a slight (1%) reduction in the interest rate for guaranteed loans, compared to commercial loans. From discussions with RBK management, the policy adopted by the bank with regard to agro-loans is a reduction by 1% in the interest rate, compared to comparable commercial loans. However, an analysis of RBK's 2011 loan portfolio, indicates that the interest charged by the bank on agro-loans was on average 20.03%, whereas for micro loans (excluding agro-loans) average interest rate for the same year was 16.64% (see Tables 5.a and 5.b below). This gap is explained by the large number of agro loans issued for small amounts, which bear a higher interest rate compared to relatively higher loan amounts for commercial loans. Due to their increased administrative costs, smaller agro loans are, on average, charged a higher interest rate than are larger micro (commercial) loans. This indicates that the average

agro-loan size is considerably less than the average size of non-agro micro loans. Under RBK policy, loan amounts up to €100,000 are classified as micro loans. The maximum interest rate charged for agro-loans in 2011 was 23%.

Table 5.a shows the average interest rate as well as the range of interest rates charged by RBK on DCA loans during 2007 and 2008.

Table 5.a: Interest Rate for Agro-Loans

DCA Loans	
Average Interest Rates	20.26%
Range of Interest Rates	9% - 24%

Source: CMS Data

Table 5.b: Interest Rate for Agro-Loans

	Agro Loans	Other Micro Loans
Average Interest Rates in 2011	20.03%	16.64%

A comparison of average interest rate applied on agro-loans in 2011 with interest rate applied on micro loans in the same year is presented below.

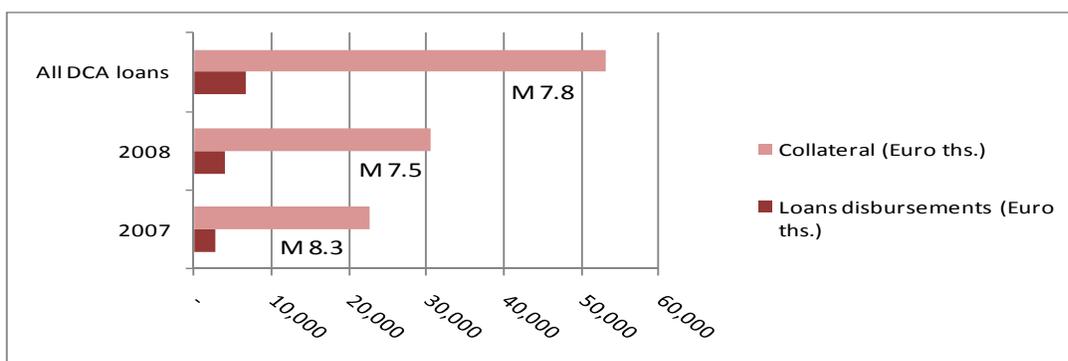
The difference between the average interest rate charged by RBK on agro-loans compared to other micro loans is explained by the structure of agro-loans. Since the majority of agro-loans are issued for amounts between €1,000 – €5,000 on which RBK applies an interest rate of over 20%, then on average, agro-loans cost more. See Table 8 for more information on the structure of loans by size.

3.1.3.3 Collateral Requirements

RBK made no changes to its collateral requirements for agro-loans that are guaranteed by the DCA, and the amount of collateral required by the bank for its loans is substantial. From discussions with RBK management, the collateral required for agro-loans is practically the same as other loans, although the minimum required collateral for agro-loans is 150% compared to a minimum of 200% required for other loans. In general, RBK asks that its borrowers pledge their existing assets including houses, machineries, cattle, cars as well as new assets acquired with the new loans as collateral, which far exceeds the loan value. However, RBK uses such a collateral policy to exert some sort of pressure on borrowers so that they make all due efforts to pay the loan back.

As shown by the following chart (see Figure 6), the average amount of collateral required by RBK is 7.8 times the average loan amount. In addition to collateral, the bank normally requires at least one guarantor for an agro-loan.

Figure 6: Collateral vs. Loan Amount



Source: CMS Data

Findings:

1. As a result of its participation in the LPG project, RBK modified its agro-lending policy to change its classification of agro-lending from a restricted market to a target market.
2. The interest rate policy adopted by RBK for DCA guaranteed loans was to reduce its interest rate for agro-loans by 1% compared to non-agro commercial loans of similar size. However, due to the

smaller average size of agro-loans compared to commercial loans, the average interest rate for agro-loans in 2011 was actually higher than the interest rate for commercial loans.

3. RBK has made no changes to its collateral requirements for agro-loans that are guaranteed by the DCA, and the amount of collateral required by the bank for all loans is, on average, 7.8 times the amount of the loan. This is extremely high.

3.1.3.4 DCA Loan Guarantee Costs

The following table provides a cost summary of program costs to the U.S. Government (USG) through March 31, 2012. Note that the costs do not include the USAID/Kosovo subsidy payment to DCA, since this is merely an inter-agency transfer between two government agencies and does not constitute an out-of-pocket cost to the government. The calculations of program costs are also expressed in the amount of costs incurred for each \$1 million guaranteed. As shown by Table 6 below, the cost to the USG for each \$1 million guaranteed is \$38,006.

Table 6: Cost of DCA LPG / \$1million Guaranteed Amount

Cost of DCA Loan Guarantee Program with RBK as of March 31, 2012		
Guarantee Ceiling Amount		\$10,000,000
Loan Guarantee Amount		\$9,911,934
Net Claims (After Recoveries)		(\$465,563)
Fee Income		\$88,850
Net Claims Less Fee Income (Net Cost)		(\$376,713)
Net Cost per \$1 Million in Guarantees		(\$38,006)

Source: CMS Data

Finding: The cost to-date to the USG for the DCA loan guarantee program in Kosovo is \$38,006 per million dollars guaranteed. This cost is entirely reasonable.

3.1.3.5 Leakage

The cornerstone of the LPG project is that the guaranteed loans must serve only borrowers in agriculture and agribusiness. A review of the stated purposes of the loans as registered in the CMA database indicates that all loans were provided for investments in agriculture and agribusiness. This indicates that RBK has properly conducted its normal review process to determine the end use of the agro-loans provided under the DCA. However, the field interviews conducted with a sample of RBK agro borrowers revealed that in a very few instances, there was some “leakage,” or diversions in loan funds from agriculture to other purposes. In one case, a State employee in Kopernice (Kamenice) borrowed €2,000 as a three-year agro-loan to purchase cattle but used the funds to finance his daughter’s wedding. A series of family misfortune made it impossible for him to repay the loan, resulting in a default. In a second case, a stone mason in Banja, Malisheva, took an agro-loan in the amount of €10,000 to purchase cattle but experienced cash flow problems on a municipal construction project after the general contractor failed. The stone mason diverted the agro-loan funds into his troubled construction project, and eventually defaulted on his RBK loan. In a third case, a farmer in Prizren took a €2,000 loan to construct a greenhouse but instead, used the funds to repair the roof of the family home. His loan was repaid on schedule. The amount of funds diverted by these three borrowers amounts to 4.72% of the total loan portfolio of all the borrowers interviewed by the evaluation team. These are relatively minor incidents, which are virtually impossible to control by RBK staff.

Finding: RBK has exercised reasonable measures to ensure that DCA guaranteed loans are used for agriculture and agribusiness. However, based on information obtained from field interviews with loan beneficiaries, a small amount of “leakage” may occur as a result of borrowers diverting loan funds to non-agro purposes.

3.1.3.6 Monitoring of Development Indicators

The Monitoring Plan for the USAID/DCA/LPG specifies that the following indicators will be monitored by USAID/Kosovo:

1. Number of enterprises benefiting from DCA guaranteed loans to the agricultural sector
2. Value of DCA guaranteed loans (€) made to enterprises in the agricultural sector
3. Percentage of the value (€) of the loan portfolio that is on schedule for repayment
4. Total value of DCA guaranteed loans (€) to the agricultural sector compared to RBK pre-DCA (baseline data)

It is noteworthy that this monitoring plan does not include indicators of the development impact of the agro loans that are provided by RBK, such as the amounts of employment and income that are generated by the loans, and the proportion of loan funds that flow to ethnic minorities. The determination of development impact would be possible for future DCA loan guarantee programs by making the participating banks responsible for generating this information, as part of their project reporting requirements.

Finding: It would be possible for USAID obtain important information on the development impact of agro lending by negotiating the requirement to provide this information by the participating banks.

3.1.3.7 Borrower Survey

As part of the survey of RBK borrowers, the evaluation team included an abbreviated set of questions to gauge the perceptions of the borrowers to the loan process and the treatment they received from the bank. The results of this simple survey are shown in Table 7, below.

Table 7: Summary of Survey Results

Perceptions of RBK's Agro Lending Clients on the Lending Process		
Client's Comments	Number	Percent
Clients interviewed	42	100%
Interest rate too high	37	88%
Collateral requirement too high; excessive	26	62%
Felt cheated/mistreated by bank	10	24%
Entirely satisfied with bank	16	38%
Fear taking on additional loan	21	50%
Average client rating (scale 1 low – 10 high) of RBK services	8.4	

Source: Field interviews with RBK clients by the assessment team

By far, the main concern of the clients surveyed was the high interest rates charged by RBK, which they considered to be excessive. Those who were not highly vocal in their complaints about high interest charges had simply thrown up their hands in resignation. The second greatest concern was what they considered to be excessive collateral requirements by the bank. Notable is that half the people interviewed are fearful of taking on another loan, primarily because they are afraid they could not make the interest payments (although some of these would be willing to take a new loan at lower interest).

During the field interviews, it became clear that most borrowers did not know, nor could they fully comprehend, the interest rate charged by the bank for their loans, and how to translate the interest rate in terms of percentage to the amount of interest they were going to pay. However, they were fully aware of the amount of euros they had paid RBK in interest charges and fees to use the money provided to them by the bank. This indicates that borrower training would be extremely useful to help the loan clients better understand the loan process and the charges associated with their loans. Most of those who felt mistreated by the bank did not fully understand the loan process and the charges involved. Often, they were not aware of unexpected charges, including pre-payment penalties that some respondents said they were required to pay.

Despite the difficulties encountered by most clients in the loan process, the respondents gave a generally high rating to RBK and its agro-loan staff. It seems that the bank staff at RBK's branch offices is quite effective in maintaining good client relations.

4.0 IMPLEMENTATION IMPACT

The LPG project has had considerable impact on the availability of credit for Kosovo's agricultural sector. Investments that were made from the agro-loans provided by RBK have, in some cases, resulted in increased employment and income by the borrowers. Furthermore, the agro-loans have had an impact on the livelihood of females and ethnic minority groups in Kosovo, to the extent that they participated in the loans provided under the LPG project. This section summarizes the team's findings on the impact of the project.

4.1 Direct Impact – Quantitative and Qualitative Impact

Out of \$9,911,934, 87% was disbursed to finance capital expenditures such as purchase of cattle, expansion/renovation of stable, purchase of farming machineries, building green-houses, irrigation, building chicken farms, etc. Nine percent of total loan disbursement was used to finance working capital such as seeds and food for cattle, while 4% represents disbursements of loans where the purpose of loan is not specified. Further, more than half of agro-loans portfolio (53%) has been used to finance dairy business followed by farming activities (41%). Poultry and horticulture represent just 4% and 2% (respectively) of total agro lending under LPG.

The majority of loans given under DCA LPG project were in relatively small amounts. The number of borrowers with loans amounts between \$1,000 and \$5,000 represent 52% of total borrowers, whereas those receiving loans above \$20,000 represent 10%.

Table 8: DCA Loans Split by Threshold Amounts

Threshold of Loans in US\$	No. of Borrowers	in %
< 3ths	247	28%
3ths - 5ths	216	24%
5ths-10ths	186	21%
10ths - 20ths	157	17%
20ths-50ths	67	7%
50ths-100ths	13	1%
>100ths	12	1%
Total DCA borrowers	898	100%

Source: Analyses of Consultants Based on CMS Data

Most of the guaranteed loan funds were borrowed for longer time periods: in terms of loan amounts, 43% have a maturity of more than four years, with another 45% of loan amounts maturing between two and four years. Only 12% of the loan amounts matured between one and two years. However, in terms of the number of loans, only 7% of all loans have a maturity of more than 4 years; 45% of the loans mature between two and four years, and 48% mature between one and two years. This is shown in the following table (see Table 9).

Table 9: DCA Loans by Tenure

	<1 year	1-2 years	2 - 3 years	3-4 years	> 4 years	Total
DCA loans by tenure (in US\$)	344	812	1,888	2,557	4,311	9,912
DCA loans by tenure (in %)	3%	8%	19%	26%	43%	100%
No. of borrowers by tenure	139	293	279	123	64	898
No. of borrowers by tenure (in %)	15%	33%	31%	14%	7%	100%

More than 50% of DCA loan funds was issued to individuals; however, given the small loan amounts, individuals accounted for 90% of the total number of borrowers.

Table 10: DCA Loan Split by Type of Borrower

	No. of Borrowers	%	Amount in US\$	%
Firms	88	10%	4,139	42%
Individuals	810	90%	5,773	58%
Total	898	100%	9,912	100%

Source: Analyses of consultants based on CMS Data

Findings:

1. The USAID/DCA loan guarantee program has had an impact on agro-lending that far exceeds the amount of its exposure and program costs.
2. USAID/DCA expenditures are highly leveraged and provide a large multiplier effect on available agro-lending.
3. The LPG encouraged lending to the agricultural sector at a critical time. RBK's initiation in agro-lending was a break-through in Kosovo.
4. The LPG has helped to increase the availability of longer-term financing for agro investments.
5. The DCA is bringing small-scale agro lending into Kosovo's financial mainstream

4.2 Secondary Impact

4.2.1 Impact on Incomes and Employment

In the absence of formal indicators and targets designed to monitor the impact of the LPG project on development objectives such as employment and income, the evaluation team has analyzed the responses to the field survey provided by RBK borrowers to gain insight into the project's impact on these indicators.

First, a comparison of RBK agro-lending by sub-sector in the CMA database indicates that most DCA guaranteed loans went to the livestock sector (sheep and dairy), followed by farming activity dedicated mainly to the production of grains and **cattle** feed. These primary activities were followed by a limited number of investments in poultry and horticulture. A similar investment pattern was found through the team's field surveys, although there was a shift between the amounts for poultry and horticulture. The following table shows the percentage of agro-loans determined for each sub-sector, as taken from the DCA/CMA database, which is also compared to the results of the field survey.

Table 11: Agro-Loans by Sub-sector

Percent of Total Loans by Agricultural Sub-sector		
Sub-sector	% of Total DCA Portfolio	% of Field Sample
Livestock	53%	52%
Crop production; farming	41%	37%
Poultry	4%	3%
High-value horticulture	2%	5%
Greenhouse production		3%
Total	100%	100%

Source: Analyses of consultants based on CMS Data and field survey

Second, based on an analysis of the responses to the field interviews and applying industry standards for employment generation and income for the different sub-sectors, the team developed these estimated values for employment generation and financial returns for each sub-sector, as shown in Table 12, next page. This table provides an illustrative example of the effect of agro-lending on employment and income for different types of investments. This information was derived from our interviews with Raiffeisen Bank's borrowers. The models relate to small-scale farmers producing agricultural products for local markets.

Table 12: Impact of DCA Loan on Employment and Income by Sector

Indication of Impact of DCA Loans on Employment and Income by Sector		
Sub-sector	Employment	Wealth/Revenue
Livestock	Family labor only	Herd size doubles every 3 years
Grain Production (mechanized)	1 FTE per 15 ha	€500/ha/year
High-value Horticulture	2 FTEs per ha	€8,000/ha/year
Greenhouse Production	3 FTEs per ha	€/12,000/ha/year
Poultry	3 FTEs per ha	€/10,000/ha/year

Note: FTE = Full-time equivalent unit of employment

Source: Analyses of consultants based on field survey

Livestock is almost entirely family labor and generates little external employment. It is a good way to generate wealth, since the herd size can double every three years. Normally, female calves are retained for reproduction and milk production, while male calves are sold for meat.

Grain crop production is largely mechanized and generates a relatively small amount of employment. Much of the grain output is fed to livestock so in a sense, it is a support activity for livestock production. The greatest effect on sales revenue and employment comes from high value horticulture and greenhouse production of vegetable crops, as well as from commercial broiler production.

Finally, the team estimated the total amount of investment made in each sub-sector from the DCA guaranteed loans. This calculation was made by using percentage of DCA loan funds that flowed into each sub-sector, taken from Table 12 above. The results are shown in the following table.

Table 13: Estimate of employment and income generated from DCA Loans

Estimates of Employment and Revenue Generated from DCA Loans				
Sub-sector	Investments Made	Equivalent Hectares Developed	Estimated FTE Employment Generated	Estimated Annual Revenue
Livestock	\$5,253,325	0	0	\$1,365,865
Crop/Grain Production	\$4,063,893	4,063	271	\$2,031,500
Greenhouses; High Value Horticulture	\$198,239	11	33	\$99,000
Poultry	\$396,477	24	72	192,000
Total	\$9,911,934	4,098	376	\$3,688,365

Source: Analyses of consultants based on CMS Data and field survey

Findings:

1. Most of the DCA guaranteed loans were assigned to livestock and crop production, which provide a relatively limited impact on employment. Small scale livestock investments, in particular, provide little employment benefits. These tend to be relatively small investments and the family (often the wife) manages the livestock herd as part of its daily activities. If additional investments are made to increase the size of the family livestock holdings, rarely will the family hire external labor; the family simply works harder to care for the additional animals.
2. Despite limited employment generation, livestock production provides substantial income benefits from milk as well as meat production. This is extremely important for the family's food security.
3. Grain crops, whose production and harvest tend to be mechanized, provide a modest amount of income and employment. However, since these are food crops for both people and animals, they are an important element in the family's food security. Grain crop production is largely a support activity for livestock.
4. Certain crops including high-value horticulture production, greenhouse production, and commercial poultry production, provide a substantial impact on farm employment and income.
5. Most of the DCA guaranteed loans benefited the agricultural sub-sectors that generate only limited employment: livestock and crop production.

4.2.2 Impact on Ethnic Minority Groups in Kosovo

As explained in an earlier section of this report, neither the USAID/DCA CMS nor the RBK data system contain data on the ethnic classification of the different borrowers under the LPG project.

Consequently, the evaluation team reviewed the list of 898 borrowers contained in the DCA/CMS database and based on their family names, estimated the number of clients receiving DCA guaranteed loans that are categorized as ethnic minorities. The team’s estimate is shown in Table 14. Under the assumption that the loan amount received by each ethnic minority individual was equal to the average amount for all borrowers, the calculated loan amount received by the group of ethnic minorities was \$218,063.

Table 14: Estimate of Number of Ethnic Minority Benefiting from DCA Loans

Estimated Number of Ethnic Minority Borrowers of DCA Guaranteed Loans		
Total Amount of DCA Guaranteed Loans		\$9,911,934
No. of Total Borrowers		898
Average Loan Amount for Each Borrower		\$11,026
No. of Kosovo Serbs		11
No. of Kosovo Turks		9
Subtotal – No. of Ethnic Minority Borrowers		20
Percent of Total Borrowers who are Ethnic Minorities		2.22%
Estimated Amount of Loan Funds to Ethnic Minorities		\$220,756

Source: Analyses of consultants based on CMS Data and field survey

The evaluation team has also used data obtained from the field survey to provide a crude indicator of the impact of the LPG project on Kosovo’s ethnic minorities. Based on the responses to the team’s questions received during interviews with RBK borrowers, only one individual of a total of 42 respondents, described himself as an ethnic minority. This individual, whose loan amount was €2,000, declared himself to be a Kosovo Turk.

As shown by the following table (see Table 15), the single individual who declared himself to be an ethnic minority equates to 2.38 % of the number of borrowers surveyed, and accounts for 0.67% of the total loan amount borrowed by those surveyed individuals. By applying these same percentages to the entire population of 898 borrowers whose loans were guaranteed under the LPG project and to the entire loan guarantee amount of US \$9,911,934, a rough order-of-magnitude estimate for the number of ethnic minorities that benefitted from the LPG project would be 21 individuals. The estimated amount of this theoretical group of 21 individuals borrowed under the DCA guarantee is US \$66,882. This estimate correlates reasonably well with the results shown in Table 14, above.

Table 15: Estimate of percent of ethnic minority benefiting from DCA Loans

Percentage of Ethnic Minorities Benefiting from LPG project			
	Total Surveyed	Ethnic Minorities	Percentage of Total Surveyed
No. Borrowers	42	1	2.38%
Amount of RBK Loans	296,400	2,000	0.67%
Average Loan Amount	7,057	2,000	28.34%

Source: Analyses of consultants based on CMS Data and field survey

Finding: The impact of the DCA LPG Project on ethnic minorities is minimal.

4.2.3 Impact on Females

As mentioned in the introduction to this report, the Development Credit Office began the requirement that RBK report the recipients of its DCA guaranteed loans by gender, at approximately mid-year 2008. Before that time, client data were not disaggregated by gender. However, a review of the client records included in the Transaction Report Summary for the Kosovo loan guarantee program contained in the online DCA CMS, indicates that after the time when reporting by gender was initiated, there are no reports showing female-owned businesses. In other words, the CMS database has no record of loans to females. This may well be the result of Kosovo’s cultural norms, particularly in rural areas, where the male head-of-household is responsible for the family business and his wife

remains in the background. Naturally, bank loans would be in the name of the male head-of-household.

The evaluation team estimated the LPG project’s direct impact on females by analyzing the data obtained from the field survey of RBK borrowers who had obtained guaranteed loans. Based on the team’s interviews with these RBK borrowers, we found two females who were the principal borrowers for their family loans. These two females constitute 4.76% of the total number surveyed, and their loan amounts are 2.33% of the entire amount borrowed by those surveyed. Their average loan amount was less than half the average loan size for the entire group.

Table 16: Estimate of percent of females benefiting from DCA Loans

	Estimate of Females Directly Benefiting from LPG Project		
	Total Surveyed	Female Borrowers	Percentage of Total
No. of Borrowers	42	2	4.76%
Amount of RBK Loans	296,400	6,900	2.33%
Average Loan Amount	7,057	3,450	48.89%

Source: Analyses of consultants based on CMS Data and field survey

The evaluation team also made a determination of the number of females who co-signed the guaranteed loan with RBK. This gives an indication of the percent of females who are actively involved in the family business. Over the course of the evaluation, the team had access to a sample of 51 file folders with personal information on RBK clients who received loans under the LPG project. A review of the information contained in these folders shows that of 51 folders reviewed, a total of 12 females were listed as co-borrowers on the guaranteed loans, and had signed the loan agreements. Additionally, one female signed the loan agreement and stated that she was the owner of the company applying for the loan. By applying this ratio (13:51, or 25.49%) to the entire population of borrowers under the LPG project, one can obtain a crude indicator of the program’s impact on females:

Table 17: Estimate of impact of DCA Loans on female loan co-signers

Calculation of Estimated Impact of LPG Project on Female Loan Co-Signers			
	Total	Female Co-signers	Percentage of Total
Sampled Folders	51	13	25.49%
No. of DCA Borrowers (No. of female co-signers is calculated)	898	229	25.49%
Average Loan Amount	\$11,026	\$11,026	100%
Amount of RBK Guaranteed Loans	\$9,911,934	\$2,526,571	15.49%

Source: Sample percentage of female co-signers applied to the DCA/CMS data for all borrowers reported by the Kosovo LPG project

As shown by Table 17, above, an estimated number of 229 female co-signers were involved in DCA guaranteed loans with an estimated loan amount for all females of \$2,526,571.

Findings:

1. Based on field surveys, the direct impact of the USAID/DCA LPG project on females is quite small. However, since females participate as a family member in the family business that received the loans, the indirect benefits of the LPG project on females is considerably greater.
2. Under the assumption that females who co-sign family loans are actively engaged in their family business, the field survey determined that approximately one-fourth of family businesses incorporate females as active members.

4.2.4 Impact on Agro Lending by Other Commercial Banks in Kosovo

ProCredit Bank (PCB) has been involved with agro-lending since 2003. PCB’s agro-lending to farmers amount to 7% of its total loan portfolio, whereas agro-lending to farmers together with agro-processors amount to some 9.7% of total loan portfolio. Since 2003, PCB has seen growth in agro-lending of some 3%-4% per year. Usually, loans for amounts greater than €150,000 are provided only to agro-processors that are considered to be medium-sized enterprises. Loans for amounts less than

€30,000 are provided to MSMEs, and loans for amounts between €30,000 and €50,000 are provided to SMEs.

NLB has issued a few agro-loans with larger companies; however, the bank's experience in agro lending has not been very good, with large amounts of overdue loans. Furthermore, the global financial crisis has affected Slovenia, where NLB is based, and this bank's home office is now requiring more conservative lending in Kosovo. This makes agro lending even more difficult. NLB's clients include a wine processor; a computer company that is diversifying into agriculture; a water company that is engaging in cheese production, and poultry. NLB is a candidate to participate in the new USAID/MAFRD DCA loan guarantee facility that is presently under study by the DCA. In this regard, the bank has provided considerable documentation to USAID and has received numerous visits from DCA consultants.

BKT has made a very few large loans to food processing companies: one loan in the amount of €4 million; however, so far, agro-lending has not been the bank's focus. BKT has submitted its paperwork to USAID to participate in a new loan portfolio guarantee program that is presently under study by the DCA. In preparation for the new DCA, this bank plans to start agro-lending as a pilot program with two of its branch offices in Mitrovica and Vushtrri. This pilot program will be pursued independently from the new DCA. The branch managers in these two branches are experienced in agro-lending, and they will supplement their management skills by hiring experienced loan officers. Since it is difficult to engage in agro-lending on a piecemeal basis, BKT plans to fully engage in agro-lending but within the limited geographical area served by these two branches. If the pilot program is a success, within one year BKT anticipates having an agro-lending specialist within each of its 23 branches in Kosovo.

Until the end of 2011, TEB had not been involved in agro-lending. In January 2012, it began managing a \$2.5 million agricultural DCA facility based on the agreement signed with USAID in September 2011. Since that time, TEB has placed €250,000 with around 50 borrowers. Most loans are in the range of €2,000 - €5,000, with one loan in the amount of approximately €30,000. The loans are being used for agricultural inputs such as seed and fertilizer, and investments in livestock and greenhouses for crops including potatoes, horticulture, and dairy. TEB has also applied to participate in the \$30 to \$40 million loan guarantee program, along with five additional Kosovo banks, that will be funded by MAFRD and managed in collaboration with USAID. TEB has participated in discussions with those designing the new facility. When this new DCA comes into effect, TEB plans to hire portfolio managers who will be trained in agro-lending. TEB plans to engage in agricultural lending "slowly and carefully."

In the discussions between the evaluation team members and the various banks, it was revealed that none of the banks, with the exception of PCB and RBK, have maintained separate statistics on the level of their involvement in agro-lending. First, any small-scale agro-lending is simply considered to be a part of their normal micro-lending. Therefore, separate records are not maintained. Second, larger loans provided to finance investments in food processing are normally considered as manufacturing. Although TEB has begun to maintain statistics for agro-lending under the new DCA agreement, the short time that this agreement has been in effect does not permit any meaningful comparisons. The only comparative information on agro-lending available to the evaluation team has been provided by RBK and PCB.

As the evaluation team learned from its discussions with different commercial banks, they are fully aware of the USAID/DCA LPG project with RBK. They also believe that it has been successful, simply because RBK has been engaged in lending to Kosovo's farmers and agribusinesses for many years. Furthermore, all the senior bank managers the team interviewed expressed their desire to enter, and/or expand their presence in agro-lending. Clearly, the other commercial banks in Kosovo have been influenced by RBK's expansion into agro-lending although they are reluctant to attribute their interest to the actions of a major competitor. When the evaluation team asked the bankers during the interviews if they had been influenced by RBK's entry into agro-lending through its participation in

the LPG project, they insisted that their bank “knows very little about RBK’s loan portfolio since it is confidential” and that their bank had “independently reached the decision that agro-lending would be good for the bank, as well as for Kosovo.” They insisted that they had not been encouraged by RBK’s experience since “we don’t know if their experience has been good or bad.”

Presented in the following table (see Table 18) is a comparison of agro-lending between RBK and PCB from 2006-2011, since they were the only banks with formal agro-lending programs as of the end of 2011.

Table 18: RBK’s agro loans vs. PCB’s agro loans

	2006	2007	2008	2009	2010	2011
ProCredit Bank						
Total loan portfolio (in ths Euros)	237,691	343,247	440,612	472,732	497,766	n.a.
Agriculture loans (in ths Euros)	14,259	23,851	32,302	33,142	34,497	n.a.
Agriculture loans (%)	6.0%	6.9%	7.3%	7.0%	6.9%	n.a.
RBK						
Total loan portfolio (in ths Euros)	229,541	341,835	427,101	381,181	391,926	429,076
Agriculture loans (in ths Euros)	-	2,318	6,387	7,080	8,226	10,010
Agriculture loans (%)	-	0.7%	1.5%	1.9%	2.1%	2.3%

Source: Banks’ annual reports and interviews

The following table shows the trend in the number of RBK agricultural borrowers over the time period 2006-2011.

Table 19: RBK’s agro borrowers 2007 - 2011

No. of borrowers	2006	2007	2008	2009	2010	2011
Agrolending	-	206	1000	900	1300	2100
Growth in no. of borrowers	n.a.	n.a.	385%	-10%	44%	62%

Source: Information provided by RBK

Findings:

1. The USAID/DCA Loan Portfolio Guarantee Project has undoubtedly influenced other commercial banks in Kosovo to target the agriculture and agribusiness sectors as additional markets for their lending activity. However, there is no attribution by these banks to RBK for their change in attitudes for agro lending. They maintain that their change in perception toward agro lending has resulted from their independent analyses of the Kosovo market.
2. All major commercial banks in Kosovo are actively seeking to expand lending to the agriculture and agribusiness sectors, including small-scale lending. Previously, the involvement by banks other than RBK and PCB in agro lending was to provide a very limited number of large loans to food processors, which were largely international companies.

5.0 SUSTAINABILITY OF FINANCIAL ACTIVITY

5.1 Sustainability of RBK’s Lending Activity with Small-Scale Clients in the Agriculture Sector

An issue raised in the Request for Task Order Proposal (RFTOP) for the USAID/DCA LPG project concerns the sustainability of RBK’s lending activity to the agricultural sector after the loan guarantees end, as well as the capacity of RBK’s small-scale agricultural borrowers to exist and continue their production in the future, without benefit of DCA loan guarantees. This section discusses these important sustainability issues and presents the team’s findings on their outcomes.

5.2 Sustainability of RBK Agro Loans after the DCA Loan Guarantees End

The most direct method for determining the sustainability of RBK's agro-lending program is simply to review what, if any, changes occurred in the number and the amount of outstanding loans provided by the bank to the agricultural sector after the DCA loan guarantee was fully utilized, after which no new loans issued by RBK could be guaranteed. The date when the loan guarantee became fully utilized was September 30, 2008. Table 20 provides information on the amount of agro-lending by RBK during the periods before and after the loan guarantees ended for new loans. This table also compares the growth in RBK's total loan portfolio with its agricultural lending portfolio for calendar years 2007 – 2011, which is the entire time the LPG project has been in effect.

Table 20: RBK's Agro Loans 2007 - 2011

	2006	2007	2008	2009	2010	2011
Total loans (in ths Euros)	229,541	341,835	427,101	381,181	391,926	429,076
Agro-loans (in ths Euros)	-	2,318	6,387	7,080	8,226	10,010
Agro-lending (in % to total)	-	0.68%	1.50%	1.86%	2.10%	2.33%
Growth in total loans (%)	-	49%	25%	-11%	3%	9%
Growth in agro-loans (%)	-	-	176%	11%	16%	22%

Source: RBK's annual reports and interviews

As shown by this table, RBK's agro-loan portfolio is entirely sustainable, based on its pattern of growth after the limit on guaranteed loans was reached in September 2008. No new loans have been guaranteed since that date, when the loan guarantee fund was fully utilized. Despite a reduction in total RBK lending in 2009, agro loans issued by the bank have increased every year during the period 2007 - 2011. Furthermore, RBK's agro-loan portfolio has continued to gradually increase in amount and as a percentage of its total portfolio since the date when the guarantees ended for new loans, or September 2008.

Additionally, based on information provided by RBK, the cumulative amount of lending for agriculture that has occurred since the guarantee ended for new loans (September 2008) amounts to \$22.5 million. As of 31 December 2011, RBK has some \$13 million in outstanding loans.

Finding: RBK's agricultural and agribusiness lending program is entirely sustainable.

5.3 Sustainability of RBK's Small-scale Agricultural Borrowers

The most appropriate measure to determine the capability of RBK's small-scale borrowers to continue to exist as productive members of Kosovo's agricultural sector is to review their rate of success as debtors: that is to say, the percentage of borrowers that successfully completed their loan process, ending with their successful loan repayment to RBK. If they were able to successfully complete the loan process and bring their investment to fruition, it is highly likely that they will continue to engage in future agricultural production. For purposes of this analysis, therefore, we will use the borrower success rate as a proxy for borrower sustainability. The following table provides a comparison between the entire population of RBK borrowers with those borrowers that have been declared in default on their loans as of March 31, 2012, with claims paid by DCA:

Table 21: Defaulted RBK's agro loans under DCA

With Defaulted Loans Under DCA Guarantee as of March 31, 2012			
	Total Loans	Defaulted Loans	Defaulted (%)
Number of Loans	898	58	6.45%
Total Loan Amount	\$9,911,934	\$465,563	4.70%
Average Loan Amount	\$11,026	\$8,027	72.80%

Source: Banks' annual reports and interviews

As shown by this table, 6.45% of the borrowers who owed 4.70% of the entire amount of loans guaranteed by DCA have been declared in default by RBK. Given the pioneering nature of the LPG project, this level of losses is not considered unreasonable. Based on this analysis, the team concludes that Kosovo’s small-scale borrowers are, on aggregate, sustainable.

This conclusion was verified by the field survey of a sample of borrowers conducted by the evaluation team. The following table shows that 74% of the RBK clients that were interviewed by the evaluation team have taken additional loans from RBK or other commercial banks. Furthermore, 60% of the RBK clients that were interviewed by the evaluation team are presently interested in obtaining an additional loan. This shows that a strong majority of the beneficiaries of DCA guaranteed loans continue to be economically active, which also gives a good indication of the sustainability of agro production by these borrowers.

Table 22: Loan history of borrowers surveyed

Loan History of RBK Borrowers Surveyed	Indicators
Total number of borrowers surveyed	42
Aggregate loan amount from RBK	296400
Range of RBK loans	€1,000 - €30,000
Average loan amount from RBK	7057
Number of borrowers that have taken other loans	31
Percent of total borrowers interviewed	73.81%
Number of borrowers presently interested in taking another loan	25
Percent of total borrowers presently interested in taking another loan	59.52%

Source: Analyses of consultants based on CMS Data and field survey

Finding: The borrower success rate for repayment of RBK loans and their interest in taking on new loans indicates their sustainability as productive members of Kosovo’s agricultural sector.

6.0 PROJECT RELEVANCE

6.1 Relevance of the LPG Project

One of the issues raised in the RFTOP for the evaluation of the LPG project was to discuss how the project fits into the mission’s current strategy as well as the ever-evolving regulatory and legal environment in Kosovo. The following provides a brief analysis and summarizes the evaluation team’s findings as to the relevance of the LPG project.

6.2 Relevance to USAID/Kosovo’s Country Development Strategy

Support to Kosovo provided by the US Government focuses on five main activities:

- Government institution building
- Encouraging democratic processes
- Promoting economic development
- The rule of law
- European integration.

The USAID vision for Kosovo is an effective state with a viable economy and an inclusive democracy on the path to European integration. The USAID/Kosovo’s strategic plan for 2010-2014 specifies three assistance objectives:

- Youth become productive and engaged members of society
- Increasing Private Sector-Led Economic Growth
- Empowering Citizens to Consolidate Democracy

The LPG project is directly related to the second assistance objective, which is to increase private sector-led economic growth. There are three intermediate results that support the assistance objective for increased economic growth, which include:

- An improved enabling environment for business growth
- Helping targeted sectors, including agriculture, to become more competitive
- Increased affordable and accessible credit

The LPG project is particularly relevant to the third intermediate result. Kosovo's financial sector is relatively stable and well-supervised by the Central Bank; however, it offers a limited range of high-cost products to its clients. In general, interest rates are higher than in neighbouring countries, putting local firms at a competitive disadvantage. The LPG project, as well as other planned USAID activities, will support new and improved credit products for secured lending to key industries including agriculture; improvements in the credit information system; and expanded use of the credit registry. These activities will help to increase competition for agro lending, which will eventually lead to improved financial services at lower costs. The USAID/DCA facility specifically encourages agricultural lending by commercial banks, which is entirely consistent with USAID/Kosovo's Country Development Strategy (CDS).

Finding: The LPG project is entirely relevant to USAID/Kosovo's CDS.

6.3 Relevance to Kosovo's Economic Development Priorities

Economic development and sustainable economic growth are key goals and strategic priorities of the Government of Kosovo (GOK). GOK's vision for the country is "a prosperous and dignified European society for all citizens of Kosovo." Its key priorities cover economic development, good governance, human capital development, and social welfare. The planned activities to achieve these goals are outlined in the Kosovo Economic Development Plan (EDP) 2011-2014.

Through the implementation of the EDP, the government expects to achieve a growth rate of 7-8% per annum in the medium term, and a reduction in the number of registered unemployed by 8-10% per annum. Strategic priorities for achieving these objectives are structured around five major activities, or "pillars":

- Maintaining macro-fiscal sustainability
- Support for the private sector, private investments, and the investment environment
- Development of public infrastructure
- Revitalization of the agriculture sector
- Human capital development

Revitalizing the agriculture sector is one of GOK's priorities. According to the EDP, this will be emphasized during the medium term with the aim of increasing productivity, substitution of agricultural imports, and increasing agricultural employment. Most of the specified measures aim at directly supporting agricultural production through targeted subsidies, while at the same time introducing policy measures to facilitate agricultural sector development. Important objectives specified by the action plan include: increasing agriculture expenditures to a level of 3% of the Kosovo budget; strengthening agricultural advisory services; strengthening the institutional capacity of MAFRD; generating specific applied research; enhancing and improving rural infrastructure; and facilitating access to agricultural credit.

The LPG project supports lending to the agricultural sector and is entirely consistent with Kosovo's development priorities.

Finding: The USAID LPG project is entirely relevant to Kosovo's EDP and its development priorities.

7.0 SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

7.1 Summary of Findings

The findings of the evaluation team are summarized as follows:

1. The USAID-supported training helped Kosovo's second largest bank to expand its loan program into agriculture and agribusiness. It provided specialized training to loan officers who had no knowledge of the agricultural sector. Training served to increase the bank's loan portfolio and to enhance the capability of its staff to make successful loans.
2. The USAID/DCA loan guarantee program has had an impact on agro lending that far exceeds the amount of its exposure and program costs. The cost to-date to the USG for the DCA loan guarantee program in Kosovo is \$38,006 per million dollars guaranteed. This cost is entirely reasonable.
3. RBK's senior bank management is fully committed to the DCA loan guarantee program, and this commitment has filtered down to the bank's operating staff. The bank's strong commitment to the loan guarantee program resulted in the utilization of almost the entire loan guarantee amount in only two years.
4. As a result of its participation in the DCA loan guarantee program, RBK modified its agro-lending policy to change its classification of agro lending from a restricted market to a target market.
5. The interest rate policy adopted by RBK for DCA-guaranteed loans was to reduce its interest rate for agro loans by 1% compared to non-agro commercial loans of similar size. However, due to the smaller average size of agro-loans compared to commercial loans, the average interest rate for agro-loans in 2011 was actually higher than the interest rate for commercial loans.
6. RBK has made no changes to its requirements for collateral applicable to the agro-loans that are guaranteed by the DCA. The amount of collateral required by the bank for all loans is, on average, 7.8 times the amount of the loan. This is extremely high.
7. RBK has exercised reasonable measures to ensure that DCA-guaranteed loans are used for agriculture and agribusiness. However, based on information obtained from field interviews with loan beneficiaries, a small amount of "leakage" may have occurred as a result of borrowers diverting loan funds to non-agro purposes.
8. It would be possible for USAID to obtain important information on the development impact of agro-lending by negotiating the requirement to provide this information by participating banks.
9. By far, the main concern of the RBK clients surveyed by the evaluation team was the high interest rates charged by RBK, which they considered to be excessive. The second greatest concern was what they considered to be excessive collateral requirements by the bank. Notable, also, is that half the people interviewed are reluctant to take another loan, primarily because they are afraid that they could not make the interest payments.
10. Some small-scale borrowers of DCA guaranteed agro-loans provided by RBK are not fully aware of the terms and conditions of their loan agreement. Those interviewed by the evaluation team who felt mistreated by the bank did not fully understand the loan process and the charges involved.
11. Despite the difficulties encountered in the loan process by most of the RBK clients that were interviewed by the assessment team, the respondents gave a generally high rating to RBK and its agro-loan staff. It seems that the bank staff at RBK's branch offices is quite effective in maintaining good client relations.
12. The LPG project encouraged lending to the agricultural sector at a critical time. RBK's initiation of agro-lending was a break-through in Kosovo.

13. The LPG Project has helped to increase the availability of longer-term financing for agro-investments, and is bringing small-scale agro-lending into Kosovo's financial mainstream.
14. Most of the DCA-guaranteed loans were assigned to livestock and crop production, which provide a relatively limited impact on employment. Small scale livestock investments, in particular, provide little employment benefits. However, despite limited employment generation, livestock production provides substantial income benefits from milk as well as meat production. This is extremely important for the family's food security.
15. Grain crops, whose production and harvest tend to be mechanized processes, provide a modest amount of income and employment. However, since these are food crops for both people and animals, they are also an important element in the family's food security. Grain crop production is largely a support activity for livestock.
16. Certain crops, including high-value horticulture production, greenhouse production, and commercial poultry production, provide a substantial impact on farm employment and income.
17. The impact of the LPG project on ethnic minorities is limited.
18. The direct impact of the LPG project on females is quite small. However, since females participate as a family member in the family business that received the guaranteed loans, the indirect benefits of the LPG project on females is considerably greater.
19. Based on the results of the field survey conducted by the evaluation team, approximately one-fourth of family businesses that received DCA-guaranteed loans involve females as active members.
20. The USAID/DCA LPG project has undoubtedly influenced other commercial banks in Kosovo to target the agriculture and agribusiness sectors as additional markets for their lending activity. However, there is no attribution by these banks to RBK for their change in attitudes for agro-lending. They maintain that their change in perception toward agro-lending has resulted from their independent analyses of the Kosovo market.
21. All major commercial banks in Kosovo are actively seeking to expand lending to the agriculture and agribusiness sectors, including small-scale lending. Previously, the involvement by banks other than RBK and PCB in agro-lending was to provide a very limited number of large loans to food processors, which were largely international companies.
22. RBK's agricultural and agribusiness lending program is entirely sustainable.
23. The borrower's success rate for repayment of RBK loans, and their interest in taking on new loans, indicates their sustainability as productive members of Kosovo's agricultural sector.
24. The USAID/Kosovo LPG project is entirely relevant to USAID/Kosovo's CDS.
25. The USAID LPG project is entirely relevant to Kosovo's EDP and its development priorities.

7.2 Conclusions

The following are the main conclusions reached by the evaluation team on the LPG project:

1. The USAID/DCA LPG project has been an effective mechanism that facilitated the expansion of RBK's loan portfolio into agriculture and agribusiness. The LPG project has achieved its purpose. The project directly influenced Kosovo's second largest bank to expand into a new market that had previously been considered by the bank as high risk and, therefore, restricted.
2. Under its agro-lending program, RBK has provided longer term loans for agricultural investments, for as long as five years. It has also provided small agricultural loans to small farmers, in amounts of no more that €2,000. The bank has also shown flexibility in arranging repayment schedules that

reflect cash flow from crop cycles. These are important breakthroughs for agricultural credit in Kosovo.

3. Despite the success of the LPG project, there still remains a tremendous unfilled demand for agricultural credit in the country. There is insufficient competition in the financial community that serves the market for agriculture and agribusiness lending. Limited competition has resulted in an industry known for exceedingly high interest rates and collateral requirements that are many times the value of loans received.
4. Management buy-in and commitment, as well as technical training in agro-lending for bank loan officers, are key elements in the success of a DCA loan guarantee program for agriculture and agribusiness. The RBK loan guarantee amount of \$10 million was fully utilized in only two years. A review of completed DCA loan guarantees worldwide shows that only 70% of the total amount guaranteed was ever utilized (\$675 million guarantee amount and \$475 million actually utilized). A look at the DCA loan guarantees that are presently underway indicates that the worldwide utilization rate is 45% of the guarantee amount (\$1.03 billion utilized thus far, of a total guarantee amount of \$2.3 billion).
5. The DCA is an effective development tool that can facilitate the availability of credit for diverse sub-sectors and groups such as export agriculture, micro-credit, and women. Loan guarantees can help any of these groups or sub-sectors to meet their credit needs.
6. A trained and highly motivated bank staff is a key requirement for a successful loan guarantee program. A condition for RBK's participation in the LPG project was that the bank had to provide a staff trained for agro-lending. When the DCA program began, the bank had assembled a qualified team of loan officers that was fully prepared to serve this new market. USAID, through its various agricultural development projects, has also provided follow-up training to bank staff on specialty agricultural crops such as asparagus and strawberries. A good option to provide training of bank staff under a new DCA program would be KBA, through a train-the-trainer program.
7. Borrower training would help the lending process in Kosovo. RBK's loan officers now have to develop simple business plans for small-scale borrowers by conducting interviews and completing bank forms that describe the farmers' planned business ventures. Borrower training could help to reduce some of the burden on the loan officers, and might well improve the analysis of financial viability of the investments.
8. Of greater importance, however, is that the team's interview with RBK clients revealed that many borrowers do not fully understand the loan process and the legal obligations they incur. Few of those interviewed could recall their loan interest rate, but they all knew the amount of bank charges for their particular loan. A one-day loan training program provided by an organization such as AMIK would be a good investment to make sure the borrowers fully understand the loan process and their obligations under the loan agreement.
9. The DCA is most effective as an agricultural development tool when it is linked to integrated value chain development (e.g., dairy, horticulture, honey). In other words, if the DCA can be structured to serve the credit needs of small farmers that operate in a particular value chain, it will likely have the greatest development impact. Credit to value chain operators helps to create a viable and sustainable agro-industry that includes the production, transformation, and marketing of the value chain product.
10. The effectiveness of DCA as an agricultural development tool can be further enhanced if it can be linked to out-grower schemes. For example, a DCA banking partner would provide crop production credit to small farmers who sell their products to an agro-processor. The agro-processor would withhold funds from its payment to the small farmers in an amount required to service the debt to the bank. Such an integrated program has a much greater development impact than, say, lending money to a single farmer to buy a single cow.
11. For the greatest development impact, DCA agro-lending should be reinforced by production technical assistance. For example, a new DCA loan guarantee program could work closely with

the USAID-funded NOA project to provide crop financing for export horticulture. Technical assistance provided by the project would reduce the risk of crop failure by the farmer, which in turn, would reduce the risk of loan default for the bank. Furthermore, the organizational and technical support provided by a development project such as NOA to those participating small farmers provides assurance to the bank that the investment will be successful.

12. Valuable information on the impact of the loan guarantee program on economic development indicators could be generated without great difficulty by the implementing bank. For example, a limited amount of follow-up and reporting by loan officers could provide information on impact indicators such as employment generation, sales, asset growth, participating ethnic groups and gender that result from the loans provided by the bank.

7.3 Recommendations

The recommendations provided to USAID by the evaluation team are the following:

1. The evaluation team strongly recommends that USAID continue to use DCA loan guarantees as a tool for Kosovo's economic development, particularly in agriculture.
2. For new banks entering future DCA loan guarantee programs, USAID should ensure the commitment of bank senior management to the program by requiring that a specialized staff for agro-lending be created and trained, as part of the guarantee agreement.
3. USAID should support newly-participating banks in the guarantee program with initial training in agro-lending. KBA should be considered as future trainers, through a train-the-trainer process.
4. To the extent possible, loan guarantee programs should reinforce and support agricultural and agribusiness development projects carried out by USAID as well as other donors.
5. USAID should explore the possibility of supporting a training program for small-scale borrowers in the agricultural sector, to be carried out in cooperation with AMIK.
6. USAID should negotiate with the participating banks under future DCA loan guarantee programs for them to provide information on a limited number of development indicators such as the impact of the loans provided on employment, product sales, and asset growth.

ANNEXES

ANNEX I - SOURCES OF INFORMATION

REFERENCES

- Besa Ilazi, USAID Activity Manager. *Development Credit Authority – Loan Portfolio Guarantee Raiffeisen Bank J.S.C. Key Facts*. Undated
- Booz, Allen, Hamilton. *Kosovo Agricultural Opportunities Strategy*. USAID/Kosovo February 2010
- Booz Allen Hamilton. *USAID Kosovo Private Enterprise Program (KPEP) Annual Report Year One*. USAID Kosovo October 2009
- Crimson SME Finance Funds. *Creating Jobs & Building Competitiveness through Innovative Finance*. May 2011
- Development Credit Authority. *Credit Guarantees Promoting Private Investment in Development - Year in Review*. 2006
- Development Credit Authority. *USAID Guarantee Agreement Guarantee No: 167-Dca-06-001 between United States Agency For International Development and Raiffeisen Bank Kosovo J.S.C.*. September 2006
- Development Credit Authority. *Putting Local Wealth to Work: an Overview of USAID's Credit Guarantees*
- Development Credit Authority. *Welcome to DCA: A Brief Guide on how to Use your USAID Credit Guarantee*
- Development & Training Services, Inc. *Mid-Term Evaluation of the Kosovo Private Enterprise Program (KPEP)*. September 2011
- KPMG Albania Sh.p.k., Kosovo Branch. *Investment in Kosovo* Edition 2011
- Microfinance Information Exchange (MIX) and Association of Microfinance Institutions in Kosovo (AMIK). *Kosovo 2009 - Microfinance Analysis and Benchmarking Report*. January 2010
- Microfinance Information Exchange (MIX) and Consultative Group to Assist the Poor (CGAP). *MIX Microfinance World: Eastern Europe and Central Asia Microfinance Analysis and Benchmarking Report*. 2010 March 2011
- Partners for Financial Stability. *Kosovo High Level Financial Sector Overview*. USAID/Kosovo May 2011
- Partners for Financial Stability. *Kosovo 2010 – 2013: A New Phase* USAID Online brochure (undated)
- Raiffeisen Bank Kosovo. *Annual Report 2010*
- Raiffeisen Bank Kosovo. *Annual Report 2011* May 2012
- Sandra Goshgarian, EGAT/DC USAID Office of Development Credit. *Biennial Review Raiffeisen Bank Kosovo JSC*. April 2008
- Tim Hammond, Rural Finance Consultant. *Small Farmer Support Project (SFS) Review of Agricultural Credit in Kosovo USAID/Kosovo*. October 2003
- The Mitchell Group. *Final Evaluation of Kosovo Cluster and Business Support (KCBS) Final Report*. USAID/Kosovo. June 2008
- The World Bank. *Kosovo Country Brief 2010*. Web report

The World Bank International Development Association, International Finance Corporation. *Interim Strategy Note for Republic of Kosovo for the Period FY10–FY11*. Report No. 49872-XK. December 2009

The World Bank. *Doing Business 2012 Economy Profile: Kosovo*. 2012

The World Bank. *Kosovo Partnership Program Snapshot*. September 2011

The World Bank. *Republic of Kosovo: Interim Strategy Note Fiscal Years 2010-2011 Executive Summary*. Undated

USAID/Kosovo. *AgCLIR: Kosovo Commercial Legal and Institutional Reform Diagnostic of Kosovo's Agriculture Sector*. March 2010

USAID. *Performance Monitoring & Evaluation Tips Constructing an Evaluation Report*. No. 17, 1st Edition, 2010

USAID/Kosovo. *Strategic Plan 2010-2014*. May 2010

ANNEX II - WORK CALENDAR

May 2012

SUNDAY	MONDAY	TUESDAY	WEDNESDA	THURSDAY	FRIDAY	SATURDAY
	30 Review background information	1 Review background information	2 Review background information	3 Write work plan, Conference call USAID and DCA	4 Write work plan Submit draft work plan and schedule to USAID	5 TE travel to Kosovo Travel
6 TE & LQ travel to Pristina	7 Meet w/USAID; review work plan & schedule; meet KPEP COP; revise	8 09:00- RBK- LPG project team; 13:00 ProCredit; 15:30 BKT Submit final work plan and schedule to USAID	9 Local holiday Europe Day; 11:00 CFF COP; 16:00 NOA COP; RBK	10 09:00 RBK; 13:15 AMIK; 14:15 KBA; 15:30 NLB	11 09:00 Central Bank; 10:30 MAFRD; 13:30 TEB; 15:00 USAID;	12 Visit RBK clients Lypjan and Shtyme
Pristina	Pristina	Pristina	Pristina	Pristina	Pristina	Stay in Pristina
13	14 Meet with RBK; visit RBK clients Istog, Peje, Kline,	15 Visit RBK clients in Vushtrre and Podujeve	16 Visit RBK clients in Kamenice, Gjakove, Malisheve,	17 Meet with RBK clients in Pristina, Drenas, Ferizaj,	18 Meet with USAID; RBK; visit RBK clients Pristina	19 Prepare USAID oral briefing
Pristina	Stay in Pristina	Stay in Pristina	Stay in Pristina	Stay in Pristina	Stay in Pristina	Pristina
20	21 11:00-USAID oral briefing; presentation of findings	22 LQ & TE travel home	23 Write draft report	24 Write draft report	25 Write draft report	26
Pristina	Pristina USAID presentation	Travel				
27	28 Write draft report Memorial Day	29 Write draft report	30 Write draft report	31 Write draft report Submit draft report		

June 2012

SUNDAY	MONDAY	TUESDAY	WEDNESDA	THURSDAY	FRIDAY	SATURDAY
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
					Receive Comments from USAID	
17	18	19	20	21	22	23
24	25	26	27	28	29	30
				Revise report	Revise report	Submit final report

**ANNEX III – EVALUATION WORK PLAN (INCLUDING EVALUATION
QUESTIONNAIRES, CHECKLISTS, AND DISCUSSION GUIDES)**

USAID/Kosovo

Mid-term Performance Evaluation

Loan Portfolio Guarantee Project with Raiffeisen Bank Kosovo

Workplan

May 9, 2012

Submitted by:

Mendez England & Associates

4300 Montgomery Ave., Suite 103

Bethesda, MD 20814-4413

Tel: (301) 652-4334 Fax: (301) 652-3733

TABLE OF CONTENTS

I. Introduction.....	1
II. Evaluation Team Tasks.....	1
III. Schedule for Completion of Deliverables.....	2
IV. Evaluation Methodology.....	2
V. Proposed Site Visits and Meetings.....	5
ANNEX I Work Calendar	
ANNEX II Evaluation Report Draft Outline	
ANNEX III Illustrative Interview Questions	

MID-TERM EVALUATION WORK PLAN

I. Introduction

Mendez, England and Associates is pleased to submit this draft work plan for the mid-term evaluation of the USAID/Kosovo Loan Portfolio Guarantee (LPG) Project with Raiffeisen Bank Kosovo (RBK). The work plan is presented in the following sections:

1. Evaluation Team Tasks
2. Schedule for Completion of Deliverables
3. Evaluation Methodology
4. Proposed Site Visits and Meetings
5. Work Calendar
6. Illustrative List of Organizations and Individuals to be Interviewed
7. Draft Outline for Final Report
8. Illustrative List of Questions for the different groups of project stakeholders, beneficiaries, and involved third parties.
9. Initial List of Questions for USAID/Kosovo and USAID/DCA/Washington, DC

We hope that this work plan meets your expectations and look forward to any comments or suggestions for modifications that you may have.

II. Evaluation Team Tasks

A. Evaluation Team Members and Tasks Assigned to Each

- ***Tom Easterling***, Team Leader, will be responsible for team organization, scheduling, and primary liaison with the USAID/Kosovo Mission Monitoring and Evaluation Specialist (MMES) regarding technical items. He will have overall responsibility for the preparation and submission of the final report with substantial input from the Finance and Budget Analyst. The analyst will report to Mr. Easterling on technical issues.

The team leader will take the lead in preparing the project schedule and work plan, and will work closely with the other team member to determine information requirements, develop key questions, conduct interviews, and gather other relevant information. He will also lead the team's effort to prepare and deliver a presentation on findings, conclusions and recommendations for future action at the team's final meeting with USAID/Kosovo.

In terms of the preparation of the final report, Mr. Easterling will take the lead in developing the analysis and recommendations arising from the team's qualitative analysis of the LPG project's effectiveness, impact, sustainability, and relevance to agricultural and agribusiness lending in Kosovo.

- ***Laura Qorlaze***, Finance and Budget Analyst, will apply her experience in financial analysis and budgeting to assess the quantitative aspects of the LPG project's effectiveness and impact on RBK's agricultural and agribusiness lending in Kosovo. Ms. Qorlaze will also analyze the impact of a representative sample of RBK agricultural and agribusiness loans on job creation as well as the economic benefits from these loans accruing to small- and medium-scale borrowers. Additionally, Ms. Qorlaze will analyze the effect of the LPG

project on RBK’s lending policies and on its loan portfolio. Finally, as a means to analyze the possible effects of the LPG project on the loan portfolio of other banks and financial institutions in Kosovo, Ms. Qorlaze will interview key individuals in other commercial banks and financial institutions and will quantify the results.

These team members will be supported by an Interpreter / Administrative Assistant who will provide logistical, administrative, clerical, and translation support as required throughout the evaluation.

In view of the wide range of tasks to be carried out, the two team members will, in general, work separately to conduct their evaluation interviews. However, they will meet frequently to compare notes and provide updates on their respective progress. Furthermore, each team member will write a meeting summary after each interview that will be given to the other team member. These interview notes can also be provided to USAID if desired. While the additional time required to write the interview notes tends to limit the number of interviews that can be conducted during a given day, they will provide a substantial communications benefit, and will also serve as an effective *aide- mémoire* for the meetings.

III. Schedule for Completion of Deliverables

Deliverables	Date
Submit draft work plan and schedule	May 4, 2012
Submit final work plan and schedule	May 9, 2012
USAID oral briefing and presentation	May 21, 2012
Submit draft final report	May 31, 2012
Submit Final Report	Within 15 days following receipt of comments from USAID

IV. Evaluation Methodology

A. Evaluation Objectives

The evaluation has three objectives:

1. The main objective is to analyze the USAID/Kosovo LPG project in terms of its effectiveness, impact, relevance, and the sustainability of its agricultural and agribusiness lending program. This will be done by means of a quantitative analysis of data available from the LPG project performance monitoring plan (PMP), from USAID/Kosovo and RBK; and by qualitative means through interviews with RBK and project beneficiaries.
2. Secondary objectives are to a) determine the LPG project’s effect on employment and economic growth in the agriculture and agribusiness sub-sectors, and b) determine Raiffaisen Bank of Kosovo’s performance in agriculture and agribusiness versus the performance of other banks that did not participate in the LPG program. These objectives will be achieved primarily through a qualitative analysis of information derived from project reports and interviews with LPG project management, project beneficiaries, relevant third parties, RBK, and other commercial banks and financial institutions in Kosovo. To the extent that reliable data can be generated from interviews with a sample of loan guarantee beneficiaries and third-party financial institutions, these results will be quantified as well.

B. Quantitative Analysis

To the extent available, data for the quantitative analysis will be taken from the M&E system for the LPG project that was been created under its PMP, as well as portfolio data provided by RBK. In the event these data are not available from the M&E system or RBK, the evaluation team will attempt to glean this information through structured field interviews with a random sample of project beneficiaries. Even for those cases where performance data are available from the project M&E system or RBK sources, the field interviews will serve to confirm the impact and effectiveness of the LPG project. Evaluation team members will interview as many beneficiaries as possible during their time in Kosovo.

Determination of the “copy-cat” effect of RBK agriculture and agribusiness loans on other financial institutions in Kosovo will be made through direct interviews by the evaluation team with these institutions. Team members will attempt to obtain numerical data on changes in its agriculture and agribusiness portfolio for these third-party financial institutions.

The evaluation team will attempt to compile data on the following parameters, which will then be analyzed:

1. Jobs created
2. Sales increased
3. Access to finance enhanced
4. Investments made

To the extent possible, all quantitative data obtained by the team will be disaggregated by gender and by ethnicity.

C. Qualitative analysis

For the qualitative side of the evaluation, the team plans to interview the USAID/DCA staff in Washington, DC, the USAID/Kosovo staff in Pristina, RBK senior management and technical staff, other banks and financial institutions in Kosovo, a sample of beneficiaries (borrowers), relevant third parties such as donors and NGOs, and a very limited number of Kosovo government officials.

For efficient scheduling, we plan to hold interviews with representatives of all the selected organizations located within a specific geographical area during the same time period. The team members will schedule interviews with relevant organizations and individuals located in a particular geographical area, and when the interviews are completed, they will move to another geographical area.

The evaluation team’s work will include the preparation of appropriate questionnaires that will enable the team members to collect information from parties involved in or benefitting from the LPG. In this regard, illustrative questions for six groups – project beneficiaries, involved third parties, RBK staff, other commercial banks and financial institutions, USAID/ Kosovo, and USAID/ DCA Washington, DC – are presented in Annex III.

The evaluation team will also seek to determine the impact of RBK’s lending activity on women. These findings and conclusions will be incorporated as a separate section of the evaluation report.

The proposed outline for the draft evaluation report is shown in Annex I.

D. Tasks

The team will complete the following tasks during the evaluation:

Review of appropriate documents: The team will review a broad set of background information on the DCA facility in Kosovo, progress reports generated by the LPG project, Kosovo agricultural and economic statistics and agricultural policy, country briefs and analyses provided by international organizations including the World Bank, and project reports published by relevant USAID projects in Kosovo, including the Kosovo Cluster and Business Support project (KCBS), the New Opportunities for Agriculture (NOA) project, and the Kosovo Private Enterprise Project (KPEP) project documents.

Meetings and interviews with key actors: The team will meet with and informally interview key USAID officials and RBK management and technical staff in Kosovo, as well as individual beneficiaries of the loan guarantee program. As previously indicated, the evaluation team members also plan to interview members of the financial community in different locations throughout Kosovo, as well as representatives of multi-lateral and international development organizations, policy think-tanks, and a limited number of government official involved in agricultural and agribusiness lending in Kosovo.

In particular, the evaluation team will meet with the USAID/Kosovo Monitoring and Evaluation (M&E) team to thoroughly discuss data collection, analysis, and reporting on actual performance to-date and overall project results against its targets. These discussions with the M&E team will help the evaluation team to refine its interview questions and the compilation of information, and to identify data gaps

Finalizing team conclusions and recommendations: The team members will meet frequently throughout the travel period in Kosovo to share ideas and discuss key conclusions and recommendations, with the “lead” person assuming responsibility for incorporating the team’s conclusions within his or her assigned section of the report. The team members will work intensively at their respective home locations for the final week of the project to finalize their conclusions and recommendations to complete an initial draft of the final report, for submission to USAID/Kosovo on or about May 31, 2012.

Annex I shows the evaluation team’s tentative work schedule in calendar format.

V. Proposed Site Visits and Meetings

An illustrative list of proposed site visits and meetings is shown in the following table.

Illustrative List of Proposed Site Visits and Meetings		
Location	Organization	Organization
Pristina – international organizations	USAID/Kosovo	The World Bank
Pristina – government agencies	Ministry of Agriculture	Central Bank

Illustrative List of Proposed Site Visits and Meetings		
Location	Organization	Organization
Pristina – banks, DCA program beneficiaries, and micro-credit organizations	Raiffeisen Bank Kosovo Turk Ekonomi Bankiasa (TEB) Banka Kombetare Tregtare (BKT) New Bank of Ljubljana (NLB) ProcCedit Bank	Kosovo Bankers' Association (KBA) Microfinance Association of Kosovo (AMIK) Micro-finance organization: FINCA
LPG program borrowers and NGOS	Mitrovice NGO: Initiative for Agricultural Development of Kosovo Gjakova NGO: Kosovo Agricultural Future	Interviews with DCA loan guarantee beneficiaries in Pristina, Mitrovice, Podjueve, Ferizaj, Lipian, Prizren, Gjakova, and Peje

ANNEX IV – EVALUATION REPORT DRAFT OUTLINE

RAIFFEISEN BANK KOSOVO LOAN PORTFOLIO GUARANTEE PROJECT MID-TERM EVALUATION

PROPOSED REPORT OUTLINE

Cover Page

Acronyms

Table of Contents

- I. Introduction (Who, what, why this report)**
- II. Background**
 - A. Situation overview; Kosovo setting
 - B. Project Description (General description; LPG project summary)
- III. Evaluation Methodology**
- IV. Analysis**
 - A. Project Implementation
 - 10. Implementation Strategy
 - 11. Implementation Activities
 - 12. Results Achieved
 - a. Before and after comparison of quantitative results
 - b. Increased loan access
 - c. Benefits accruing to RBKO
 - Institutional strengthening
 - 13. Findings, Conclusions and Recommendations
 - B. Implementation Effectiveness
 - 1. Effectiveness of Project Management Team
 - 2. Changes in RBKO Business Strategy
 - 3. Changes in RBKO Collateral Requirements
 - 4. Changes in RBKO Loan Portfolio
 - a. Comparison of loans issued based on lower collateral requirements
 - b. Comparison of long-term loans issued
 - c. DCA utilization rate
 - 5. Cost Effectiveness (compared to alternative approaches)
 - 6. Findings, Conclusions and Recommendations
 - C. Implementation Impact
 - 1. Direct Impact - RBKO
 - a. Quantitative impact
 - Improved terms for borrowers
 - b. Qualitative impact
 - c. Firms financed from DCA
 - 2. Secondary Impact – Other banks and financial institutions
 - a. Firms financed by other banks
 - b. Other banks entering market
 - c. Findings, Conclusions and Recommendations
 - 3. Employment and Job creation
 - D. Sustainability of Financial Activity

1. Sustainability of Clients' Borrowing Capacity
2. Sustainability of RBKO Lending Without LPG
3. Likely Scenario at Project End
4. Findings, Conclusions and Recommendations

E. Project Relevance

1. Relevance to Private Sector-led Economic Growth
2. Relevance to USAID Development Mission in Kosovo
3. Relevance to Kosovo Regulatory and Legal Environment

F. LPG Major Accomplishments

1. Financing Agribusiness Loans
2. Stimulating Kosovo's Economic Growth
3. Findings, Conclusions and Recommendations

V. Summary of Conclusions and Recommendations for LPG Project

VI. Recommendations on Possible Future DCAs

ANNEXES

1. Sources of information, properly identified and listed
2. Scope of Work
3. Evaluation tools (including questionnaires, checklists and discussion guides)
4. People Met with Contact Information
5. Disclosure of conflicts of interest forms for evaluation team members
6. "Statements of differences" describing significant unresolved difference of opinion by funders, implementers, and/or members of the evaluation team

ANNEX V – ILLUSTRATIVE INTERVIEW QUESTIONS

EVALUATION QUESTIONS

DCA BENEFICIARIES – BORROWERS

For beneficiaries of the DCA facility, including small-scale borrowers:

1. How would you describe your ethnic background? a) Kosovo Albanian; b) Kosovo Serb; c) Kosovo Turk; d) Kosovo Gorani; e) other.
2. What is the nature of your business or profession? For how long have you been in this business/profession?
3. What is your relationship with Raiffeisen Bank of Kosovo (RBK)? Have you received a bank loan from RBK in the past? How often have you obtained loans from RBK? Do you have any outstanding loans with RBK?
4. Please describe the terms and conditions of the loan you were provided recently, and how you used the loaned funds.
5. How did you receive the loan? Were you approached by RBK? Or you approached the bank with a request for loan?
6. What have been the results to date? Has the loan been used for the intended purpose? Have you been able to pay back the principal + interest in time? Is the interest charged by RBK too high, or reasonable compared to other banks?
7. How about collateral asked by RBK? Is it reasonable? Have you heard cases in your business sector where collateral has been taken by RBK (or other banks)? Is this common or does it happen rarely?
8. Has the loan from RBK helped you to start up the business or expand the business?
9. Have you hired new employees given the start up / expansion of your business? Are these employees member of your family / extended family? Are they seasonal employee? Have you hired more women or men? Have you hired Albanians or other ethnic groups? Please describe.
10. How satisfied are you with the experience with the RBK's performance? How would you rate your level of satisfaction with RBK on a scale of 1 – 10 (10 highest)? Explain the basis of your rating.
11. How effective do you view RBK's work? Can you provide comments about the experience, qualifications, and effectiveness of RBK's officers? Does RBK's officers stay close to you? Do they follow up closely on your progress / difficulties you face?
12. Had you not been able to obtain a loan from RBK (or other banks), what financing alternatives would have been available to you? Would have these other financing alternative been more or less expensive than the loan from RBK?
13. Has the loan from RBK had any impact on your business activity, in terms of increased sales, increased income, increased earnings, increased employment and increased productivity?
14. Where do you sell your products? To a processor? To retail market? How much is for your own consumption?

15. What difficulties a small farmer (average 2 ha) is facing in terms of financing business activities? If small farmers are gathered in some sort of 'cooperative' would it ease the financing and why you think it will (or why it will not)?
16. In addition to receiving the loan from RBK, were you provided any training or technical assistance to help you with the loan process e.g., writing business plans, bookkeeping, cash management? If technical assistance was given to you, was it helpful? If technical assistance was not given to you, would have been useful?
17. In addition to receiving the loan, have you been provided any production technical assistance, training, or other support from any project, NGO, or MAFRD to help with your farming or business activity?
18. After you pay back the current loan to RBK, do you think you can finance your business with your own cash, or you think that you will again need bank financing or other financing to help you be in business?
19. If you were to receive a new loan from RBK, what terms and conditions you would like to see in this new loan? For what purpose you would like the next loan be used? Working capital (increase of produce, new varieties) or capex (machinery, new technology, irrigation)?
20. What measures should be taken by GOK to encourage agricultural/agribusiness lending in Kosovo? Should agriculture sector be stronger than it is now? Why and how?

RAIFFEISEN BANK KOSOVO

For Raiffeisen Bank Kosovo (RBK):

26. Can you please summarize the events leading up to your partnership with USAID/Kosovo for the DCA loan guarantee program?
27. How satisfied are you with the DCA program thus far? What are the program's strongest points? Are any improvements needed?
28. In your opinion, how successful is the DCA program? How well has it met RBK's objectives? Has lending to agriculture increased in Kosovo as a result of DCA program? Is agriculture now seen as less risky? Has RBK lent in agriculture sector before LPG program?
29. How effective do you consider the work to be of implementing the DCA loan guarantee program in Kosovo? Do you have any observations about the experience, qualifications, and effectiveness of the Loan Portfolio Guarantee (LPG) project management team?
30. Can RBK provide the evaluation team with information that will help us determine the impact of the DCA program on agricultural and agribusiness finance in Kosovo? Ideally, we would like to compare RBK's loan guarantee program with its normal, commercial loan portfolio. See further the list of requested documents.
31. Do you see the LPG as highly appropriate and relevant, in light of the current regulatory and legal environment in Kosovo? Do you believe it fits well within USAID's development strategy for Kosovo?
32. From the point of view of USAID, the LPG Project has two important objectives:
 7. To increase RBK's lending to the agribusiness sector
 8. To stimulate economic growth in Kosovo

How well do you believe these primary objectives are being accomplished? Please elaborate.

33. Secondary objectives of the Kosovo LPG project are to a) generate employment, and b) to serve as a role model and an example to other financial institutions in Kosovo, thereby encouraging them to increase their respective loan portfolios in the agriculture/agribusiness sub-sector. How well do you believe these secondary objectives are being accomplished? Please elaborate.
34. Does the LPG project have in place a means to determine how well these primary and secondary objectives (paragraphs 7 and 8) are being achieved? If so, what are they?
35. Are data available for the evaluation team to determine the impact of RBK's agriculture and agribusiness loans on employment?
36. What direct benefits do you feel that RBK has received from its participation in the DCA loan guarantee program (i.e., from portfolio growth or institutional strengthening or capacity building through training/hiring specialized resources)?
37. Are data available to measure the degree of expansion by other banks and financial institutions into agricultural and agribusiness lending?
38. Has RBK's lending behavior (collateral requirements, interest rates, tolerance for risk, targeted sub-sectors) changed as a result of the loan guarantee program? If so, how?
39. Has RBK found the DCA loan guarantee program a cost-effective way to increase its overall loan portfolio? From RBK's point of view, are there other means that would be more effective for the bank to expand into a new lending sub-sector?

40. As a result of the DCA loan guarantee program, has RBK made any changes in its lending policies and programs for females? Does RBK have programs to encourage lending to females? Does RBK support its employees with training and increased gender sensitivity?
41. Is there a Performance Monitoring Plan for the LPG project with indicators that are regularly monitored? If so, what are they? Who keeps track of them?
42. As a private, commercial bank, how difficult (or easy) has it been for your organization to work with an agency of the US Government? Does the bank have an effective working relationship with USAID/Kosovo? How responsive is USAID in its payments of its loan guarantees for defaulted loans?
43. Does the Kosovo LPG project have a human capital development component or an institutional strengthening component for either the bank, or the borrowers? If not, in your opinion, should it have these components?
44. Can RBK recommend any individuals, groups, or organizations in Kosovo the evaluation team should be sure to contact?
45. The evaluation team would like to contact a representative sample of RBK's clients for agriculture and agribusiness loans. This will help us to evaluate program impact at the client level. Would it be possible to obtain a list of these borrowers (with contact information) from which we could pull a sample of people to contact for interviews? Once we have identified the people to contact, it would be helpful if we could have access to their loan information. Would this be possible?
46. Can you please describe the measures/activities undertaken by RBK to promote lending in agriculture/agribusiness?
47. Is the lending under LPG directed more towards capital expenditures or working capital or both?
48. How does RBK monitor that its loans are used for the intended reasons?
49. Have any of RBK's past customers become LPG borrowers? Are any current LPG borrowers also RBK's customers for other loans?
50. How RBK assesses the borrower risk when lending under LPG program?
51. To assess the risk, what type of information RBK asks from its to-be customers? Business plans? Or other information?
52. On a scale of 1 – 10 (10 highest), how would you rate the Kosovo LPG project/DCA facility?
53. How sustainable is the DCA program? Do you anticipate that RBK will continue lending to agriculture and agribusiness after the USAID/DCA guarantees end? What do you think will happen when the program ends?
54. If the DCA program will continue what changes/improvements vis-a-vis the current one you would like to see?
55. Do you think the next DCA program should include a technical assistance component? If yes, what should be the target: small farmers or larger farmers? Should it be targeted to commercial agriculture (on the whole value chain) or simply to basic agriculture to try to keep people in the field? Should the program place more emphasis on training and building capacities for RBK's credit officers?

56. Should there be a follow-on DCA program, would RBK desire to participate? Should a new, follow-on program be designed any differently than the actual program? Please explain in detail.

Request for documents:

- A sample of loan contracts signed with commercial borrowers
- A sample of loan contracts signed with LPG beneficiaries
- Description of procedures followed by RBK for lending under LPG
- The size of the bank's loan portfolio split by sector prior and after the LPG program
- For loans granted under LPG and other commercial loans provide:
 - the average loan amount and the range of loan amounts
 - the average loan term and the range of loan terms
 - the percentage short-term loans compared to the percentage of long-term loans
 - the percentage amount of overdue loans and loans in default
(to the extent possible, these statistics should be broken down by gender)
- A list of loans granted under LPG with the indication of:
 - amount
 - date of placement
 - interest rate
 - collateral
 - outstanding amount as at 1 May 2012
 - instalments in default
 - due date for full repayment
- A list of qualifying loans removed from coverage by USAID or by RBK
- A list of claims by RBK and the respective amounts (approved and not approved by USAID), losses incurred by RBK (principal + interest) as well as the value/amount of colaterals collected by RBK
- A list of rescheduled / restructured loans
- Geographical spread of LPG loans vis-à-vis other commercial loans given by RBK
- Breakdown of loans by nature: (i) working capital (ii) capex, by ethnic groups (i) Albanians (ii) Serbians (iii) other ethnic groups, and by gender (i) men (ii) women
- Annual reportings made by RBK to USAID in the last three years (2009, 2010 and 2011)
- Annual financial statements for year 2010 and 2011
- The amount of utilisation fees paid to date (1 May 2012) to USAID.
- Report of agricultural and agribusiness lending by RBK since September 2008 (when the loan guarantee fund was fully utilized)

BANKS AND FINANCIAL INSTITUTIONS

For other banks and financial institutions in Kosovo:

1. Can you provide a brief description and background summary of your business?
2. Do you have any relationship with the Raiffeisen Bank of Kosovo's (RBK's) Loan Portfolio Guarantee (LPG) project?
3. Are you familiar with RBK's work to implement the USAID/Kosovo Development Credit Authority (DCA) loan guarantee? How would you rate your knowledge of this program on a scale of 1 – 10 (10 highest)?
4. How effective do you view RBK's work of implementing the DCA loan guarantee program in Kosovo? Do you have any observations about the experience, qualifications, and effectiveness of the Loan Portfolio Guarantee (LPG) project management team?
5. How sustainable is the DCA program? Do you anticipate that RBK will continue lending to agriculture and agribusiness after the USAID/DCA guarantees end? What do you think will happen when the program ends?
6. Do you see the LPG as highly appropriate and relevant, in light of the current regulatory and legal environment in Kosovo? Do you believe it fits well within USAID's development strategy for Kosovo?
7. In your view, how effective is the DCA program? Do you believe that it has achieved what it set out to do?
8. From the point of view of USAID, the Loan Portfolio Guarantee Project has two important objectives:
 1. To increase RBK's lending to the agribusiness sector
 2. To stimulate economic growth in Kosovo

How well do you believe it has achieved these objectives?

9. The secondary objectives of the Kosovo LPG project are to a) generate employment, and b) to serve as a role model and an example to other financial institutions in Kosovo, thereby encouraging them to increase their respective loan portfolios in the agriculture/agribusiness sub-sector. How well do you believe these secondary objectives are being accomplished? Please elaborate.
10. Has your organization increased its lending program to agriculture/agribusiness in response to RBK's expansion into this area? If so, can you provide the evaluation team with data to help us quantify this impact?
11. Do you view the DCA loan guarantee program as a cost-effective way to increase the availability of loans to the agricultural/agribusiness sector? In your view, are there other, more effective means to help a bank expand into a new lending sub-sector?
12. As described by USAID, the main advantage of the DCA is that it encourages bank lending by reducing the risk incurred by the bank. Do you see this as an important advantage in Kosovo?
13. A criticism of DCA is that some banks are reluctant to participate in this program, given the long and tedious process for obtaining the amount guaranteed for a failed loan. Since the asset must be liquidated in order to calculate the repayment, banks must wait for an

extended period to collect on the guarantee. Do you view this as a limitation on the use of the DCA facility by financial organizations?

14. What, in your opinion, is the main limiting factor on the use of the DCA facility in Kosovo?
15. The Kosovo LPG project does not have a substantial human capital development component or an institutional strengthening component for either the bank, or its borrowers. In your opinion should these supporting activities be available in Kosovo?
16. How would you rate overall, on a scale of 1 – 10 (10 highest), the Kosovo LPG project/DCA facility as a means to increase credit to agriculture and agribusiness?
17. In the event that a follow-on loan guarantee facility might be developed in Kosovo, how, in your opinion, should it differ from the current DCA facility?
18. What other options (other than loan guarantees) could be used by USAID to encourage agricultural/agribusiness lending in Kosovo?
19. Do you have a specific recommendation that the evaluation team could provide to USAID to help develop similar programs in the future? In light of your experience, what advice would you give USAID?

KNOWLEDGEABLE THIRD PARTIES

For third parties such as donors, NGOs, and government officials:

1. What is the nature of your business or profession?
2. What is your relationship with the Raiffeisen Bank of Kosovo's (RBK's) Loan Portfolio Guarantee (LPG) project?
3. Are you familiar with RBK's work to implement the USAID/Kosovo Development Credit Authority (DCA) loan guarantee? How would you rate your knowledge of this program on a scale of 1 – 10 (10 highest)?
4. How effective do you view RBK's work of implementing the DCA loan guarantee program in Kosovo? Do you have any observations about the experience, qualifications, and effectiveness of the Loan Portfolio Guarantee (LPG) project management team?
5. How sustainable is the DCA program? Do you anticipate that RBK will continue lending to agriculture and agribusiness after the USAID/DCA guarantees end? What do you think will happen when the program ends?
6. Do you see the LPG as highly appropriate and relevant, in light of the current regulatory and legal environment in Kosovo? Do you believe it fits well within USAID's development strategy for Kosovo?
7. In your view, how effective is the DCA program? Do you believe that it has achieved what it set out to do?
8. From the point of view of USAID, the Loan Portfolio Guarantee Project has two important objectives:
 1. To increase RBK's lending to the agribusiness sector
 2. To stimulate economic growth in KosovoHow well do you believe it has achieved these objectives?
9. The secondary objectives of the Kosovo LPG project are to a) generate employment, and b) to serve as a role model and an example to other financial institutions in Kosovo, thereby encouraging them to increase their respective loan portfolios in the agriculture/agribusiness sub-sector. How well do you believe these secondary objectives are being accomplished? Please elaborate.
10. Do you view the DCA loan guarantee program as a cost-effective way to increase the availability of loans to the agricultural/agribusiness sector? In your view, are there other means that would be more effective for a bank to expand into a new lending sub-sector?
11. Can you recommend any individuals, groups, or organizations in Kosovo the evaluation team should be sure to contact (in addition to USAID/Kosovo and RBK)?
12. As described by USAID, the main advantage of the DCA is that it encourages bank lending by reducing the risk incurred by the bank. Do you see this as an important advantage in Kosovo?
13. A criticism of DCA is that some banks are reluctant to participate in this program, given the long and tedious process for obtaining reimbursement of the amount guaranteed for a failed loan. Since the asset must be liquidated in order to calculate the repayment, banks must wait

for an extended period to collect on the guarantee. Do you view this as a limitation on the use of the DCA facility by financial organizations?

14. What, in your opinion, is the main limiting factor on the use of the DCA facility in Kosovo?
15. The Kosovo LPG project does not have a substantial human capital development component or an institutional strengthening component for either the bank, or its borrowers. In your opinion should these supporting activities be available in Kosovo?
16. How would you rate overall, on a scale of 1 – 10 (10 highest), the Kosovo LPG project/DCA facility?
17. In the event that a follow-on DCA facility might be developed in Kosovo, how, in your opinion, should it differ from the current DCA facility?
18. What other options (in addition to DCA) could be used by USAID to encourage agricultural/agribusiness lending in developing countries?
19. Do you have a specific recommendation that the evaluation team could provide to USAID to help develop similar programs in the future? In light of your experience, what advice would you give USAID?

USAID/KOSOVO

For USAID/Kosovo:

- Can you please provide the evaluation team with annual progress reports for the LPG project?
- In your view, how sustainable is the RBK's lending program for Kosovo agriculture and agribusiness? What do you anticipate will happen when the guarantee program ends?
- How effective is the LPG management team at RBK? How effective are its agriculture and agribusiness loan officers?
- How important is the LPG project to USAID's overall portfolio in Kosovo? How important is the project to USAID support to the agriculture and agribusiness sub-sector?
- The purpose of the Kosovo DCA is to support and encourage agribusiness loans, therefore stimulating economic growth. Other than the four performance indicators included in the PMP, have formal attempts been made under the LPG project to capture data on the amount of economic growth resulting from the agribusinesses loans made by RBK?
- Secondary objectives of the Kosovo LPG project are to a) generate employment, and b) to serve as a role model and as an example to other financial institutions in Kosovo, thereby encouraging them to increase their respective loan portfolios in agriculture/agribusiness. Do you know if these two parameters are monitored in any way?
- What, in your opinion, are the main limiting factors on the use of the DCA facility in Kosovo?
- Did USAID consider other options to encourage agricultural and agribusiness lending in Kosovo? If so, what options were considered?
- Did the design of the LPG include remedial measures to overcome gender-based constraints to agricultural and agribusiness lending? Are any indicators regularly monitored that highlight the gender issue?
- Does the Kosovo LPG project have a human capital development component or an institutional strengthening component for either the bank, or its borrowers? If not, in your opinion, should these support activities be provided?
- How does DCA avoid encouraging loans that would otherwise have been made by the financial institution? (The DCA *One Pager* says that "USAID charges banks fees to avoid guaranteeing loans that banks would have made without the guarantee". While this adds to the borrower's cost, how does it encourage the participating bank to seek only new customers for guaranteed loans?) Our understanding is that the DCA agreement does not limit the selection of the bank's customers, other than the requirement that they be in the agriculture/agribusiness sub-sector. Can you please confirm / comment?
- Do you know of other donor projects targeting agriculture? If so, can you please describe their scope and impact, and how they do overlap with LPG?

USAID/DCA/WASHINGTON, DC

For USAID/DCA:

- a. As shown by the attached evaluation Scope of Work, the main focus of the mid-term evaluation of USAID's Loan Portfolio Guarantee (LPG) Project with Raiffeisen Bank Kosovo (RBK) is in four principal areas:
 - a. Implementation effectiveness (including the implementation team)
 - b. Impact of the LPG project
 - c. Sustainability – what will likely happen after the project ends?
 - d. Project relevance, in light of the legal and regulatory environment in Kosovo

To the extent that DCA/Washington is engaged and aware of the detailed activities carried out under the LPG project in Kosovo, can you please give us your perceptions of the results of this project in terms of these four principal areas?

If you are not entirely familiar with the implementation of the LPG project in Kosovo, can you please briefly describe DCA's experience globally, in terms of these four parameters?

- a. The DCA *Action Package* for Kosovo specifies the following performance indicators:
 - 1) Number of enterprises benefiting from DCA guaranteed loans.
 - 2) Value of DCA guaranteed loans (€) made to enterprises in the agricultural sector.
 - 3) Percentage of the value (€) of the lending portfolio that is on schedule for repayment.
 - 4) Total value of DCA guaranteed loans (€) to the agricultural sector compared to RBK pre-DCA (baseline data).
- a. Can you please provide the evaluation team with the performance monitoring plan for the LPG project with the targets for these indicators, and the latest report on how well the targets are being achieved?
- b. Can you please provide the evaluation team with annual progress reports for the LPG project?
- c. The purpose of the Kosovo DCA is to support and encourage agribusiness loans, therefore stimulating economic growth. Other than the four performance indicators specified above, have any formal attempts been made under the LPG project to capture data on the amount of economic growth resulting from the agribusinesses loans made by RBK?
- d. Secondary objectives of the Kosovo LPG project are to a) generate employment, and b) to serve as a role model and an example to other financial institutions in Kosovo, thereby encouraging them to increase their respective loan portfolios in the agriculture/agribusiness sub-sector. Do you know if these two parameters are monitored in any of the 21 DCA countries? If so, how are they monitored? Are you aware of any data sources for these parameters related to the LPG project (other than direct interviews with RBK clients, and the staff at other financial institutions in Kosovo)?
- e. Can you please provide the evaluation team with data on the performance of the DCA/Kosovo facility compared to the performance of DCA's programs worldwide - or with other countries in the region?
- f. The DCA *Impact Brief for 2011* mentions a \$2.1 million guarantee program to support lending in Kosovo to create jobs and foster an entrepreneurial culture for Kosovo's youth. Is there any overlap between this youth initiative and the LPG project?

- g. The *DCA Impact Brief for 2011* also mentions a recent independent evaluation carried out for FinComBank-supported loans in Moldova. Could you please provide the evaluation team with a copy of this report that we could use as an example? How do you rate this evaluation report?
- h. What are the respective roles of USAID/Kosovo and DCA/Washington with regard to the LPG project in Kosovo?
- i. Does DCA have any particular interest of concern in this assessment? How does DCA anticipate using the assessment? What are the special areas of concern to DCA? What should the assessment be sure to cover?
- j. Can DCA recommend any individuals, groups, or organizations in Kosovo the evaluation team should be sure to contact (in addition to USAID/Kosovo and RBK)?
- k. Is DCA contemplating the development of a carry-on DCA facility in Kosovo after the current facility ends? Have any specific plans been made? What would be required to develop a new facility? How long would it take?
- l. As described by USAID, the main advantage of the DCA is that it encourages bank lending by reducing the risk incurred by the bank. However, others argue that DCAs offer only marginal value in protecting the loan principal: The loan principal can already be guaranteed via credit default swaps. They claim that DCAs do not help and offers only marginal value, given that banks are already able to insure their loans. Do you have any thoughts on this?
- m. Another criticism of DCA is that some banks are reluctant to participate, given the long and tedious process for obtaining the guarantee amount for a failed loan. Since the asset must be liquidated in order to calculate the repayment, banks must wait for an extended period to collect on the guarantee. Is this a limitation on the use of the DCA facility by financial organizations?
- n. What, in your opinion, are the main limiting factors on the use of the DCA facility by USAID Missions in supported countries?
- o. Does the Kosovo LPG project have a human capital development component or an institutional strengthening component for either the bank, or its borrowers? If not, in your opinion, should these support activities be available in Kosovo?
- p. How does DCA avoid encouraging loans that would have been made by the financial institution, anyway? (The *DCA One Pager* says that “USAID charges banks fees to avoid guaranteeing loans that banks would have made without the guarantee”. While adds to the borrower’s cost, how does it encourage the bank to seek only new customers for guaranteed loans?)
- q. How would you rate overall, on a scale of 1 – 10 (10 highest), the Kosovo LPG project/DCA facility?
- r. In the event that a follow-on DCA facility might be developed in Kosovo, how, in your opinion, should it differ from the current DCA facility?
- s. What other options (in addition to DCA) have been used by USAID to encourage agricultural/agribusiness lending in developing countries?

ANNEX VI – PEOPLE MET

People Met by the Evaluation Team

Organization	People met, and titles	Address	Telephone, Fax, E-mail contact
Association of Microfinance Institutions of Kosovo AMIK	Edona Kryeziu-Xhambazi, Director	Mother Theresa Square, H.2., No. 8 10000 Pristina, Kosovo	Tel:+381 38 244 811 Cell: 377 44 173 494 E-mail: Edona.xhambazi@amik.org
Banka Kombetare Tregtare Sh.a. BKT	Albion Mulaku, Head, Corporate and SME Sales and Marketing	Qyteza Pejton, Pristina, Kosovo	Tel:+381 38 222 636 Fax:+381 38 222 906 Cell: 377 44 232 906 E-mail: Amulaku@bkt.com.al
Central Bank of the Republic of Kosovo	Merdian Kukleci, Director, Banking Supervision Department	Rruga Garibaldi Nr. 33, 10000 Pristina, Kosovo	Tel:+381 38 222 055 Ext. 306 Fax:+381 38 243 763 E-mail: Merdiankukleci@bqk-kos.org
Central Bank of the Republic of Kosovo	Bedri Zimeri, Department of Statistics	Rruga Garibaldi Nr. 33, 10000 Pristina, Kosovo	Tel:+381 38 222 055 Ext. 290 Fax:+381 38 243 763 Cell: 377 44 162 640 E-mail: Bedrizimeri@bqk-kos.org
Crimson Capital-Crimson Finance Fund	Michael Gold, Managing Director/CE)	Pashko Vasa No. 22, Qyteza Pejton, 10000 Pristina, Kosovo	Tel:+381 38 233 343 Fax:+381 38 234 443 Cell: 377 44 175 238 E-mail: Michael.gold@crimsoncapital.org
FINCA	Keith Sandbloom, Chief Executive Officer	Str. Bedri Pejani, 4 10000 Pristina, Kosovo	Tel:+381 38 226 721 Fax:+381 38 226 722 Cell: 377 45 702 151 E-mail: Keith.sandbloom@finca.org
Kosovo Bankers' Association	Zana Haxha, Executive Director	Bajram Kelmendi 15, Pristina, Kosovo	Tel:+381 38 246 171 Fax:+381 38 246 172 Cell: 377 44 627 182 E-mail: ZanaHaxha@bankassoc-kos.com
Ministry of Agriculture, Forestry, and Rural Development	Uran Ismaili, Senior Political Advisor	Rr. Nëna Terezë, 35, 10000 Pristina, Kosovo	Tel:+381 38 200 38 461 Fax:+381 38 213 182 E-mail: Uran.ismaili@rks-gov.net
NLB Bank Pristina, Sh.A.	Agim Hasani, Director, Retail Division	Str. Rexhep Luci No. 5 Pristina, Kosovo	Tel:+381 38 234 111 Ext. 229 Fax:+381 38 246 189 Cell: +377 44 179 680 E-mail: Agim.hasani@nlbprishtina-kos.com
NLB Bank Pristina, Sh.A.	Fisnik Selimi, Assistant to the General Director	Str. Rexhep Luci No. 5 Pristina, Kosovo	Tel:+381 38 744 113 Fax:+381 38 246 189 E-mail: Fisnik.selimi@nlbprishtina-kos.com
ProCredit Bank	Kastriot Këpska, Agro Business Manager	Mother Theresa Boulevard 16, Pristina, Kosovo	Tel:+381 38 555 777 Ext. 8561 Fax:+381 38 555 776 Cell: +377 44 188 500 Cell: +377 49 555 069 E-mail: Kkepuska@procreditbank -kos.com
Raiffeisen Bank Kosovo	Shpend Nura, Head of Micro Segment	Eqrem Cabaej #8, Pristina, Kosovo 10000	Tel:+381 38 222 222152 Fax:+381 38 2030 1118 Cell: 377 44 778 000 E-mail:Shpend.nura@raiffeisen-kosovo.com
Raiffeisen Bank	Arben Selmani,	Nena Teresa Str.	Tel:+381 38 222 222282

People Met by the Evaluation Team

Organization	People met, and titles	Address	Telephone, Fax, E-mail contact
Kosovo	Account Officer	No. 52 Pristina, Kosovo 10000	Fax:+381 38 2030 1127 Cell: 377 44 509 710 E-mail:Arben.selmani@raiffeisen-kosovo.com
Raiffeisen Bank Kosovo	Burim Ibishi, Agro Lending Specialist	Nena Teresa Str. No. 52 Pristina, Kosovo 10000	Cell: 377 44 508 391 E-mail: Burim.ibishi@raiffeisen-kosovo.com
Raiffeisen Bank Kosovo	Ali Qosa, Micro Enterprises Segment Specialist, Retail Banking Division	Eqrem Cabaej #8, Pristina, Kosovo 10000	Tel:+381 38 222 222276 Fax:+381 38 2030 1125 Cell: 377 44 508 397 E-mail: Ali.qosa@raiffeisen-kosovo.com
Raiffeisen Bank Kosovo, Gilan Branch	Bujar Shkodra, Agro Account Officer	Rt. 28Nentori, 60000 Gilan, Kosovo	Cell: 377 44 509 713 E-mail: Bujar.shkodra@raiffeisen-kosovo.com
TEB Bank	Arianit Duraku, Head of SME Department	TEB Sh.A. Head Office Agim Ramadani 15, 10000 Pristina, Kosovo	Tel:+381 38 230 000 Ext. 291 Fax:+381 38 224 699 Cell: +377 44 229 870 E-mail: Arianit.duraku@teb-kos.com
TEB Bank	Orcun Ozdemir, Head of SME and Card Business Division	TEB Sh.A. Head Office Agim Ramadani 15, 10000 Pristina, Kosovo	Tel:+381 38 230 000 Ext. 224 Fax:+381 38 224 699 Cell: +377 49 770 977 E-mail: Orcun.ozdemir@teb-kos.com
TEB Bank	Bledar Iljazi, SME Sales and Marketing Supervisor	TEB Sh.A. Head Office Agim Ramadani 15, 10000 Pristina, Kosovo	Tel:+381 38 230 000 Ext. 176 Fax:+381 38 224 699 Cell: +377 44 177 606 E-mail: Bledar.iljazi@teb-kos.com
Tetra Tech ARD – USAID Contractor	Martin Wood, Chief of Party, New Opportunities for Agriculture Project	Str Bajram Kelmendi No. 5, 10000 Pristina, Kosovo	Tel:+381 38 223 696 Cell: 377 45 314 490 E-mail: Mjbwood@noakos.com
USAID/ Development Credit Authority	Ana Luisa Pinto USAID LAC/E&E Portfolio Manager	USAID/LAC – Latin America and Caribbean Division Washington, DC 2007 – 2011	Tel: (202) 712-1416 E-mail: Apinto@usaid.gov
USAID/ Washington	Sandra Goshgarian, Senior Financial Markets Adviser	Office of Economic Growth, Bureau for Europe and Eurasia (EE/EG/MT) Washington, DC	Tel: (202) 567-4402 Fax: (202) 567-4266 E-mail:sgoshgarian@usaid.gov
USAID /Kosovo	Andrew Boegel, Program/Project Development Officer	Arbëria (Dragodan) Ismael Qemali St. No. 1	Tel:+381 38 243 673 ext. 218 Fax: +381 38 249 493 Cell: +377 45 322 624 E-mail: aboegel@usaid.gov

People Met by the Evaluation Team

Organization	People met, and titles	Address	Telephone, Fax, E-mail contact
		Pristina, Kosovo 10130	
USAID/ Kosovo	Brian Fahey, Senior Agriculture Advisor, Economic Growth Office	Arbëria (Dragodan) Ismail Qemali St. No. 1 Pristina, Kosovo 10130	Tel:+381 38 5959 2234 Fax: +381 38 249 493 Cell: +377 44 161 553 E-mail: Bfahey@usaid.gov
USAID/Kosovo	Ardian Spahiu, Program and Project Office, Development Assistance Specialist	Arbëria (Dragodan) Ismail Qemali St. No. 1 Pristina, Kosovo 10130	Tel: +381 38 5959 2235 Fax: +381 38 249 493 E-mail: Aspahiu@usaid.gov
USAID/Kosovo	Besa Ilazi, Program Management Specialist, Economic Growth Officer	Arbëria (Dragodan) Ismail Qemali St. No. 1 Pristina, Kosovo 10130	Tel:+381 38 243 673 ext. 218 Fax: +381 38 249 493 E-mail: Bilazi@usaid.gov

List of RBK Loan Guarantee Program Clients Interviewed by the Assessment Team				
No.	Beneficiary	Municipality	Village	Contact Telephone
1	Hafir Dugolli	Shtime	Pjetershtice	044 380 049
2	Bujar Drenica	Lipjan	Shala	044 748 271
3	Ali Maloku	Malisheva	Pllogic	044 606 635
4	Besim Helshani	Malisheva	Banja	044 222 534
5	Kadri Avdyli, Fatosi Commerce	Klina	Kpuze (Dollove)	049 278 351
6	NTP Fedi&Edi Anton Nikolaj	Klina	Videa	044 138 890
7	Fehmi Geci	Klina	Klina	044 222 091
8	Shpend Ademaj	Peja	Loxh	044 165 162
9	Ibish Qokaj	Peja	Loxh	044 825 776
10	Ibush Cakaj	Vushtrri	Stanovc	044 789 671/044414995
11	Adem Ademi	Vushtrri	Pestova	044 732 354
12	MiniFarm 4 Kalludra Brothers	Vushtrri	Pantine	045 425 189
13	Bislim (Fadil) Isufi	Vushtrri	Nadakofc	044 976 041
14	Ferma Bica, Valmir Gervalla	Podujeva	Lupc i Poshtem	044 646 177
15	Sead (Ibrahim) Rahimi	Gjilan	Malisheva	044 602 707
16	Lumnije Bislimi	Gjilan	Zheger	044 481 129
17	Daut Xheladini	Gjilan	Sllubice	044 250 445
18	Ruhan Zeqiri	Gjilan	Haxhaj	044 376 888
19	Shefik Zeqiri	Gjilan	Malisheva	0280325 391
20	Zahir Avdyli	Kamenica	Llabjan	044 782 883
21	Besian Maka	Kamenica	Koretine	044 481 239
22	Zilja Bugacku	Kamenica	Koretine	028 0372 078
23	Ferma Malesia, Gani Hoti	Kamenica	Malesia	044 870 924
24	Sami Rexhepaj	Kamenica	Kopernice	044 843 468
25	Shemsi Ruhani	Prishtina	Keqekoll	045 682 463
26	Agim Bregovina	Prishtina	Mazgit	044 834 276
27	Afrim Limani	Prishtina	Keqekoll	045 680 422
28	Dukagjin Jetishi	Gjakova	Bregoc	044154646
29	Azbi Gashi	Rahovec	Bellacerk	044 315 452
30	Driton Morina	Gjakova	Vranjak	044634613
31	Besim Rexha	Prishtina	Barilev	044600937
32	Banush Gashi	Prishtina	Mramor	044739554
33	Hilmi Gashi	Prishtina	Breznice	044765717
34	Gani Dobratiqi	Prishtina	Lebane	044652316
35	Naim Krasniqi	Lipjan	Konjuh	464 531 046
36	Njazi Hajdini	Lipjan	Rruc i Vjeter	044 259 893
37	Freskia, Halim Rustemi	Gjakova	Babai i Bokes	044246586
38	Sadik Ahmeti	Lipjan	Torine	044 649 321
39	Manojl Gjiododa	Gjakova	Planqor	044253581
40	Bayrus Mazrek	Prizren	Mamusha	044 365 886
41	Ali Halimi	Shtime	Muzeqine	044 762 116
42	Fidaim Gashi	Prishtina	Hajvali	044820540