



QUARTERLY REPORT

QUARTER ENDING: 31 MARCH 2007

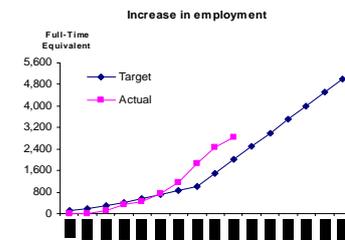
KOSOVO CLUSTER AND BUSINESS SUPPORT PROJECT



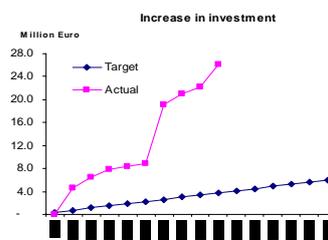
Increase in Sales
(million Euro)



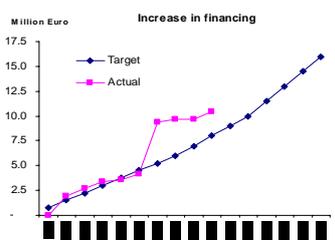
Increase in Jobs
(Full-time Equiv)



Increase in Investment
(million Euro)



Increase in Financing
(million Euro)



12 April 2007

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QUARTERLY REPORT QUARTER ENDING: 31 MARCH 2007

Kosovo Cluster and Business Support project: "Quarterly Report for Quarter Ending 31 March 2007"
Contract No. AFP-I-00-03-00030-00, TO #800

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

CONTENTS

EXECUTIVE SUMMARY

- 1.0 WORK PLAN RESULTS ACHIEVED
- 2.0 DAIRY CLUSTER
 - 2a Milk Production
 - 2b Milk Processing
- 3.0 MEAT CLUSTER
- 4.0 ANIMAL FEEDS CLUSTER
- 5.0 POULTRY CLUSTER
- 6.0 FRUIT AND VEGETABLES CLUSTER
- 7.0 CONSTRUCTION MATERIALS CLUSTER
 - 7a Wood Processing
 - 7b Other Construction Materials
- 8.0 GENERAL BUSINESS SERVICES
- 9.0 MARKETING AND TRADE LINKAGES
- 10.0 STRATEGIC ACTIVITIES FUND MANAGEMENT
- 11.0 PERFORMANCE BASED MANAGEMENT SYSTEM
- 12.0 COMMUNICATIONS AND PUBLICITY

FINANCIAL DATA

PERFORMANCE DATA

STRATEGIC ACTIVITIES FUND DATA

PROJECT PHOTOGRAPHS

GLOSSARY OF ACRONYMS

EXECUTIVE SUMMARY

The KCBS project continues to exceed the targets set for it at the start of the program. The cumulative changes in primary indicators in the 30 months of the project to date, and attributable to KCBS interventions, are:

- An increase in the value of the sales over baseline of €64.4 million.
- An increase in employment of 2,849 new jobs
- An increase in capital investment of €26.1 million
- An increase in the value of financing of €10.4 million

The increase in sales in the Livestock cluster continues to accelerate as the benefits of the technical advice from short term technical advisors [STTA] is manifest in production of higher volumes, better quality and new products. This quarter, KCBS facilitated shipments of dairy products to Macedonia and Albania; though it was evident there still remains a need to improve quality. KCBS have also supported the dairy processors in finding suppliers for improved designs and manufacture of packaging materials for their products. A Kosovo-first taste testing of local cream cheeses was conducted at three hypermarkets in the first week of April. Similar tests will be replicated in the months ahead.

The Dairy Herd Improvement pilot program started this quarter with students from the Agricultural Faculty collecting data from six farms. Unfortunately, one model farm planned for the pilot program in a minority area in northern Kosovo could not be included because a grant for purchasing the cows from the Serbian Government did not materialize at the time planned. KCBS hopes to be able to include this farm in the September enrollment.

KCBS has helped the Ministry of Agriculture [MAFRD] enforce the new raw milk quality decree. KCBS assisted in resolving problems of funding, staffing and supplies to ensure continuity of the testing. This is an important measure to force farmers to improve milk quality and assure dairy processors of the milk quality they are receiving. KCBS has held town hall style meetings with farmers to explain the benefits of meeting the quality limits and the penalties to their businesses if they fail to meet the standards.

KCBS concluded implementation of Good Manufacturing Practices [GMPs] at Bylmeti and Abi dairy plants; both plants have signed MOUs committing to partner with KCBS on introduction of Hazard Analysis of Critical Control Points [HACCP] requirements. A further four dairy processors have signed up for GMP standards implementation in the next quarter. In addition, KCBS continued to implement GMP and Good Handling Practices [GHP] standards in selected Milk Collection Centers [MCC] by conducting practical training work at the farm and MCC level.

KCBS planned to support the Agricultural Faculty of Pristina to introduce the Lacaune sheep breed, and document feeding and production trials as compared to results from two groups of local breed. Although the latter were established, one group (the control group) and another group subject to an improved feeding regimen; a third, imported group could not be formed because of the delays in getting approval to import livestock under the grant procedures. It is now expected that trials on the Lacaune breed will begin in September.

The first export in 2007 of 400 live lambs to Bosnia was made in early March; unfortunately, a subsequent shipment did not take place because the Kosovo farmers did not adhere to the specification that only lambs of less than 24 kg. were acceptable. The importer refused to take the planned shipment. This tendency not to respect a purchaser's specifications is evident in many aspects of KCBS' work and will ultimately reduce the credibility of the Kosovo producer as a reliable supplier.

KCBS continues to assist Kosovo farmers in their pasture management and practices. A series of alfalfa seed and forage production plots are being established in four areas of Kosovo to determine the feasibility of alfalfa seed production in Kosovo. Currently all alfalfa seed is imported. Test plots have also been set up to prove the efficacy of different fertilizers on different soil analyses. Further advice has been given to farmers for producing silage with enhanced nutrient values.

In the poultry sector, KCBS implemented two grants. One established the first ever breeder operation for commercial layers, and the other introduced feed pellet technology. KCBS coordinated with the KVFA as the government institution responsible for animal health, food of animal origin, and providing the import licenses for animals. The poultry association, SHPUK is communicating to its members the benefits to be realized from both projects. A list prepared by KCBS identified 142 farms with 900,000 layers. This is the highest number of layers ever recorded in Kosovo and represents coverage of 100% of Kosovo egg consumption by local production.

KCBS continued to be very much involved in all activities regarding Avian Influenza, and attended the meeting organized by KVFA to discuss the first Draft of the "Environment Management Project" in case of a Bird Flu outbreak. KVFA will meet with World Bank and EU in the first week of April regarding the World Bank funded bird flu project to be implemented by KVFA. KCBS and KVFA agreed to organize monthly meetings with SHPUK and its members to present each month a different subject concerning poultry diseases, vaccination, biosecurity measures, etc.

In fruits and vegetables, KCBS continued to focus on post-harvest handling and marketing of product, and move away from advising on production. KCBS worked with ten registered associations of farmers to expand their effectiveness in for-profit activities, but only two were willing to move forward toward founding new cooperatives. KCBS supported two Cooperatives in Sterpce (a minority area), in forming a joint venture and preparing a grant to construct a facility to house a small blast freezer and storage chamber for frozen blueberries.

KCBS assisted two food processors, Agroprodukt Commerce in Podujeve and Pestova Company in Vushtrri, to accomplish 80% of the work needed to become HACCP certified. In the next quarter, KCBS will continue the effort to achieve the remaining 20%. Pestova is in the process of installing two new processing lines, so during this period it will not be possible for him to proceed with HACCP. Agroprodukt is fully prepared to proceed, aiming for certification by mid-July. A third processor, As Promet Company in Leposavic (a minority area) received a grant to construct a new HACCP-certifiable facility for handling/processing mushrooms, blueberries and raspberries, including an ability to store them cold, or to freeze them and store them frozen. The new facility has been designed so that the processing activities can meet HACCP standards, but relocation and construction activities precluded the company from participating fully in the GMP/HACCP program.

KCBS is working with four organizations to obtain and install grading/sizing/packing (G/S/P) lines. Through three cost-sharing grants, different equipment is to be installed before this year's harvest including semi-automated machines to clean, grade, size and pack potatoes and onions; a semi-automated machine to grade, size and pack apples; a machine for cleaning and sizing blueberries or juniper berries; and a universal drying tunnel for the same crops as well as for mushrooms and medicinal plants.

The F&V Cluster Advisor is continually advising financial institutions on creating new solutions to increase agricultural lending and he assisted World Learning in developing an initiative for training 40 credit/loan officers of commercial banks and MFIs in lending to agriculture that is scheduled to be conducted in late June and early July. This initiative will have strong technical and logistical support from KCBS.

On the engineered wood flooring [EWF] project the first container load of output was ready for shipment from Korenica in first week of April. Ukaj's new factory was completed, equipment installed and sample product produced. Unfortunately, the EWF project suffered a number of setbacks this quarter. The LTTA Matt Anderson, who is pivotal for this project, went on disability leave for two months through March 1. In March some momentum was regained, but progress remained depressingly dependent on KCBS. Korenica, in particular, has not devoted 100% attention to management on this project; this would not be a serious dereliction had he empowered qualified and authoritative supervisors to take charge when he is absent, but this has not been the case. Consequently, KCBS is very concerned that when KCBS' involvement ceases, its advice and trainings will not be embedded in the operations. At the end of the quarter, Mr. Anderson had to return to the US for further

treatment. Ukaj lost the bid for the former SOE factory in Decan where his chair manufacturing operation had been based. Thus Ukaj's EWF efforts will be delayed for a further 3-4 months after he relocates chair manufacturing to the new building he had recently constructed in Pristina to house EWF production.

Both companies have expressed concern that "paperwork" from Swedeco has not materialized as expected, e.g. pro-forma purchase orders and advance payments. Swedeco is operating as it would with any new supplier in the US, but KCBS has strongly suggested that it modify its procedures, especially for these initial orders, so as to engender greater confidence in the relationship.

KCBS continued its awareness campaign regarding forest certification with the main players at the Kosovo Forest Agency [KFA], and at the three forest management groups in which KCBS is interested promoting certification. At a recent meeting, the main donors to the forest industry indicated a willingness to continue their support, but only if there was a complete commitment by the Kosovo authorities – not just the KFA, but law enforcement and courts – to implement measures to reduce illegal logging.

Concerning other construction materials, KCBS made a breakthrough in successfully advocating for the elimination of 10% tax on imported raw materials. This elimination was advocated on behalf of "FAN" a newly privatized SOE manufacturer of reinforcing steel; as a result the company has immediately won export orders to Serbia and Croatia, and for this summer's construction season there should be a significant reduction in imports.

KCBS met with three companies that produce insulation materials and did research on regional market for potential suppliers and buyers. The findings were given to the local producers in order to plan their production and possibly to establish new market linkages. One of the companies, Fetoshi, ordered new machinery for styrofoam production, which will be installed in May or June. The company currently is refurbishing a recently privatized building to accommodate their new production line. All these construction materials companies will also benefit from the elimination of tax on imported raw materials.

RCAK is taking the lead, with KCBS assistance, on monitoring the Ministry of Transportation [MTPT] procurement procedures for road construction. MTPT tenders do not comply with the recent Government decision to use EN standards on all government contracts; its tender documentation is very poor without design, technical specifications, or classification and qualification requirements; and many tenders are awarded to non-professional and non-licensed companies. Kosovo Public Procurement Regulatory Commission [PPRC], Prime Minister's Office, all political parties and media have been alerted in order to create public awareness of these bad practices. KCBS will follow this activity; a satisfactory, transparent procurement procedure, allied to applied international standards, is a critical necessity if investors are to be attracted to Kosovo.

KCBS awarded a grant to the Alliance of Kosovar Businesses [AKB] for a project which emanated from the Private-Public Dialog, namely to introduce measures to reduce the informal economy and corruption. On March 29-31, KCBS supported the Association of Kosovo Agribusinesses' [AKB] annual agricultural and food fair, one of the revenue earning activities in that association's development and transition to sustainability. The fair was considered a great success. All the other associations with which KCBS has worked for the past two years produced, with the aid of an STTA, product development plans and marketing plans, all of which had the objective of generating revenue, and reducing donor dependency. In addition, KCBS has supported the growth of two new associations, the Business Consulting Council and the Association of Concrete Producers – but for their own administrative reasons, progress with both of these has been slow.

Three banks and two microfinance institutions [MFI] signed MOUs to introduce commercial leasing in Kosovo. Discussions with the Central Bank of Kosovo [CBAK] confirmed that leasing could proceed even though there is no separate lease legislation. A two day workshop held 15 & 16 February on "Leasing for Small, Medium and Micro Enterprises"

covered the basic elements of leasing, lease accounting, the legal and regulatory framework, marketing lease products, performance monitoring and transaction flow.

The CBAK approved in principle purchase order financing [POF] as a new loan product. KCBS is working with each partner financial institution and the CBAK to ensure that adequate and appropriate POF credit policies and procedures and loan agreements are implemented for proper risk management of any new/enhanced products. POF presentations were delivered to the credit staff and key branch managers of all three partner financial institutions during this quarter. The presentations were followed by a lively "Q & A" session, which further elaborated on and clarified POF loans and the procedures for their implementation within the banks.

KCBS legal advisor held meetings with the CBAK to review current Kosovar legislation regarding collateral instruments for trade finance and other short-term working capital loans. KCBS legal advisor focused on working with CBAK, local financial institutions partnering with KCBS, and KCBS's expatriate consultants, to develop a plan to make necessary changes to banking rules and regulations to clarify and increase the utilization of various forms of "soft asset" collateral in lending and leasing.

KCBS continued to work with the organizations hosting the Finance Fair to be held on April 11 and 12. Five workshops will be held. KCBS's partner, Crimson Capital, will present two workshops, one on POF and one on Leasing. Six banks and three microfinance institutions committed to sponsor the Fair in total amount of €24,000, or 50% of actual expenses. Of 54 constructed booth places only two are left not rented.

On March 21, KCBS hosted Kosovo's first Marketing & Linkages Conference at the Pristina Grand Hotel with approximately 200 guests representing retailers, producers, processors, wholesalers, associations, Ministries, donor projects and marketing agencies. There were 13 presentations with keynote speeches from Croatia's Konzum, and Macedonia's Ramstore retailers and two member companies from their supply chain (meat and dairy). The conference was tailored to both Fruit & Vegetable and Dairy/Meat audiences and allowed each cluster to present industry specific information during separate break-out sessions. The three networking sessions have already produced a number of positive linkages between existing KCBS clients and new potential suppliers, buyers, distributors or general partner contacts. Media coverage of the event was extensive and appeared very favorable.

A KCBS STTA made two separate visits to Kosovo in the quarter to conduct merchandising training and educate both processors and local marketing agencies on the practice of in-store promotion, shelf-display, branding and point-of-sale pieces. Low workshop attendance (i.e. no interest), limited, or zero, marketing budgets, and no dedicated marketing staff will continue to challenge most local producers to successfully maximize this critical marketing component which is the most effective way to generate more product awareness. KCBS arranged for two of the local business service providers [members of the newly formed BCC] to "shadow" the STTA so that they might further explore and define new services they could offer their clients along the lines of merchandising. Recommendations included products such as market research, strategic planning, plan-o-gram technology (shelf space system) and category management.

During the project to date, KCBS has awarded 53 fixed price subcontracts [51 completed], 42 grant agreements [20 completed], and 3 material procurement contracts [3 completed] for a total award of \$1,851,727; of this, \$1,345,186 has been disbursed. The award figure represents 92.6% of the SAF budget of \$2.0 million.

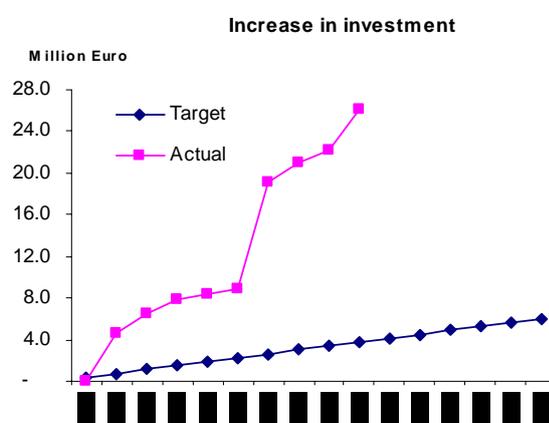
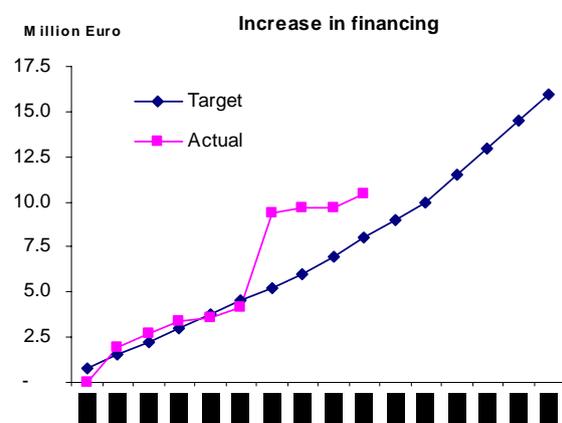
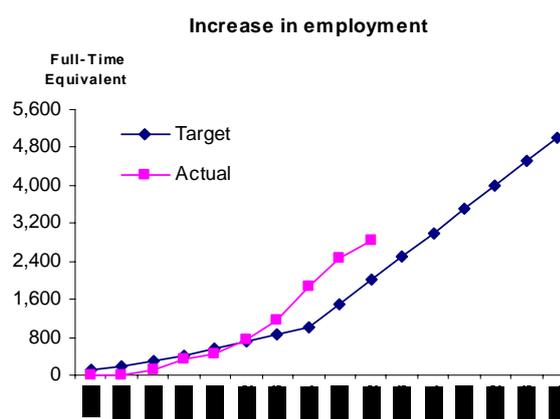
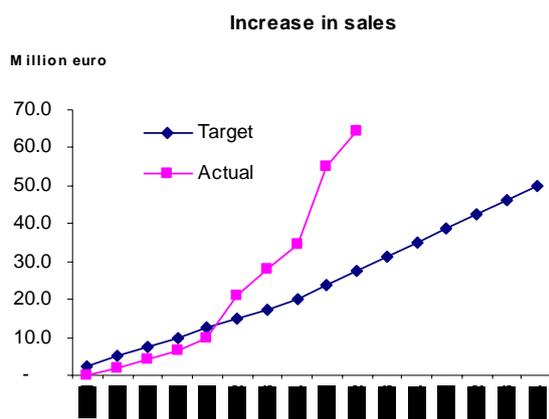
This Quarterly report summarizes progress made in the calendar quarter just ended towards objectives set out in the Work Plan. Each week, KCBS issues to USAID a weekly update, which records all of the site visits and meetings, which take place, and the subjects of concerns, opportunities and further action required which arose at the meetings.

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

PERFORMANCE SUMMARY

Cumulative changes to date in primary indicators

	After 30 Months	
	Target	Actual
Number of companies assisted	n/a	93
Increase in sales compared to baseline – euros (in millions)	27.5	64.4
Increase in sales over baseline - %	29.1%	68.3% ¹
Increase in FTE jobs	2,000	2,849
Increase in financing – euros (in millions)	8.0	10.4
Increase in capital investment – euros (in millions)	3.8	26.1



¹ Represents the percentage of total sales to date over total *annualized* baseline sales by *active* companies currently in the database. Total sales to date are €158,893,901 and total annualized baseline figure for companies is €94,431,639.

1.0 WORK PLAN RESULTS ACHIEVED

1.1 Projected Results Achieved

In the Work Plan for Year Three, there were a number of Projected Results defined, which were to be achieved in the quarter that ended 31 March 2007. The following results were achieved:

- 8 dairy farms enrolled in DHI program by March 31, 2007 and 15 enrolled by September 30, 2007. *[Phase I Completed - Six dairy farmers are enrolled in the DHI program. The number was reduced to coincide with the number of interested students at the Agriculture Faculty. The six farms have a total of 374 cows so this was deemed adequate for the pilot phase of this program].*
- Raw Milk Quality Decree Adopted and put into effect by MAFRD. *[Completed - Milk Decree was signed into law in September, 2006 and is in the initial phases of implementation].*
- Two dairy farmers trained in financial record keeping - to be replicated by KAMP for additional farmers. *[Completed - Fatmir Selimi has been contracted to work with dairy farmers Deda Dugagjin from Peja and Bajram Mujota near Shtime. He began his work with them early February and will continue with follow up for 3 months]*
- At least one sheep farmer keeping good records with a business plan developed. *[Completed - Mr. Hysen Bytyqi has been contracted to work with 3 sheep farmers on implementing an accounting program for their farms. He is contracted for 18 working days during the period January 25th through May 15th, 2007].*
- At least two F&V processors implement GMP programs and are ready for the last steps of HACCP certification. *[Completed - Two F&V processors are ready for HACCP. One will proceed immediately, with expectations for full certification in July, the other will be ready to proceed in August after installation of new processing lines.]*
- Develop a Kosovo apple logo and arrange a donation of 6,000 cardboard cartons to prove that Grading/ Sorting/Packing apples will raise income by at least 20%. *[Completed - Cartons were distributed and a local STTA hired to monitor the economic impact. Maximum price increase was 20%].*
- Escort a group of key agribusiness people to attend Fruit Logistica in Berlin to study competitive quality and to make contacts with buyers and equipment suppliers. *[Completed - Two key agribusiness people attended, along with a F&V Specialist, and materials from exhibitors have been distributed to interested parties.]*
- Create a sub-supplier network for Korenica and Ukaj which involves at least four other Kosovo manufacturers - two by end March. *[Completed – Parketeria in Ferizaj was set up to supply wearlayers; and Druri sawmill near Xerxes has invested in equipment to supply sawn lumber].*
- Support all six cluster associations review their strategic plans and prepare the work plans for their second year accordingly. Issue grants to all six associations to support key programs from their second year work plan, including profit generating product/services, and prepare them to reduce KCBS/donor support from 60% to 40%. *[Five out of six completed – KDPA is exception owing to disagreements within the Board. Currently KDPA have an application in process].*
- Implement initial six months plan of technical assistance and training and extend initial pilot loan(s) under new lending program. *[Completed – but pilot loans delayed until after launch of new instruments at the Finance Fair].*
- Develop collateral instruments and possible guarantee mechanisms with the BPK. *[Completed - Bills of Exchange are likely to be introduced in Kosovo as collateral, but*

next steps will involve proposed legislative changes by CBAK and interested parties, and consultation and negotiation on these proposed changes].

- Provide targeted assistance and guidance for preparation of second Kosovo Finance Fair. *[Completed – Finance Fair will be held April 11 & 12].*

1.2 Projected Results Not Achieved

The following results were not achieved as scheduled:

- Assist in establishing one laboratory for testing raw milk quality, especially to facilitate mastitis control. *[The raw milk quality laboratory is established and functioning. The livestock group is working on several options for a quick response mastitis control system that would involve the Pristina Agriculture Faculty staff and their laboratory equipment. This part of the projected result has been delayed due to a key professor involved in isolation of mastitis pathogens has been on assignment in Germany. He is back now and willing to cooperate].*
- Develop several options for milk supply/purchase contracts between dairy farmers and processors. Have one implemented in two dairy processors. *[A draft contract has been developed and provided to Bylmeti and KAMP to review and comment. Initial comments from Bylmeti were it was too complicated. KAMP has not responded. It will be given a high priority now to coincide with the implementation of the milk quality decree].*
- Improved record keeping and business plans developed in at least three poultry producers and one feed manufacture not producing poultry. *[Three poultry producers have been identified. It has been determined to hire a local BSP to develop a more comprehensive system that could be used by all poultry producers].*
- Assist at least five farmers or entrepreneurs to install cold storage facilities, with apple prices expected to be 80% higher. *[The technical complexity of the work has delayed implementation, but all facilities are expected to be installed by fall 2007.]*
- As a result of at least one mass meeting in January and subsequent small group meetings between producers and wholesale traders, at least two producer groups sell fresh products directly to wholesale traders for the first time. *[KCBS hosted a very successful Marketing & Linkages Meeting in late March. Networking between producers and traders is expected to lead to new sales, but parties are reluctant to make agreements in advance of summer harvest].*
- As a result of at least one mass meeting in January and subsequent small group meetings between producers, exporters and domestic & foreign processors, at least two producer groups sell products to processors for the first time. *[Same comment as above].*
- Assist two commercial banks and two micro-credit organizations to create new lending procedures and products using improved risk management methods for agricultural lending. *[Only one MFI has created new products, but in June and July, with technical and logistical support from KCBS, World Learning will fund training of 40 credit/loan officers by two STTAs in agricultural lending. Their SOW includes assisting commercial banks and MFIs in accomplishing these objectives.]*
- Develop PET recycling in Zvecan and Peja/Ferizaj. Increase tonnage exported by 100%. *[Compacting machines were provided under SAF to two companies; links for expanding collection were made; but 100% increase is not expected to be seen until next quarter]*

2.0 DAIRY SUB-CLUSTER

2.0a Dairy Sub-Cluster - Milk Production

2a.1 Improved Productive Capacity

Activity 2a.1.1: Advise and support demonstration farms while using them as training centers.

KCBS has established one demonstration farm, “Legjendasi” in Lipjan, which will be used to conduct three trainings; it will also permit visits from individual farmers who wish to see and learn about dairy cattle housing conditions and good dairy farm practices. The first group training was organized for 9 dairy farmers and Shtime municipal officials. Features and practices that will maintain the health of the animal, boost milk production and improve milk quality, such as good feeding program, proper records, good ventilation, good lightning and dry, clean and comfortable bed were emphasized during training. Barn ventilation and lighting, calves raised in hutches and milk room hygiene were features that dairy farmers will adopt with small additional investments. By year-end, KCBS expects 20 farmers to have adopted new technologies/practices as a result of the demonstration farm visits and training.

Unfortunately, the second planned demonstration farm, “Vukosavljevic” in Leposavic, is still not functional. The farmer has built his new barn, well lit and ventilated; USAID investment in cow stalls and manure removal is complete; but the farmer’s agreement with the Serbian Ministry of Agriculture for funding the supply of 25 dairy cows [the farmer himself will fund a further 25] has been stalled by political considerations. Resolution is expected in the next quarter.

Activity 2a.1.2: Enterprise record keeping

The pilot Dairy Herd Improvement (DHI) program has started .The six dairy herds enrolled in DHI program are; Legjendasi, Mazreku, Euroлона, Rudina, Dukagjini and Disa dairy farm with a total of 374 cows in their inventory. KCBS has engaged 6 students, and their professor and teaching assistant from the livestock department within Agriculture Faculty, to obtain reproduction and production records from 6 dairy farms enrolled on in DHI program. The Faculty is being used as the initial data processing center to process farm management reports and store data. The center is using a software program developed by KCBS and relies on selected students collecting the raw data from the farms and entering it into the database. Students have received additional training on taking milk weights and milk samples as well as collecting herd data in accordance with ICAR (International Committee on Animal Records) standards. Students have been trained on how to operate with milk meters that are specially designed to weigh the cow milk in tie stalls utilizing closed pipeline milking system. The first DHI report submitted by students indicates that farmers are seeing progress with regards to reproductive performance. Average days “open” dropped from 202 days to 150 days

Activity 2a.1.3: Expand heifer-raising program

Most of the small-scale dairy farmers throughout Kosovo are having problems in raising calves. To initiate proper health and growth of calves, housing facilities must be improved. The current method of placing baby calves in a group pen, located in an unused portion of the cow barn, is contributing to respiratory health problems and slow growth rates. Recognizing the problem KCBS recommended the introduction of individual calf hutches as an economical way of eliminating many of the problems. To demonstrate the advantages of raising calves in hutches KCBS organized two trainings at “Legjendasi” & “Mazreku” dairy farms where fiberglass calf hutches were provided by KCBS. As result of recognizing the advantages of raising calves in hutches, two dairy farmers with KCBS help, built locally five wooden calf hutches based on industry-accepted standards. Farmers have reported faster growth of calves raised in hutches compared to calves raised in conventional way.

Activity 2a.1.4: Introduce base feed mixes and dry cow feeding programs

Late in 2006, STTA Dr. Roy Chapin formulated an improved base mix and provided the formula to Fauna. The base mix produced locally aims to substitute high costly imported dairy base mixes. Fauna has designed the package and has written instructions for its use by dairymen. However, production has been delayed since Fauna failed to win its bid during privatization for the animal feed factory out of which it was operating. Currently Fauna is renting a new facility where they will temporarily lay out a feed mill for packing bags with grains as well as set up the mixing machine to produce base mix. Fauna has ordered the mixer. It is expected that Fauna base mix will be available in the local market next quarter. The dry cow and transition cow-feeding ration formulated by Dr. Chapin has been added to dairy cow feeding training material and disseminated at training seminars, through KAMP and through local field officers.

2a.2 Improved Quality Control

Activity 2a.2.1: Support implementation of Raw Milk Quality Decree

The Raw Milk Quality Decree is the only administrative regulation adopted by MAFRD that is being implemented. Processors are continuously bringing raw milk sample to the lab and they are paying farmers based on quality parameters for different classes of raw milk as foreseen in milk quality decree.

In support of implementing the Raw Milk Quality Decree, KCBS foresaw the need to establish a raw milk testing laboratory. This has been accomplished. KFVA lab has officially started to do chemical and bacteriological analyses of raw milk using FOSS high-speed equipments. Official testing of raw milk has started with dairy farmers that are supplying milk to Bylmeti and Abi, and is continuing with other dairy plants. Having the laboratory functioning will give dairy farmers a financial incentive to improve milk quality which will help to improve consumer perception towards local dairy products; this in turn will help to create a sustainable and competitive dairy industry. Dairy farmers thanked KCBS for their contribution in setting up the lab. This is a great step towards reaching EU standards.

Activity 2a.2.2: Help develop a mastitis control program

The steps to eliminate the diseases from the herd are dependent upon which category of mastitis is prevalent on the farm. For successful treatment of mastitis there is a need to isolate the species of bacteria that are causing Mastitis in dairy cows. The Agricultural Faculty possesses equipment for isolating different species of mastitis-causing bacteria called "Bactract" that can provide test results within 24 hours. There are a few persons within Faculty who can operate the equipment.

KCBS prepared a SOW for doing microbiology tests using "Bactract" in order to isolate the microorganisms and run antibiotic sensitivity test. The key for mastitis control is not the treatment of the disease, but is the establishment of prevention programs. In addition KCBS produced and is disseminating brochures for helping farms to prevent and detect mastitis in their dairy herd

Activity 2a.2.3: Increase use of forage quality testing

There is a positive correlation between feeding quality forage and high milk production. KCBS initiated the forage quality-testing project to balance feeding programs according to the cow's nutritional needs. KDC, a local business service provider, has been contracted by KCBS to implement FQT (Forage Quality Testing) project. The project is designed to show the advantage of doing this testing to determine actual nutrient values instead of assumed standard nutrient values to reduce the feed cost per liter of milk produced. The forage-testing project is foreseen to take 3 forage samples from 10 selected dairy farms' inventory and use test results to improve their dairy cow feed rations. In addition the FQT project will encourage the use of the Agriculture Faculty's forage testing services and improve their services. The FQT project is in its initial phase; 3 forage samples from each of 3 dairy

farmers have been taken and sent to the Ag Faculty to determine forage nutrition value using Near Infrared Reflectospectographic (NIR) forage testing service.

2a.3 Improved Market Chain Linkages

Activity 2a.3.1: Develop a recommended standard dairy producer/dairy processor milk supply contract

Using standards derived from milk quality decree, KCBS drafted a “standard” milk supply contract to reduce the risk of a milk producer unexpectedly losing his/her market. The pilot testing of “standard” milk supply contract has started to be used by “Bylmeti” dairy plant in purchasing milk from farmers.

2a.4 Strengthen Capacity to Access Credit

Activity 2a.4.1: Support training in general farm financial record keeping

Farm record keeping can be a daunting task whether a farmer chooses to keep records with pencil and paper or with a sophisticated computer software package. Choosing the system that is right for a farmer is important to their record keeping success. Taking into account that the majority of Kosovo dairy farmers don't have a computer and neither farmers nor any family members are computer literate, a manual financial record keeping system is probably the best solution for the majority of Kosovo farmers. KCBS contracted local STTA to implement a manual dairy farm record keeping system on two selected dairy farms including training for one or more farm family members in using the system. The system includes both financial and enterprise record keeping. It is envisioned that KAMP and/or appropriate service providers will distribute the resulting system to a wider farm audience and will provide appropriate training.

Activity 2a.4.2: Support development of a dairy equipment finance program

Most of the small-scale dairy farmers in Kosovo do not have the resources to buy a lacto freezer; the only opportunity to secure one is through a loan from financial institutions. KCBS is continuously stressing to financial institutions that lending to agriculture is safe, secure and profitable for banking institution. The general impression is that in near future financial institutions will be geared to lend at more favorable interest rates to agriculture sector. However they are acting slow in changing their lending policies and are still applying high interest rates when dairy farmers are applying for a loan. These loan terms are discouraging dairy farmers to apply for a loan and as result they still mistrust the banks.

2.0b Dairy Sub-Cluster – Milk Processing

2b.1 Improved Productive Capacity

Activity 2b.1.1: Encourage and support milk standardization and improved product flow in all client dairy processing plants

KCBS with STTA Mel Jolly worked at processing plants: Kabi, Abi, Bylmeti, Ajka, Lulja e Sharrit, and Golaj, preparing the new standardization plan for dairy products in order to increase the profit and to reduce the cost of processing. In one case, the equipment was available but not in use. KCBS held a presentation workshop for KDPA on introductions necessary to improve dairy processing and product standardization. Six dairy plant members of KDPA participated in the workshop. KCBS presented a draft Excel table as an example of necessary calculation for fat content standardization. KCBS prepared for KDPA the specification document on purchasing new pasteurizer equipment in order to increase the quality of final product. Each processing plant is losing between €37 and €187 per day through losses in fat content. KCBS will continue to monitor the changes required and made.

KCBS for Kabi prepared the layout plan of equipment to be installed at new processing plant with capacity 20,000 liters/day. Kabi will start standards implementation and standardization of processing plant next quarter.

To achieve the best yield, the processors received technical instructions from KCBS for each product produced and on how to standardize milk on dry matter and butter fat content basis for specific products. KCBS with Golaj are implementing the new management system. The first organizational structure has been implemented.

Ajka has invested and installed a used pasteurizer 5000 lit/h. Ajka still needs to improve separation and standardization in processing plant.

KCBS prepared the new recipe to develop cream cheese, a value-added product with good margins. KCBS several times tested and developed cream cheese at Bylmeti, and Abi and obtained successful production with yield of 1 kg of cream cheese produced from 3.5 lit of milk. Market price was 40% less than that of imported product. 40 kg of cream cheese developed by Abi was sold in the market at Abi center in Prizren. Both dairies still need to improve the packaging design and label for cream cheese.

KCBS assisted Bylmeti and Abi in identifying potential suppliers of new pasteurizers from Serbia, Greece, and Turkey according to specifications prepared by KCBS. For this purpose KCBS organized a study trip to Serbia for Abi and Bylmet, visiting two pasteurizers manufacturer in order to meet GMP/HACCP standards requirements.

Activity 2b.1.2: Identify and assist new local service providers to provide technical assistance to the dairy processors

KCBS is identifying potential local consulting companies to assist processors with basic and advanced technology currently available. KCBS has identified marketing consulting company UBO Creations to assist KCBS on cream cheese market research and promotion.

2b.2 Improved Quality Control

Activity 2b.2.1: Support and encourage routine testing of finished dairy products

KDPA has agreement with its members to test a limited numbers of product samples [4] once per month; however, in order to implement GMP standards, Abi and Bylmeti have agreed to have an increased number of their products tested. KCBS has assisted Abi and Bylmeti MCCs on establishing proper lab testing procedures for raw milk required by GMP/GHP standards. The KVFA lab (operational through the assistance of KCBS) has had a huge impact on confirming the quality of raw milk. Processing plants have an easier job to select the best milk quality so as to plan input to each processing line. Better selection of raw milk has an impact on final dairy product quality and the product shelf life. In March, Abi and

Bylmeti began testing each product launched in the market on regular basis in order to continue with GMP and HACCP standards implementation. KCBS has organized the training workshop for Abi staff and farmers on how to implement the new milk quality decree system. KCBS has arranged to organize similar workshops at each processing plant doing one per week.

KCBS together with KVFA is preparing a plan to improve old, basic licensing and operating standards to be issued to dairy processors by MAFRD. KVFA will require each processing plant to install thermograph on pasteurizer in order to monitor the pasteurization process in processing plant and to enforce the record keeping required by GMP and HACCP standards. KVFA will assist KDPA members on proper isolation of thermograph. The standards need to be improved in order to increase the quality of final products, to increase food safety standards and in order to be more competitive in the market. The improved standards will assist KVFA inspectors in being more objective and efficient. KCBS provided KVFA with a list of dairy processors who have pasteurizers. KVFA has agreed to support dairy processors with 10-15% of the invoice value on installation of a thermograph and diverter valve at the pasteurizer as a part of GMP standard implementation. KVFA plans to start with 8 plants.

Activity 2b.2.2: Work with 4-6 committed dairy processors to begin installation of GMP

KCBS has continued to work together with STTA food safety standards specialist, Vlado Kokarev, to implement GMP and GHP standards in selected MCC's and dairy plants. At Bylmeti dairy plant, GMP standards have been implemented. Bylmeti still needs to implement the remaining activities concerning pest control and calibration of testing equipment. At Abi, the documents on GMP standards have been developed and completed. Abi will implement the plant facility and processing equipment standards required after privatization of processing plant, expected June 07. Abi completed its investment plan for purchasing new pasteurizing equipment in order to implement GMP standards. The amount of new investment is €100,000 Euro just to improve processing line pasteurization.

KCBS has signed an MOU with Bylmeti for HACCP standards implementation. Before starting with HACCP standards implementation Bylmeti needs to invest in new equipment: new pasteurizer, heating system and iced water to supply new pasteurizer. The amount invested by Bylmeti up to date €12,000 Euro, and he plans to invest a further €120,000.

KCBS has signed MOUs with four processing plants; Golaj, Kabi, Magic Ice, and Ajka to start with GMP standards implementation. KCBS has developed the detailed document forms which have been introduced, including transit forms (100 documents). The processing staff and quality control manager have been trained in order to satisfy GMP-HACCP requirements. KCBS is monitoring the record keeping and maintenance documents.

A local service provider, Fauna Company, after received training in Macedonia, has started to send the offers to companies interested to implement pest control.

KCBs identified the metrology institute in Prizren as being able to calibrate all kind of testing equipment in a processing plant, a requirement for GMP/HACCP.

Activity 2b.2.3: Work with 4-6 committed MCC owners to instill Good Handling Practices

KCBS has continued with GHP model implementation at the MCC in Orllan, which supplies milk to the Bylmeti dairy plant; with Women association Krusha e Vogel supplying milk to Abi; and Bec MCC supplying milk to Devolli. At the three MCCs KCBS completed staff training on milk testing, milk handling and hygiene procedures illustrated with demonstrations. GHP standards implementation is completed. KCBS will continue to support farmers supplying on improving the milk quality because 51% of the farms produce milk with more than one million bacteria per ml. KCBS is monitoring the record keeping and maintenance documents. KCBS also signed an MOU on GHP standards implementation with Krusha e Madhe, an MCC supplying milk to Ajka; Mamusha, an MCC supplying Abi; and Glllogjan MCC supplying Golaj dairy plant.

Activity 2b.2.4: Increase capacity and sustainability of two training centers for dairy processing plant employees

KCBS has identified two training centers: Novo Sello dairy training center near Peja and the dairy processing training center in Lypjan. KCBS is working on identification of needs in training centers in order to improve teaching training methodology. Activities not yet started.

2b.3 Improve Market Chain Linkages

Activity 2b.3.1: Support “unique” product market development for committed dairy processors for entry into at least one regional market with at least one new product

KCBS with STTA marketing & sales expert, Marijan Petkovski, promoted and facilitated export of Kosovo dairy products to markets in Macedonia and Albania. KCBS has identified two companies from Macedonia and Albania interested in buying Kosovo dairy products. STTA visited Kosovo dairy processors Abi and Bylmeti to identify the products for export. Kabi, Ajka and Rona have also offered samples of products. 3.5 MT comprising nine dairy products were exported to Albania by Bylmeti in the last two weeks of March. The Albanian company expressed interest to buy Abi and Kabi products, yogurt and white cheese. KCBS is coordinating activities with KVFA and Inspectors from Macedonian for exporting processors to get an export registration number. Abi already has such a number and is preparing to export dairy products in Serbia.

Activity 2b.3.2: Support improved packaging, labeling and marketing of dairy processing client products

KCBS organized two study trips in Serbia for Bylmeti and Abi to ATM Company, a Serbian packaging producer. The trip identified new potential supplier of packaging material and design capability for preparing improved packaging of existing and new dairy products. The price offered from ATM company was €0.17 per 800 grams packaging, whereas current price paid by processors is €0.24. Ten KDPA members are interested to visit the packaging manufacturer company in order to close deals based on the needs of each processor. Bylmeti has ordered new packaging design for cream cheese products in 100 and 200 grams containers.

Activity 2b.3.3: Encourage and support dairy processor and supermarket retailer cooperation in promoting and merchandizing selected domestic dairy products

Six dairy plants and KDPA executive manager participated in marketing & linkage conference. An STTA, Marilyn Phillips, worked on reviewing the marketing plan schedule, and on updating UBO Creation's marketing company cream cheese market research. She prepared the training material for the planned in-store merchandising and promotion seminar, prepared the procedure for product testing and developed preliminary ideas for product positioning. Marketing team subsequently took over this work - see details in marketing team report. KCBS assisted Bylmeti to develop five ways of cream cheese development samples; marketing team will organize sensory testing of this cheese.

2b.4 Strengthen Capacity to Access Credit

Activity 2b.4.1: Encourage and support credible business plan development

KCBS is gathering the information about potential local consulting company capable of preparing professional technical business plan appropriate for dairy processing. Cash flow with balance sheet model needs to be developed. Implementation of this activity not yet started.

3.0 MEAT SUB-CLUSTER

3.1 Improved Productive Capacity

Activity 3.1.1: Encourage and support the use of improved ewe and lamb feeding programs and introduce new improved breeds of sheep via a pilot program

A major cause of the inferior production performance found today is a result of a low productivity of local sheep breed. There are several factors contributing to this: the local sheep breed has a low productivity; failure to select good lambs for replacement; and unbalanced feed rations for sheep and lambs. KCBS and Agricultural Faculty research farm have created two groups of local sheep breed, each group has 20 sheep. It is intended that a third group will be created with imported sheep. For these groups KCBS bought and formulated 8,000 kg of concentrate and 8,000 kg of alfalfa forage according to STTA recommendations. The faculty staff will be responsible for conducting trials in a scientific manner assuring credibility of the results. Accurate recording of all feed consumed, birth weight of lambs, weights of ewes at beginning and end of trials, days from birth to 25 kg weight of lambs, amount of milk produced, accurate pedigree records, etc.

KCBS has decided to import sheep breed Lacaune. The Lacaune originates from a Southern France breed of milking sheep and is widespread all over Europe. In many Western European countries (e.g. France, Great Britain, Switzerland), it has been selected for increased milk production under a sophisticated selection program incorporating artificial insemination, milk recording, and progeny testing of sires for longer than any other dairy sheep breed in the world.

The "Lacaune" sheep is primarily grown for milk production, although quality of carcass and the wool gives this strain a triple purpose. This sheep is characterized with average lactation length of above 150 days, and average production of 400 – 600 kg milk per lactation with average fat content of 6.25 %, and protein content 5.40%. These figures compare with the local sheep breed productivity in milk production from 60 to 80 liter per lactation and fertility 110 to 120 %. Lacaune represent an excellent and robust breed, has advantages of natural hardiness, grazing abilities, and is well adapted to the cold mountain climates.

Since a major cause of inferior production performance found today in Kosovo is a result of a low productivity of local sheep breed (60-80 kg per lactation), KCBS therefore consider that importation of this breed will have a great impact to Kosovo sheep dairy industry and overall genetic improvement of our local breed.

3.2 Improved Quality Control

Activity 3.2.1: Support installation of good manufacturing procedures (GMP) in selected meat processors

KCBS has contracted STTA Katarina Kostandinova, meat specialist, to implement GMP in meat processing and slaughterhouses. GMP is the foundation for HACCP system and in order for the system to function properly, a correct set of GMP is necessary in every food business today. It represent a full system covering all essential parts of food operation such as facility, layout, maintenance and calibration of the equipment, incidents, complaints, traceability and recall, training, personnel management, pest control, cleaning, suppliers, waste management etc.

The meat industry in Kosovo, although small, has potential to improve and increase its existing capacity and prepare for HACCP implementation. KCBS activity was to do initial monitoring of the existing facilities by on-site visits and to prioritize those companies moving towards GMP implementation. KCBS has written recommendations to each processor on the findings and necessary changes that need to be done in the future. Main processors visited were: Meka, Coral, Arqe & Iko, EU Progress, Apetit, LGB and Gazi; the initial findings were that Arqe & Iko has the best practice and could start with HACCP implementation very soon.

The Coral Company started to refurbish recently bought slaughter plant but unfortunately several mistakes were already made and they will need some time to rectify them; EU Progres slaughter plant has the proper facility and process layout but until the privatization process ends no activities is to be expected; the only recommendation for Meka Company is to consider building new facility next to the existing one in order to solve disorganization in the production and process layout.

Activity 3.2.2: Improve sheep milk and cheese quality

One objective of KCBS is to increase sheep milk collection and to produce Sharri cheese with sheep milk. In order to help sheep farmers and dairy processors successfully enter the sheep cheese market on a sustainable basis KCBS has organized study trip to Macedonia (Berovo) for dairy plants to visit sheep milk processors. Three dairy plants participated on this visit: Kabi, Lulja e Sharrit and Sharri. Dairy technologist specialist, Mr. Dragi Mihajlov, gave a demonstration presentation on processing sheep milk into Sharri cheese.

3.3 Improve Market Chain Linkages

Activity 3.3.1: Continue lambs export market development

Lambs from Kosovo were transported to Bosnia, as part of an agreement between Lijanovici, a well known meat products factory in Bosnia, and Delfini, a Kosovo-based producer. The export was made possible after months of coordination between the companies and the governments of Kosovo and Bosnia, to remove all obstacles for export. KCBS involvement was crucial in changing the procedures for live lamb export to Bosnia, as well as finding the markets by linking domestic and foreign companies. The first truckload in 2007 was sent from two collection centers in Prizren and Kaqanik with 450 lambs from seven sheep farmers, including two sheep farmers from Serb minority areas. Average live weight of lambs was 23 kg (total 10,350 kg). The price was € 2.5/kg and the total value of the shipment was € 25,875.

Lijanoviqi shows interest to continue with import of lambs according to demand in Bosnia market. Local TV RTK was present, and the story was broadcast in news as a major achievement in Kosovo agriculture. Sheep farmers were very pleased to see lamb export, and thanked USAID/KCBS for its contribution in opening market for exporting lambs. In order to meet the requirements of the buyers, the KCBS project has been working with farmers to revitalize the sheep industry through trainings and interventions in the three basic sheep farmer income sources of meat, milk and wool.

Thought it has a small domestic market for lamb, Kosovo has the potential and tradition for producing lambs for export to regional and EU countries. Lamb meat produced in Kosovo was formerly marketed in ex – Yugoslavia republics (Slovenia, Croatia, Bosnia), EU countries, mainly Italy and Greece and Arabia country.

Activity 3.3.2: Improve wool marketing options

No action this quarter. Work will take place in the next quarter.

3.4 Strengthen Capacity to Access Credit

Activity 3.4.1: Improve business planning and record keeping

KCBS prepared a scope of work for local specialist to work with three sheep farmers to develop a sustainable record keeping system for providing records of sheep milk production, reproduction, health and economic management information. STTA will visit sheep farms once a month for the purpose of obtaining production, reproduction, health and economic records. This objective will take place till May 2007.

4.0 ANIMAL FEED SUB-CLUSTER

4.1 Improved Productive Capacity

Activities 4.1.1 & 4.1.2: Confirm economic viability and relevance of alfalfa and/or clover seed multiplication in Kosovo

KCBS completed its market research on alfalfa and clover seed in the region. KCBS got data and a general overview on planted and producing alfalfa and clover in Kosovo, Albania and Macedonia, through research and analyses of existing literature and through reports conducted by other organizations. The literature research was followed by interviews with officials from the Ministry of Agriculture, Forestry and Rural Development, Customs Service of Kosovo, and main input dealers (Semenarna, Fitofarma, Daradania, Agorunioni). Having in mind the fact that all surfaces with forage plants in Kosovo are sowed with imported seed, KCBS has made a research on surfaces previously sowed with forage plants. The amount of imported forage crop seeds that are used for sowing has been increased. [Based on the information provided by the Ministry of Agriculture in Albania, the area in Albania planted with alfalfa occupies 17,920 ha of land compared to 11,850 ha in 2003. This represents an increase of 14.2% planted alfalfa/ha per year].

KCBS and STTA Jim Stanelle, seed production consultant to KCBS, helped the MAFRD and a local seed cleaning company in setting up seed production schemes. Three training programs were organized for MAFRD field officers, farmer association members, and a seed producers association. A series of Alfalfa Seed and Forage Production Plots are being established in four areas of Kosovo to determine the feasibility of alfalfa seed production in Kosovo. KCBS is cooperating with the MAFRD, KODAA and regional alfalfa seed production companies in this endeavor. The plots will help to determine if alfalfa seed production is viable, what alfalfa seed varieties will work best for both seed and forages production and to perfect alfalfa seed agronomic practices. The project will also assist in the marketing of alfalfa seed by holding field days and designing brochures. The objectives of this project include:

- to determine if the production of alfalfa for seed using best management practices can yield a significant amount of quality seed to make seed production economically feasible;
- to compare several regionally available alfalfa seed varieties and observe any obvious differences in seed production ability;
- to determine which regions of the country have an advantage in alfalfa seed production capacity;
- to provide some forage yield information on the various varieties being tested; and
- to use the plots to demonstrate to local farmers and prospective alfalfa seed producers the production potential of seed and forage of the various tested varieties.

Activities 4.1.3, 4.1.4 & 4.1.5: Pasture improvement work

KCBS will continue to work with five test plots established and other two test plots in minority area. The purpose of this activity is on improving pasture in quality and quantity and also to educate farmers, a subcontract will be prepared to monitor the new test plots and report on the existing five test plots. Dan Undersunder STAA forage expert will monitor pasture trial plots established by HAK to review progress and make recommendations. Also the forage expert will present through seminars on good pasture management practices including pasture rotation and the preliminary results of the current pasture improvement trials.

KCBS worked with the Agricultural Institute in Peja on preparing and publishing the brochure "Guide for taking soil samples for agrochemical analyses". This brochure will help for soil samples taken by farmers. Price per sample was reduced from 15 to 5 Euro. The price is now reasonable for the farmers. During this quarter more than 450 soil samples were collected and sent to institute for analyzing. Also during this quarter five different type of fertilizer were registered by MAFRD and will be imported from Agro Sativa Company from Italy. This is good opportunity for commercial farmers to choice the appropriate fertilizer,

based on the soil analysis. For this reason the cost of production can be reduced for farmers based on the brochure's advice.

4.1.5. Planted new Alfalfa Varieties

KCBS during field visit continued to promote new variety of alfalfa based on the test plots results, specifically with high performance in disease resistance and winter hardiness. Also KCBS identified 13 crop producers which will plant new alfalfa variety from well know companies like: Barenburg /Holland, Sativa/Italy, Semenarna /Slovenia.

4.2 Improved Quality Control

Activity 4.2.1: Improved crop harvesting and storing techniques

Production of proper grass and alfalfa silage is one of main objectives of KCBS program in Animal Feed production. It will demonstrate new processes for producing silage which has enhanced nutrient value and will minimize the reduction of proteins and other nutrients in silage. During this quarter KCBS cooperated with KAMP association in conducting training programs for new and interested farmers who had expressed interest for the first time in making properly wrapped bales. In the next quarter, STAA forage expert Dan Undersander will work in the field with several farmers on preparing the proper grass silage and alfalfa.

4.3 Improved Market Chain Linkages

Activity 4.3.1: Help develop and support marketing coops/marketing organizations for grain crops; and

Activity 4.3.2: Assist in increasing marketed volumes of new, high quality, proven inputs by cluster input suppliers

KCBS worked actively with KODAA members through AKA to help organize their Agricultural fair which was held in Pristina at the end of March. The majority of KODAA members will participate and represent their Agricultural inputs. KCBS has assisted and linked several Crop producers, Dairy farmers and Feed millers, like: Mazreku Dairy farm bought 200 tons of mixture hay worth €12,000; Rudina Dairy farm sold 500 ton at €35/ton of silage to several farmers on KCBS recommendation. KCBS worked with Agricultural cooperative "Gurra" in Istog and assisted them on developing marketing agreements with major input suppliers, major grain consumers and feed millers.

KCBS is exploring the possibility of helping our participant crop producers to enter into memoranda of agreement with major grain consumers to produce grain for use in their mills. This chain of production currently is on-going. One positive result was that 125 tons (27 tons from Kosovar Serbs) of locally produced maize, valued at €21,250, were sold to local feed millers.

MAFRD has accepted all KCBS recommendations, and now there are eight additional maize hybrids from Pioneer, Agro Sativa and KWS - therefore this year farmers will have more choice.

During this quarter KCBS and KODAA, in cooperation with two agricultural shows in February and March shown on RTK agricultural TV program Bujku, has provided coverage on many issues using the best practices as well as provided a very attractive overview of proven technology from last year.

Activity 4.3.3: Explore the possibility of contract production of feed and food grains

A sample contract between feed producer Sazli and crop producers Dragan Tarajliq and Jovica Aksiq was completed and signed. The parties agreed initially for 100 ton of maize, value €17,000. The contract will be executed during September after maize harvest; the buyer agreed to pay the actual market price prevailing at the moment of trade.

4.4 Strengthen Capacity to Access Credit

Activity 4.4.1: Improve crop enterprise records

KCBS continued to assist clients, Dardania Farm, Triticum Com, and Agrounion, in developing crop records keeping. KCBS has prepared and published 50 brochures on Farm Management and record keeping which will be helpful for farmers.

5.0 POULTRY SUB-CLUSTER

5.1 Improve Productive Capacity

Activity 5.1.1: Assist in establishing a poultry breeder farm (egg laying parent farm).

During this quarter KCBS assisted SHPUK in many aspects of establishing a poultry breeder farm. KCBS passed along all information regarding breeder operation; it started correspondence with Babolna Agraria, a breeder producer, on the purchase of breeders; it facilitated meetings with KVFA to initiate breeder import procedures; it assisted SHPUK in developing MOU that was signed between KVFA and Gjini Tag, and contractual agreement that was signed between SHPUK and Gjini Tag. During this quarter KCBS and SHPUK have finalized the purchase of breeders, a process which included the transfer of funds from KCBS to SHPUK, the preparation and signature of contracts with producer (Babolna – Hungary/Hy Line breed for commercial layers) and contacts between SHPUK and the grantee who signed the contract. SHPUK has completed the initial purchase of breeders and has paid the advance. The breeders were purchased in Hungary and are due to arrive in late June. In the meantime KCBS is assisting Gjini Tag in rehabilitating their farm, and in purchasing the nesting equipment.

In this quarter, Taka has purchased breeder equipment and incubators and has also purchased 3,000 breeders from Hungary. These breeders are for broilers and are of Hubbard breed. Breeders are due to arrive by end of April and will be 15 weeks old. Prior to their arrival SHPUK will organize a meeting for poultry producers among SHPUK members. With the number of breeders and with incubator capacity Taka will be able to hatch 15,000 day old chicks per week or 750,000 per year, valued at approximately €225,000.

Activity 5.1.2: Encourage and monitor better use of feed formulation software

KCBS continues working with poultry and feed industry in lowering the cost of production and improving the quality of the product. KoniSoni, Adi, Maluku, Jazi and Fit Dani all have feed formulation software and KCBS is pressurizing them to maximally use this software. For that purpose SHPUK has in their Strategic Action Plan to organize workshops but also provide individual trainings to feed producers. During this quarter KCBS worked with Fit Dani who had continuous problems during his pullet growth. KCBS also worked with Maluku who had health problems with chickens in his newly built farm. KCBS communicated the problem to Dr. Bakalli and has forwarded Dr. Bakalli answers and suggestions to Maluku. Also KCBS contacted Prof. Xhevad Domi – Microbiologist who went to Maluku. The end results have shown that the chickens are in very good health conditions and that feed is of good quality, however the problem was a result of disrupted water supply.

During this quarter Mr. Hassan Ahmed, Agricultural Attaché in US Embassy in Belgrade, asked KCBS to assist Albanian feed industry by providing them assistance in purchasing maize and soybean meal. KCBS contacted Fauna and immediately initiated the process of preparing and presenting the offer from Cargill International to Albania feed industry for a combined shipment of 7,000 tons of maize and 3,000 tons of soybean meal with estimated value of €2,000,000. KCBS continued the correspondence with Mr. Hassan Ahmed, Agricultural Attaché in US Embassy in Belgrade, Adama project in Albania, Albanian feed industry and Fauna in providing them assistance in purchasing maize and soybean meal. KCBS was able to find the shipment of 25,000 tons of corn with very competitive price, unfortunately the seller is only able to sell the entire quantity that is inappropriate for Albania and Kosovo since Durres port can not handle ships loaded with more than 10,000 tons. At the same time KCBS is working with Fauna and Cargill to try to find the best solution. As a part of this activity KCBS and Fauna met Sharri Veze to discuss the possible business linkage between Fauna and Sharri (Tetovo, Macedonia). Sharri is the largest poultry farm in Macedonia and the only certified egg exporter. At present Sharri purchases Soybean meal from Cargill Greece and Fauna is able to offer him better deal using his contractual agreement with Cargill. Also Sharri is interested to be involved in regional purchases of maize with Fauna and Albanian Feed Producers.

Activity 5.1.3: Introduce pellet mill technology via a pilot program

During this quarter KCBS assisted SHPUK in selecting and purchasing the equipment from Metal Matic. KCBS assisted SHPUK in preparing the contract between SHPUK and Jazi. Jazi signed the contract for the pellet line grant. Jazi has also installed the new power transformation with capacity of 250 kva and made some additional investments in rehabilitating the building where the pellet line will be installed. The pellet line arrived at Jazi and KCBS assisted the pellet line producer during the installation of the equipment. Immediately after the installation SHPUK organized a presentation of new technology (pellet line) at Jazi. At this introduction/presentation were 25 representatives of Agricultural Faculty, KCBS, and SHPUK and among them 13 were feed producers. At the end of the presentation the participants were able to see the operation of the pellet line and discuss the advantages and disadvantages of pelleted feed. Professor of the Agricultural Faculty took pellet samples to analyze them and present the results to Jazi.

At the same time Jazi is finalizing investments in completing the building and the equipment for the proper flow of production. Jazi has also purchased the paper bags of 5 – 10 and 20 kg that were displayed during AKA trade fair and are dedicated to agricultural pharmacies and input suppliers.

5.2 Improve Quality Control

Activity 5.2.1: Support the installation of GMP in selected feed manufacturers

This activity is scheduled to start in the next quarter. Jazi has been selected as the first producer to go through the GMP process.

Additional Activity: Avian Flu Protection

KCBS continued to be very much involved in all activities regarding Avian Influenza. KCBS attended the meeting organized by KVFA to discuss the first Draft of the “Environment Management Project” in case of the Bird Flu outbreak. The meeting was held at MAFRD offices. Besides KVFA and KCBS other attendees were: National Institute of Public Health, Ministry of Environment, Ministry of Health, Ministry of Internal Affairs, Clinic Center and World Bank represented by Prof Ferdinand Bego from Veterinary Faculty of Tirana.

KVFA and MAFRD will meet with World Bank and EU in the first week of April regarding the World Bank funded bird flu project to be implemented by KVFA.

KCBS and KVFA agreed to organize monthly meetings with SHPUK and its members where KVFA will also have a presentation (every month different subject) concerning poultry diseases, vaccination, biosecurity measures, etc.

5.3 Improve Market Chain Linkages

Activity 5.3.1: Introduce customers to the advantages of pelleted feed

SHPUK contacted Jazi who has started feeding his chickens (2,600 layers) with pelleted feed and within one week has registered a 3% increase in egg production. SHPUK and Jazi have started recording data as required in the grant agreement and SHPUK is developing/finalizing a spread sheet where Jazi will record data on a daily basis.

Activity 5.3.2: Encourage implementation of industry wide egg grading

During this quarter there were a number of meetings and activities with MAFRD and KVFA regarding the poultry industry. KVFA and MAFRD asked KCBS and SHPUK to prepare for them the list of all active poultry farms and the total number of layers. As a result MAFRD and KVFA were extremely thankful to KCBS for developing a list containing 142 farms with 900,000 layers. This is the highest number of layers ever recorded in Kosovo and represents coverage of 100% of Kosovo egg consumption by local production. It is the most accurate

list identifying the number of layers. KVFA and MAFRD needed badly this list for their meetings with World Bank and EU (first week of April) regarding the WB funded bird flu project implemented by KVFA.

At present, KoniSoni is the only producer continuing to grade and mark with “KS” logo approximately 150,000 eggs daily. The biggest problem that KoniSoni are facing is the limited capacity of their old grading machine, just 15,000 eggs/hours, and due to its age it is damaging more eggs than it should. KoniSoni grades and sells between 22-30% of the eggs produced in Kosovo. In order to increase the number of eggs graded in Kosovo, KCBS has asked the MAFRD Livestock department to start implementing their Administrative Regulation that was signed more than one year ago. The regulation specifies the grading, packing, labeling, transport and storage of eggs; its implementation will force poultry farms in creating another egg grading point or will force poultry farms buying grading machines.

5.4 Strengthen Capacity to Access Credit

Activity 5.4.1: Improve poultry farm enterprise record keeping

KCBS has selected Gjini Tag (hatchery & feed producer – breeder operation), Jazi (poultry & feed producer) and Maloku (poultry & feed producer) and has started to work with them in improving their record keeping. For that purpose KCBS intends to hire a local BSP that will work closely with these companies and will try to establish a general system that can be used by all poultry & animal feed producers.

6.0 FRUITS AND VEGETABLES CLUSTER

6.1 Improved Productive Capacity

Activity 6.1.1: Assist at least two farmers' associations or groups of farmers to form cooperatives or marketing companies.

From early in the implementation of the KCBS project the F&V Cluster has worked consistently with about 10 registered associations of farmers. To expand the effectiveness of these groups into for-profit business activities, and the profitability of the members, seven associations were selected as potential candidates to form modern agricultural cooperatives. Later an eighth group was added. These targeted groups were:

- Xerxe 2000 in Xerxe – Rahavec;
- UVB in Blagaje – Peje (a minority area);
- Pema in Kovrage – Istog;
- Agrocompani in Qyshke – Peje;
- Fruti in Kravarice – Gjilan;
- Perdrini in Krushe e Mahde – Prizren; and
- A new grouping of farmers in Rahavec.

Several meetings were held with each group to explore this opportunity. A serious impediment to the concept is the terrible legacy of cooperatives during ex-Yugoslavia times. Informational and organizational materials were borrowed from a UNDP project (now ended) that was focused on this same objective and created approximately 10 new cooperatives. Fortunately, some farmers are aware that new successful cooperatives have been established.

Of these eight targeted groups, only Agrocompani Association and the new group in Rahavec have elected to move forward toward founding new cooperatives. While this Activity was originally scheduled to be completed in April, more time will be needed.

Activity 6.1.2: Build on success of the 2006 blueberry collection season by increasing harvested tonnage for 2007 by 25%.

Work on this activity was not scheduled to begin until June. However, in March KCBS issued (in Albanian, Serbian and English) a bulletin on the upcoming season. This was circulated to all known participants in the domestic and regional blueberry industry. The undertaking was prompted by multiple inquiries from regional entrepreneurs due to the success of the 2006 season.

Perhaps the most important section of the bulletin concerned a yield forecast, which stated, "Europe is experiencing its warmest winter in more than a thousand years. While we can not predict the impact this will have on the yield of blueberries, which are accustomed to long cold winters under a deep snow pack, we will presume it may not be favorable....We can hope that adequate rainfall during the spring, summer and fall may compensate for the warm winter. In any event, at the moment it is impossible to predict availability of blueberries for 2007."

Despite this chary forecast, work has already begun on bio-physical solutions to reaching export markets. In addition to a need for equipment to clean and size blueberries, the most serious problem in the marketing chain is a lack of equipment and facilities for cooling or freezing and storage chambers to hold the berries, especially at collection centers. At warm summer temperatures, harvested blueberries are extremely perishable and decline rapidly in quality. The simplest solution is to temporarily place a refrigerated cold box at collection centers for the short duration of the season. A buyer from Macedonia and Agroprodukt Commerce are looking into this solution, the former in Dragash on the site of Juniperi Fructus and the latter in the upper reaches of Rugova Gorge. Several companies have also acquired second hand refrigerated trucks, which will maintain the cold chain.

Accordingly, KCBS added another related activity to build on the success of the 2006 season which is to construct at least one freezing center. Cooperative Qingjat e Sharrit and Skardus Company, both located in Sterpce (a minority area), have joined together to write a cost-sharing grant application to construct a facility to house a small blast freezer and a small frozen storage chamber for blueberries. The two groups engaged a local attorney to write an excellent joint venture contract to provide a formal structure and guide their joint work and mutual investments. It is hoped this grant will be approved and the facility constructed before blueberry harvest begins in July. Buyers will pay an additional 0.50 €/kg for frozen berries, which means an investment in freezing and frozen storage capacity is very profitable.

Many of the local and regional entrepreneurs in the blueberry business are already pursuing new purchasing arrangements in wider markets. To assist in this effort, a SOW is in-process for a STTA who is an expert in marketing blueberries, with a two or three week assignment scheduled for June and July, just as the harvest begins.

Activity 6.1.3: Assist 4 existing and 3 new fruit tree nurseries to expand production by 30%, and distribute 5,500 trees to farmers.

This activity was planned for implementation by a cost-sharing grant through an NGO, Kosovo Association for Development (KAD), to assist the owners of four existing nurseries and three new fruit tree nurseries. The SAF committee had approved the grant on 7 July 2006. Unfortunately, the grant required multiple rounds of questions and answers to provide enough clarity so that it could be understood or accomplished. Response time from KAD in each round was very slow. Following approval from USAID the grant Agreement was not signed until 4 January 2007. Since then KAD's responsiveness has further deteriorated.

In March two meetings were held between KCBS and KAD to discuss the fate of the grant. The result is that in future KCBS will do as much as possible to assist KAD to ensure the grant is successfully implemented. In particular, KCBS will work directly with the beneficiary nurseries to ensure that the equipment described in the grant meets the needs of the nurseries. While implementation is several months behind schedule, the beneficiary nurserymen understand the problems. The most critical components of the grant are to provide wells to four nurseries and irrigation systems to five – one already has a well. There is adequate time to accomplish this before the heat of summer.

6.2 Improved Quality Control

Activity 6.2.1: At least two F&V processors implement GMP programs and are ready for the last steps of full HACCP certification.

The end of March will mark the completion of a highly successful six-month STTA focused on establishing GMP systems for six food processors and milk collection centers, and to a lesser degree for five other establishments handling food products. Originally it was hoped that three F&V clients would be able to fully implement GMP: Agroprodukt Commerce in Podujeve, Pestova Company in Vushtrri and As Promet Company in Leposavic (a minority area). The latter of the three has purchased new property where, with assistance from a KCBS grant, a new HACCP-certifiable facility will be constructed; but relocation and construction activities precluded it from participating fully in the program. Agroprodukt Commerce and Pestova established complete GMP programs and met the activity objective.

These two food processors have accomplished 80% of the work needed to become HACCP certified and continuing the effort to achieve the remaining 20% seems prudent. Approval for new STTA has been requested from USAID to enter the HACCP certification phase (although this STTA will be full-time only one week every fourth week and for only four months). Pestova is in the process of installing two new processing lines. During this period it will not be possible for him to proceed with HACCP. On the other hand, Agroprodukt is fully prepared to proceed, with hopes it will receive certification by mid-July. Their handling/processing facility has been completely rebuilt to HACCP standards and now looks

like a spotless pharmacy. Hopefully, the other firms, such as Pestova, which participated in the GMP program will be ready to proceed to HACCP certification in August.

One of the most important accomplishments of the GMP program has been to stimulate the management of the participating enterprises to become aware of the magnitude of the process as well as, in many cases, the capital investments required to convert their physical facilities and/or process equipment to modern food safety standards. The KCBS project has been genuinely gratified by the responses of the management and their commitment to make the necessary investments in people and equipment.

Activity 6.2.2: Inaugurate Grading/Sorting/Packing [GSP] lines and/or Sorting/Drying systems for apples, potatoes, blueberries, and/or juniper berries by at least 3 organizations.

KCBS is working with four organizations to obtain and install grading/sizing/packing (G/S/P) lines. Through three cost-sharing grants, the following equipment is to be installed and tested prior to harvest of the respective crops:

- at Agrocompani Association in Qyshke – Peje a semi-automated machine (or machines) to clean, grade, size and pack potatoes and onions;
- at Pema Association, a semi-automated machine to grade, size and pack apples;
- at Juniperi Fructus Company in Dragash (a minority area) a machine for cleaning and sizing blueberries or juniper berries and a universal drying tunnel for the same crops as well as for mushrooms and medicinal plants.

The grant application from Pema Association is pending approval from USAID but delays are not expected to prevent the equipment being ready for fall apple harvest. The most common difficulty faced in all of these grants has been to carefully describe the specifications of the equipment so that the equipment requested meets the needs of the beneficiaries. Using its own funds, it is likely that Agroprodukt Commerce in Podujeve will purchase a machine for cleaning and sizing blueberries.

Activity 6.2.3: Assist at least five farmers or entrepreneurs to install cold storage facilities.

Realization of this activity will occur at two sites, both in minority areas.

A cost-sharing grant approved by USAID will assist As Promet Company in Leposavic to construct a new facility for handling/processing mushrooms, blueberries and raspberries, including an ability to store them cold (at temperatures slightly above zero) or to freeze them and store them frozen. The company owns refrigeration equipment that will be installed in the new building. The owner has purchased a new piece of land for this purpose and is in the process of installing utilities. Plans for the building were vetted by two KCBS STTAs, and an engineering firm prepared drawings which, when coupled with detailed specifications, recently resulted in bids from three reputable firms. The new facility has been designed so that the processing activities can meet HACCP standards. In preparation for this investment, the owner was escorted on a study tour to Serbia to visit similar facilities.

Another cost sharing grant, approved by USAID will be used to assist farmers at UVB Association in Blagaje - Peja to convert four existing, common on-farm storage rooms into refrigerated cold storage chambers. The association consists of thirteen farmers - eleven Bosniaks, one Roma and one Albanian. Because the total cost for this work well exceeds the limit of SAF grants, the farmers will be required to make a substantial cost and labor contribution. They have indicated an eagerness to do so because they know the economic returns will be high. The four chambers will be shared by all members of the Association.

Activity 6.2.4: Develop a Kosovo apple logo and donate 6,000 cardboard cartons to prove conclusively that Grading/Sizing/Packing apples will raise income by at least 20%

This activity began in early January and was completed in late March. A round “Kosovo Fruits” logo was adapted from one originally created by EAR’s Marketing Support Project (MSP). The cartons were purchased through a local maker of wooden boxes, which is trying to diversify into cardboard cartons by representing a manufacturer located in Durrës, Albania. The cartons procured by KCBS were far superior in strength to those distributed for a similar study by MSP, and thus overcame the initial skepticism of the farmers engendered by the MSP study.

Because members of Fruti Association had already sold their apples, the research was conducted only at UVB Association in Blagaje – Peje (a minority area) and Pema Association in Kovrage – Istog. The maximum price advantage in using good packaging was 20%, hitting our target. However, a more interesting result was to discover that the practice of post-harvest sorting plus proper storage methods, as conducted at UVB, had more impact on price than using good packaging. The corollary was that failure to practice post-harvest sorting and proper storage methods was not hidden by using only post-storage sorting plus good packaging (as done at Pema). A dramatic result from the application of different practices is that the percentage of Class “A” apples at UVB is 60 – 65% while at Pema it is 50%, and the average price received at UVB was 0.30 – 0.35 € while at Pema it was 0.25 €. We may thus conclude that the combination of good quality apples and good packaging will provide the best opportunity to obtain the best price. A very successful meeting was held in Peje on 28 March to discuss these results with the three associations and interested parties, and was attended by 52 people.

Activity 6.2.5: Escort a group of key agribusiness people to attend Fruit Logistica in Berlin to study competitive quality and to make contacts with buyers and equipment suppliers.

Only two agribusiness people went to Fruit Logistica in the company of a F&V Specialist: Zejnulla Terziu from Zejna Depo in Pozhoran – Viti, a producer of greenhouse vegetables; and, Mehdi Aliu from Bejari Company in Pristina, a wholesale importer/distributor. The F&V Cluster had hoped that more people would go. The small turnout can be attributed to the ever-recurring difficulties for Kosovars to obtain visas; the current state of the art of agriculture and agribusiness in Kosovo; and the fact that attendees had to pay all of their own expenses. Nevertheless, these three attendees held discussions with 27 companies and collected an abundance of literature on topics selected prior to the trip. This literature has been distributed to interested parties.

6.3 Improved Market Chain Linkages

Activity 6.3.1: Assist at least two producer groups in selling fresh products directly to wholesale traders for the first time.

And

Activity 6.3.2: Assist at least two producer groups in selling products to processors for the first time.

KCBS hosted a successful Marketing & Linkages Meeting on 21 March. The meeting was well attended by F&V producers, traders, processors and retailers, with extensive networking between all groups. Among the many discussions, the five farmer-traders participating in the manual G/S/P table program (see Activity 6.3.3 below) and a representative from Agrocompani Association met with managers from the Elkos Group/ETC hypermarket in Peje. Nearly all of the entrepreneurs from minority areas, who are KCBS clients participating in the blueberry and juniper berry business, gathered with their Albanian Kosovar colleagues during the morning coffee break for an informal meeting. Many had not previously met each

other. Another meeting was held between Elkos Group/ETC and Maja Company from Leposavic. Contacts between these old and new friends are expected to lead to new sales. However, the parties to these deals will not make final purchase agreements very far in advance of the harvest of the respective crops.

Added Activity 6.3.3: Establish Farmer-Trader marketing linkages based on use of manual G/S/P tables.

KCBS issued a Purchase Order for 15 tables for manual Grading/Sizing/Packing of F&V based on a design and specifications developed by an STTA in summer 2006. Nine of the 15 tables have been built and received by the participating Farmer-Traders, for which they pay 25% of the cost. An Agreement outlining the intended use of the tables was developed, and each participant signs one at the time of delivery. The last 6 tables will be completed in early April. The very earliest any of the tables will be used is late May, so the delay in delivery is not an impediment to this pilot project.

6.4 Strengthen Capacity to Access Credit

Activity 6.4.1: Assist two commercial banks and two micro-credit organizations to create new lending procedures and products using improved risk management methods for agricultural lending.

To assist financial institutions in creating new solutions to increased agricultural lending, the F&V Cluster Advisor presented a seminar, "Risk Management Analysis for Agricultural Lending" five times this quarter to a commercial bank and several micro finance institutions [MFI]. Unfortunately, only one MFI has been stimulated to create new loan products, introducing four of them to suit:

- short-term crop/animal cycles such as summer vegetable or poultry (for meat) production;
- annual cycles of production for perennial crops such as apple production from mature orchards;
- multi-year loans for expansion of existing activities, such as dairy herds or orchards; and,
- multi-year loans for specialized agricultural structures like barns and greenhouses.

While this expansion is not as broad as was hoped, KCBS submitted a complete Nomination (training) package to World Learning for training 40 credit/loan officers of commercial banks and MFIs in lending to agriculture that is scheduled to be conducted in late June and early July. This initiative will have strong technical and logistical support from KCBS. The SOW for the two STTAs includes assisting commercial banks and MFIs in accomplishing the objectives of this activity.

Activity 6.4.2: Develop a record-keeping system acceptable to commercial banks, and ensure that at least two F&V agribusiness entrepreneurs obtain new commercial bank loans for the first time.

And

Activity 6.4.3: Develop a record-keeping system acceptable to micro-credit organizations, and ensure that at least five F&V farmers obtain new small loans for the first time.

To date four farmers have been identified as excellent potential first-time borrowers, but no first-time agribusiness entrepreneurs have been found who might be good first-time borrowers. The activity target is to have these loans approved by the end of May. There is every confidence this will be accomplished for the farmers but less so on behalf of any agribusiness entrepreneurs. However, two small programs were launched to support this effort.

First, KCBS hosted a seminar by a local STTA in late January where recordkeeping systems and cash flow models for use by farmers and agribusinesses were presented. The forms can be used as management tools and for documentation in loan applications to commercial banks and micro-finance institutions. The materials were well received by the 16 people attending from banks and MFIs.

Second, during the quarter KCBS collected F&V crop production budgets from multiple sources, including MAFRD and other donors. Extensive field research was done to update production costs, yields and anticipated selling prices. Seventeen budgets were prepared, encompassing all of the major F&V crops in Kosovo in open fields and in poly-houses. KCBS has begun circulating these revised budgets to financial institutions, associations, cooperatives, independent farmers, government agencies and donors. They have been well received as useful tools for composing or assessing crop production plans.

7.0 CONSTRUCTION MATERIALS CLUSTER

7.0a Construction Materials Cluster – Wood Materials

7a.1 Engineered Wood Flooring Project

The EWF project suffered a setback at the beginning of the quarter, when the LTTA Matt Anderson, who is pivotal for this project, went on to disability leave for two months through March 1. Under the circumstances, the two local LTTAs did an excellent job of keeping the project moving forward, though necessarily not as fast as planned. In the last month, momentum was regained, but progress remains depressingly dependent on KCBS. At the end of the quarter, it was evident that Mr. Anderson had returned to Kosovo prematurely, and he would have to return to the US again for treatment. He leaves April 8. KCBS' involvement in the EWF project will have to be restructured. It is hoped that from a base in the US, Mr. Anderson will continue to be the go-between with Swedeco (the Seattle-based purchaser of EWF products) and Kosovo.

STTA Kuo Hai Sui returned again in late February. As reported last quarter, his technical expertise is invaluable, as he has brought machines of various ages and states of wear and depreciation into production and achieved output quality levels needed for this program. His continued presence at bi-monthly intervals over the next year will still be necessary for the technical development of these EWF factories, especially when new products such as oil finished wearlayers of different wood species are introduced.

It was intended that STTA Kuo should spend his most recent assignment working with the Ukaj facility, but he was redirected to provide further assistance to Korenica when it was learned that Ukaj's EWF efforts would be delayed for a further 3-4 months. Ukaj had submitted a bid on a KTA tender for the former SOE factory in Decan where his chair manufacturing operation shared space with another company. Unfortunately, just as Ukaj was scheduled to start EWF production in earnest at his new factory in Pristina, he heard he had lost the bid for the Decani plant. He was forced to relocate his chair factory immediately in order to be able to process his existing orders. The most logical location was the new building he had recently constructed in Pristina to house the EWF factory.

Both companies have expressed concern that "paperwork" from Swedeco has not materialized as expected, e.g. pro-forma purchase orders and advance payments. Swedeco is operating as it would with any new supplier in the US, but KCBS has strongly suggested that it modify its procedures, especially for these initial orders so as to engender greater confidence in the relationship. Swedeco's promise to pay 100% upon receipt of a satisfactory bill of lading at Thessaloniki port [accepting KCBS verification of acceptable quality, rather than inspection on receipt in the US] is a significant modification of usual procedures.

A summary of the status at both plants is bulleted below:

Korenica:

- With the daily presence by KCBS, Korenica commenced production of the unfinished Beech EWF to be shipped in the first container order from Swedeco. It was completed and ready for shipment to Port of Thessalonica, Greece at the end of first week in April.
- All operations are still complicated by old [cheap] equipment, band-aid approaches to fixing equipment, and inadequate stocks of essential spare parts. If production volumes are to be ramped up, Korenica will need to invest in newer equipment and manage a more rapid response to machine breakdowns and maintenance. Technical problems have continued to affect production levels, primarily due to the age of some of the more technical and precision equipment – as parts wear out, it becomes more difficult to maintain tolerances. KCBS STTA Kuo Hai Sui returned to the EWF project on March 4 and immediately began recalibrating machinery tolerances and continued training Korenica personnel in the art of troubleshooting equipment issues.

- In particular, Mustafa Korenica, the company's owner, has not devoted 100% attention to management on this project; this would not be a serious dereliction had he empowered qualified and authoritative supervisors to take charge when he is absent, but this has not been the case. Consequently, KCBS is concerned that when KCBS' involvement ceases, its advice and trainings will not be embedded in the operations.
- Since KCBS intervention with KEK, there have been few power outages, and those that did occur were due to substation mechanical failures from which even an A+ customer will suffer. This has allowed production to proceed at continuous levels, a vast improvement over prior quarters.
- Although employment numbers have not increased for Korenica, it should be noted that in the past his business was cyclical and therefore, winter months saw a reduction in his labor force. The EWF production and changes Korenica made in door production methods, based on KCBS recommendations, have allowed him to maintain his employee headcount, providing employment year round.
- Korenica has begun construction work on a showroom at the front of the Xerxe building – the showroom floor will feature half Beech and half Oak EWF.

Ukaj:

- Ukaj is in process of submitting a loan application with EBRD (European Bank for Reconstruction and Development) seeking a long term low interest loan to construct a second building for the EWF finishing line and his relocated chair manufacturing lines. Loan will cover purchase of adjacent property, construction of the separate building, purchase of a finishing line and additional equipment for processing EWF, and provision of adequate operating capital. If approved, plans will move forward immediately. Construction work on the second building for EWF has already begun, and in April, Ukaj will make the 30% down payment on a Taiwanese narrow, 3-pass finishing system – total cost to be approximately €150,000, with anticipated delivery and installation in June.
- Ukaj has already started production of Unfinished Beech flooring that will be installed in his production and general offices. He awaits a firm order from Swedeco before he commits to full export production. Until the second building is completed, scheduled date August 2007, space in the current facility is limited, and it is unlikely Ukaj will be able to process more than one container a month.

7a.2 Wood Processing Activities in General

In an effort to continue expansion of the wood processing industry, KCBS continues to work with several subsidiary suppliers being developed to support the EWF program, Parkataria in Ferizaj, Druri Sawmill in Ciflak, Agro-Union in Gjilan, Ferizaj and Pristina, and Gacaferi in Peja.

Parkataria: Currently producing EWF elements for Korenica to meet requirements for the first unfinished Beech container. They are also a potential molding manufacturer for EWF.

Druri Sawmill: Completed installation of a Swiss band saw head rig and carriage. A local engineer from Peja performed laser leveling of the carriage tracks and equipment, and the mill is ready to produce lumber for EWF. Total investment was €32,000 for this phase.

Druri has also purchased three 100m³ Italian dry kilns including a boiler system for heating the kilns at a cost of €80,000. The units will begin arriving in early April, site construction is underway and they should be able to begin drying lumber in late May or early June. A dust collection silo is ready to be installed. Total investment for the silo and construction work for the kilns will total €50,000.

Owner, Baskim Gashi – an FSC Task Force leader for the Private Sector and President of the Small Forest Land Owners Association – has contracted with KFA to purchase 15,000 cubic meters of #1 and #2 grade Beech logs from Kosovo forests. In addition, he will now be

prepared to produce molding blanks and lumber for US markets – efforts are already underway to connect Druri with a well known US lumber buyer currently sourcing European species.

Agro-Union: KCBS is assisting Agro-Union, by sending samples to Swedeco in an effort to secure a US market for the implement handles (shovels, axes, rakes, hoes, etc.) produced in their factory in Gjilan.

Gacaferi: KCBS is also assisting Gacaferi enter the US market for stair components manufactured in the factory in Peja. Samples and pricing have already been sent to the US.

7a.3 FSC Forest Certification

Planning for Forest Certification: USAID/KCBS continued its support to the MAFRD and the process of forest certification in Kosovo, with the STTA visit in January of Mr. Liviu Amariei. The STTA:

- visited the management unit “Jarik Belo Brdo”, managed by the forest company “Ibar Leposaviq”, one of the forests foreseen to be certified;
- held a two day long training for 19 participants including representatives of the KFA municipal units in Deçan, Kaçanik and Leposaviq, wood processors, and the association of private forest owners, on the topic “Introduction to forest certification according to the standards of the Forest Stewardship Council”; and
- gave practical training on the evaluation of the forest management office in Ferizaj in accordance with FSC criteria of Soil Association Standards(used for the evaluation of the forest management in Croatia) .

Mr. Amerei’s final report provided an assessment of the state of Kosovo’s forests based on this visit and on other visits last year: to Croatia in November, and to Kosovo in December. In this report, the STTA prepared a roadmap for moving towards certification of Kosovo’s publicly owned forests. The report recommends activities that need to be undertaken by the MAFRD-KFA management with the support of USAID/KCBS during 2007, to eliminate the main inconsistencies observed in managing the three units foreseen for certification pursuant to the FSC standards.

KCBS’ main focus has been on:

- decreasing and eliminating illegal woodcuttings,
- solving the issue of financing and compilation of the management plans,
- reviewing legal documents and harmonizing them with the FSC’s criteria,
- respecting applied procedures for assessing wood prices and sales of timber,
- completion of the sector for developing forest management plans, and
- recording all activities undertaken on this issue.

Cooperation of the KFA is essential if any of these actions are to produce results.

In many visits to KFA offices to meet with the management of the three KFA selected units for certification, KCBS discussed the recommendations from the road map and action to be taken by KFA in order to achieve improvements required by FSC criteria. In the meetings it was emphasized that there is a need for concrete commitments from different institutions, but especially from KFA, to contribute to reduction and elimination of illegal cutting, better planning, selection and marking the trees for felling, evaluation of the price of the standing trees, planning for reforestation and keeping records of all these activities.

Donor Involvement: On March 29, KCBS organized a meeting with the potential donors represented by USAID, SIDA, EAR, NFG and Norwegian Liaison Office to discuss activities through the support of harmonized projects by the donors in the forest sector and the wood processing industry. The donors indicated a willingness to continue support to the forest industry, but only if there was a complete commitment by the Kosovo authorities – not just the KFA, but law enforcement and courts – to implement measures to reduce illegal logging.

National Working Group: KCBS developed continuous activities with MAFRD-KFA and other key stakeholders in forest management, including NGOs and individuals in order to establish National Working Group, one of the roadmap's requirements based on the FSC criteria, and to participate in drafting of the initial proposal for the FSC National Standards for Forest Certification in Kosovo. In anticipation of a National Working Group being formed, KCBS drafted a proposed Statute, which has been compiled according to the models used in the regional countries, Croatia, BiH and Montenegro, which can go to public discussion after first meeting of National Working Group.

Training and Capacity Building: KCBS has contacted EU Funded Program TAM/BAS, and contacted Mr Bekim Kosumi, AUK Institute director, to seek possibilities to train KFA staff on quality management ISO 9000, so as to become internal auditors on forest certification and apply the ISO 14000 on environmental forest management. Up to now this possibility for capacity building at the KFA in the area of forest certification could not be implemented due to the lack of funds by the donors. According to the information received, in Croatia, Albania and Macedonia there are organizations that are licensed to organize training of this nature.

Regional cooperation: KCBS has established good contacts and cooperation with institutions, working groups and individuals who have actively taken part in preparatory works in the development and implementation of the forest certification process in their respective countries. Last year, KCBS arranged visits to Croatia and Montenegro which were also attended by representatives of MAFRD-KFA, MESP and private owners. KCBS is in continuous contacts with the institutions and individuals in these two countries; we are exchanging information and different materials to gain first hand information from the countries who have completed the certification process and those that are in the development of this process.

7.0b Construction Materials Cluster – Other Construction Materials [Non-Wood]

7b.1 Improved Productive Capacity

Activity 7b.1.1: Increasing output from four former SOEs now privatized.

In this quarter KCBS continued to work with three privatized former SOE's: "Silcapor", a producer of autoclaved concrete blocks; "Tulltorja", a producer of clay hollow blocks and solid bricks; and FAN, a producer of reinforcing steel mesh, truss girders and corrugated rebar.

RBKO approved Silcapor's loan application for €750,000, term five years, for purchasing packaging machinery from Italy. The installation of the machinery is scheduled for April – May. KCBS believes that the purchase by Silcapor's owner of the Grand Hotel in Pristina through a Special Spin Off and the concomitant investment commitments of €20 million in the next two years remains a significant risk for the successful development of the Silcapor operation. The company has temporarily shelved its planned investment in lime production and improvements to existing machinery. EBRD BAS/TAM technical assistance continued in this quarter aiming at improvements in management and production. As a result of good weather, production continued in Jan-Feb, but in March was halted for plant refurbishment works and preparation for installation of the packaging machinery. Production was more than 20,000 m³ [value approx. €1.6 million], sales were more than 22,000 m³, and exports were over €115,000.

In this quarter the "Tulltorja" owners signed their JV agreement setting out the basis for future management. In order to increase production and improve quality, KCBS drafted the SOW for an international expert which will be engaged in two visits in the next two quarters. The investment plan for Tulltorja will be made based on recommendations from the expert, and then used to prepare loan application to the local banks and EBRD.

KCBS continued the work with FAN regarding the request for elimination of 10% tax on imported raw materials. The request was approved and entered into force on March 1st, 2007. Initial problems occurred with local UNMIK Customs staff who claimed that the amendments were not properly written. This obstacle was removed two weeks later after KCBS intervention to EU Pillar IV-CAFAO office. Next day UNMIK Customs and CAFAO Office had a joint media presentation to promote the products on which 10% tax fee was now excluded. Four additional construction materials companies will benefit from this tax elimination; one of them is Fetoshi, KCBS client, who could employ additional 10-15 full time workers.

Investments in the new quarry by "Trasing Group" failed; two of three partners (Clirimi and Graniti) do not have financial means to cover equally the investments. The company made minor investments in order to upgrade existing quarry, and large investments are planned to take place in the next construction season.

Activity 7b.1.2: Assist RCAF in recycling demolished construction materials

RCAF started with awareness activity for recycling by meeting with municipal officials but it proved to be ineffective. RCAF now plans to start with a wider awareness campaign and to publish brochures and recommendation letters to all stakeholders. RCAF will cooperate with the Association of Kosovo Municipalities.

Activity 7b.1.3: Assist three manufacturers of insulation materials to increase output.

KCBS met with three companies that produce insulation materials - Fetoshi (Xerxe), Sat Styro (Xerxe) and Kosova Plast (Han I Elezit). KCBS did research on regional market for potential suppliers and buyers and the findings were given to the local producers in order to plan their production and possibly to establish new market linkages. Next quarter KCBS will support creation of a joint technical presentation on CD that will cover products of each producer to promote the products to buyers, students, design and construction companies and other interested parties.

Fetoshi Company ordered new machinery for Styrofoam production, which will be installed in May or June. The company currently is refurbishing the building according to the requirements for new production line. KCBS will assist Fetoshi to resolve the problem of erratic and inconsistent power supply and try to secure 24/7 guarantee from KEK.

Other Activities to Improve Productive Capacity.

Following the World Learning visit to Germany in May 2006, the KAG Asphalt and Renelual Tahiri have invested in machinery, purchasing equipment for quarrying and asphalt plant upgrade, and for manufacturing concrete products. Renelual Tahiri have already purchased €250,000 of a total planned investment of approximately €450,000; KAG asphalt have purchased machinery and equipment worth €250,000.

KCBS assisted Eurokos Company on QC/QA after the company won two subcontracts in Albania in amount of approx. 12 MM Euros for road construction. As a result the company, instead of investing in Kosovo, has invested in Albania; a quarry and concrete plant are already established and Eurokos intends to install an asphalt plant by June 2007. In order to conduct testing, Eurokos has established a joint venture with an Italian company for installation of the laboratory.

KCBS is assisting Bejta Commerce to obtain the operation permit from KFA for additional 2.5 hectares. The KFA has put up obstacles, even though existing regulations allow the KFA to issue a permit for up to 250 ha. Currently the company occupies only 2.5 ha, which is not sufficient for the scale of Bejta's quarry operations; to operate efficiently and according to standards the company should work a minimum area of 5 ha. The KFA informed us that the Bejta commerce request of a year ago has been "lost"; accordingly, KCBS and Bejta Commerce submitted them a copy of the request. KCBS is focused to complete this task in the next quarter.

After one year of discussion, the ICMM approved new royalty fees on quarried materials. The fees for limestone and other blasted stones for road construction industry have been decreased from €1.02 /m³ to €0,50/m³; and quartz sand (affecting Silcapor) from €2,5 /m³ to €1,25/m³. Clay fees, affecting "Tulltorja", are decreased from €0.15/t to €0.13/t. According to ICMM representatives the new fees will be implemented retroactively from Jan 2007.

KCBS assisted Tali company on loan application for €3.0 million in order to purchase SOE Morava e Binces, but RBKO did not approve. The bank considered that this would be a high risk loan since the company was already committed to 15 MM euros of investments under the privatization agreement. RBKO based this decision on their recent experience of companies privatized with special spin-off, which have failed to complete their investments, leading to re-tendering. As a result, the Tali Company withdrew from privatization process for SOE "Morava e Binces", the second higher bidder failed to do so and if the third bidder fails the company will be re-tendered.

7b.2 Improved Quality Control

Activity 7b.2.1: Develop more efficient mix designs for members of the KACP

KCBS met with local concrete producers and based on their requirements an SOW was developed for technical assistance. The STTA is assigned for next quarter and his duty is to work with concrete companies in Kosovo with the aim to train and advise them on improved mix designs procedures.

To develop efficient mix designs for clay producers KCBS worked with "Tulltorja" and by the end of next quarter a second STTA, specializing in clay products, will be working with the company.

Activity 7b.2.2: Ensure improved procurement practices for new road construction are implemented.

In this quarter, Government of Kosovo issued decision requiring all public sector construction to be performed in compliance with specific European [EN] and International [ISO etc] standards. Based on KCBS recommendation, MTI organized a wider meeting with procurement and technical offices of municipalities and central government in order to introduce to them the Govt. decision and EN standards. However, enforcing compliance with this decision is still to be observed.

KCBS met with Deputy PM Mr. Lutfi Haziri and discussed outcomes from the December 2006 visit to Germany, the potential investments in road industry, and Government plans for implementation of decision to use EN standards. The activities were followed through with Mr. Fitim Krasniqi, Permanent Secretary at PM office, but it is disappointing to report that the government failed to follow through on these issues.

KCBS handed over to KSA the set of EN standards covering concrete and asphalt. KSA is following European practice in implementing these standards. Public discussion is completed and the adoption process has started.

RCAK is taking the lead, with KCBS assistance, on monitoring the MTPT procurement procedures on road construction industry. MTPT tenders do not comply with recent Government decision to use EN standards on all government contracts; its tender documentation is very poor without design, technical specifications, or classification and qualification requirements; and many tenders are awarded to non-professional and non-licensed companies. RCAK drafted a notification letter to Kosovo Public Procurement Regulatory Commission [PPRC], Prime Minister's Office, all political parties and media in order to create public awareness of these bad practices. RCAK also met with PM adviser Mr. Arif Muqolli to discuss the MTPT failure to follow tendering process. Another meeting was held between KCBS, RCAK and Mr. Ilaz Dulaj (Head of PPRC) who informed us that based on information provided by RCAK for the bid winner, the PPRC analyzed and decided to investigate the tendering process. As a result the contract is not yet signed. KCBS will follow this activity as a satisfactory, transparent settlement is very important to attract investors.

7b.3 Improved Market Chain Linkages

Activity 7b.3.1: Correct practice of importers undervaluing imported goods

This activity is being addressed, as specific cases become known.

Activity 7b.3.2: Bring potential investors to Kosovo

KCBS provided technical assistance to both KAG Asphalt and Renelual Tahiri on construction of the commercial and residential building in Prizren. The approximate budget for completion of this project is estimated to be €4.0 million and the construction will start next quarter after planning approval from Prizren Municipality – Department of Urban Planning. KCBS will assist them on loan application in order to finance the project.

KCBS provided to EAR's "Institutional Support to MTI" project the KCBS report on the visit to Germany with potential Kosovo and German investors in December 2006. KCBS passed follow through responsibility to the MTI Investment Promotion Agency who met with potential local investors and contacted the potential German investors. KCBS continued to assist both parties in moving this initiative forward, and German Investors will be visiting Kosovo in early May. The potential investments are related to road construction industry, and include installation of a Laboratory for road construction and installation of a Bitumen modification plant. MTI is identifying land and infrastructures that will be presented to the investors.

KCBS met with representatives of COWI Company from Denmark that was making a feasibility study for highways in Kosovo. The aim of the meeting was assessment of road industry in Kosovo and accessibility of the aggregates and other materials for asphalt production.

KCBS and Eurokos in partnership with Greek Company visited the site in Istog and Decan regarding potential investments on decorative stones onyx and marble. The main obstacle is that the location is populated and there is an existing health center. The company will conduct additional research to see if there are reserves in other location. KCBS arranged the meeting with KIPA and they took leadership on this project.

7b.4 Strengthen Capacity to Access Credit

Activity 7b.4.1: Develop purchase order financing with leading banks

Progress against this activity is covered in Improve Access to Credit under section 8.5 below. Opportunities will exist as the construction season approaches, and traders start building up their stocks of construction materials in large consignments to be drawn down on an as required basis by contractors in smaller lot sizes.

8.0 GENERAL BUSINESS SERVICES

8.1 Improved Policy Dialog

American Chamber of Commerce: KCBS awarded a grant to the American Chamber of Commerce for implementation of “Business Best Practices series for 2007” and organizing two career fairs in the spring and fall. The Career Fair is meant to facilitate contact between companies/potential employers and students/potential employees, to provide networking opportunities for both parties, and to lead to employment for students. The grant agreement is planned to generate employment for at least 150 students, to enable better implementation of best business practice, to establish a better operating business environment in Kosovo and to increase policy dialogue between Business and Government. The grant includes organizing a business lunch which will be held with representatives from US Consular Office in Skopje, with the aim to answer questions for many association member companies and promote opportunity for US business trips and business linkages between two economies.

OEK Legal Office Proposal: OEK approached KCBS with a grant concept proposal for establishing a legal office within the current OEK’s structure. The new legal office is supposed to provide legal services and consulting for the business community, including legal representation for OEK members on individual cases. It was planned that the legal office will serve as a training center for younger lawyers, who will benefit from the experience of senior professionals. Pursuant to this OEK prepared a grant application and sent it to KCBS. After it was reviewed OEK was advised to provide some additional information and details that were missing from the application package. In addition, OEK has been advised to prepare an annex of cases that the office will handle in the course of this project and attach it to the application. The budget of this grant application was revised in accordance with the terms agreed with OEK and was sent to them for final consideration. However, the OEK’s secretary general claims to have been too busy to finalize the grant application. KCBS warned OEK that KCBS is prioritizing the activities to be funded and if they don’t submit their grant application KCBS might not take in consideration their grant application because of limitation of funds.

AKB: KCBS awarded Alliance of Kosovar Business (AKB) two grants to support some activities planned by the association this year. One grant is to support implementation of measures to reduce the informal economy in Kosovo. The other grant is to support creation of the website for this association. While the grants were signed on March 26, not much happened during this quarter in regard to implementation of this grant. AKB was engaged as a partner for coordination and organization of AKA’s Agricultural Fair. Grant activities will begin in the first weeks of next quarter.

8.2 Improved Responsiveness of Business Associations

Activity 8.2.1: Support all six cluster associations in developing second year work plans including product development programs, and issue and administer SAF grants.

Representatives of all four agricultural associations attended the roundtable discussion on new bank products to support the business community, organized by AKB and Kasabank. More than 100 businesses had the opportunity to discuss with the bank specialists the new products including some products that Kasabank developed together with USAID/KCBS. All four agricultural associations have in their strategic plans activities to find the best loan opportunities on support of their member initiatives.

Product development: STTA association Advisor, Joan Perrin spent three weeks working with all KCBS sponsored associations and BCC, to finalize product development plans and marketing plans that were identified during her visit in October 2006. Compared with the last visit, it is apparent that all the associations have advanced in implementing their strategic

plans including fee-for service products for their members. Associations have successfully begun to develop an entrepreneurial spirit for bringing the revenue to the associations. The report on product development plans and marketing plans for all association and BCC is prepared and submitted to KCBS. The different products developed by each association are listed below:

- RCAF planned a *Technical Guide* for the road construction industry. The *Guide* will educate members of the Association on quality aggregate-asphalt production and road construction. It will target middle management with practical information not readily available in other publications.
- AWPK chose Natyra 2007, an exposition of its member companies to be their primary revenue generating product. Planning for this event continued through the quarter.
- KAMP chose the Team Expert Program as their revenue product. The program provides on site technical assistance to KAMP members to improve farm management techniques, increase the production of high quality milk and provide veterinarian, hygiene and nutrition services.
- SHPUK will focus on training programs to introduce the pellet mill and parent farm. SHPUK will also continue working on a Best Practices Guide as a revenue-generating product.
- AKA chose the agricultural fair held on March 29 – 31 and planned as a traditional event to be the primary revenue generating project and a key activity for future association self-sustainability.
- KDPA will produce a Promotion Catalogue of member companies in order to improve the image of dairy processors. The catalogue can not only be a promotion of companies, but an overview of the industry. The income will come from members and suppliers to the industry. Another product is a DVD on Milk Hygiene that was prepared by Bylmeti Company and will be converting with minimal cost into a proper DVD for KDPA. The third product is a training program for hygiene and safety practices for 60 workers of dairy processors.

RCAF: KCBS assisted RCAF on completion of the Asphalt Operation handbook and lectures' for students. Unfortunately, the University Civil Engineering Faculty did not allow lectures to be given by participants on the World Learning Study Tour to Germany because they did not have academic title, and anyway were from the private sector. The aim of RCAF was to present students the work cycle of the asphalt production and then divide students into the crews to visit asphalt plants in Kosovo. KCBS and RCAF will search for other alternatives to inform students about asphalt production industry. RCAF is also working in the other project for completion of the road construction technical handbook.

Other activities of the RCAF, particularly with respect to public procurement of road construction contracts, are covered under section 7.0b above.

AWPK: KCBS had very little interaction with the AWPK during the quarter. The association, aided by the GTZ, is moving ahead capably under its own direction.

KAMP: KAMP continued with value-added activities for its members. KAMP selected 82 commercial farms to work with in 2007 (from total number of 216 KAMP members during 2006) since it was impossible to support such a large number of farmers and KAMP generated losses working with small farmers last year. Since reproduction is classified as a major constraint in dairy farms in Kosovo, KAMP conducted training on cow impregnation and delivered the recommendations of KCBS STTAs to 45 its members. KAMP also worked on a hoof treatment program using the equipment owned by association and financed by KCBS. KAMP offered consultancy services on prevention, control and regular checks of sub-clinical mastitis, using California Mastitis Tests (CMT). KAMP also worked with veterinarians to recommend proper drugs for mastitis treatments to milk producers. In order to improve the milk hygiene at the farm level KAMP contacted professional service providers, checked prices on some diagnostic equipment and distributed to farmers. The training on various

hormonal treatments was provided, and the list of hormones that have better impact on cow reproduction was proposed. KAMP updated the association and industry database from 65 dairy farms, gathering data on milk production, cost of production and milk price. A new dues schedule is established, a progressive system based on herd size, in which small farmers would pay a minimum of €30 per year.

KAMP worked with their members to improve the quality of milk and to coordinate the milk collection with KDPA members, and use of independent testing lab that have already started will help farmers to check the quality of their milk as there were many problems on showing different milk quality from producers compared with processors. KAMP worked with milk processors to discuss the coordination on milk collection and to balance the price of collected milk depending of milk quality.

KAMP Annual Meeting had a very good turn out with more than 150 attendees. KAMP Board and its executive team deserve credit for putting the show together and presenting the activities completed in 2006 and association work plan for 2007. Almost every speaker at this event mentioned the KCBS contribution on establishing the strong association that KAMP represents now and also the KCBS support to the dairy sector in Kosovo. Association elected the new 17 members board in order to cover small, medium and big farmers in all Kosovo region. Mr. Behlul Behluli was reelected at the position of KAMP president for the two coming years.

SHPUK: During the quarter SHPUK was focused on two major programs, pellet mill and egg parent farm that association get as a grants from KCBS. SHPUK worked on promotion of the grants and beneficiaries obligations to association and KCBS. SHPUK signed the contracts with Companies Babolna and Metal Matic on payment, management and maintenance of parent stock and pellet mill. SHPUK worked with KCBS, MAFRD and AVUK on scheduling of vaccination program of imported day old chicks and parent farm. SHPUK permanently contacted Metal Matic, the pellet mill producer, on finding the best option for construction of the machinery to JAZI Company. Over twenty members and professional researchers were present at pellet mill demonstration at JAZI Company. Prior to the demo, there was a technical presentation and discussion of the product.

The association organized the study tour to *AGROTICA 2006*, an agricultural trade fair in Thessaloniki, Greece on February 2007. 15 SHPUK and KAMP members participated at the fair. Each participant at the trade fair paid to the association an attendance fee. SHPUK have made a little progress on dues collection for 2007. Association is planning to conduct the regional meetings with poultry producers, where the membership dues will be collected. More than 50 poultry producers are expected to pay the membership dues. Because SHPUK has a few large and several small members, we discussed how to structure the association and dues payments in order to provide benefits to members with different needs and expectations.

The *Best Practices Guide*, the revenue-generating product that was planned during the previous SITTA, has been put on hold until late March while the Pellet Farm Program and Parent Farm are established. The guide will serve as a resource for poultry producers and other industry groups regarding safety and compliance with industry regulations increase knowledge of farm management, hygiene, and quality standards. KCBS suggestion was to include the pellet mill technology and parent farm at the guide and to provide experts for technical training in best practices for farmers on their farms.

AKA: AKA's main activity for this week was the trade fair held on March 29 -31 in partnership with AKB. 51 companies from Kosovo and the region participated as exhibitors in this fair. The show attracted many visitors who seemed pleased with the quality of exhibited products and booth arrangements. Compared to fairs organized in Kosovo until now, this event marked progress, particularly for a broader representation of the agricultural companies that exhibited at the fair. Also the exhibition skills and booth designs of individual companies improved. The opening ceremony was well organized with the Prime Minister, Deputy Minister of MAFRD, USAID Deputy Mission Director, AKA and AKB Presidents speaking at this event. Media and Kosovo decision makers very well covered fair.

Educational opportunities were also organized during the fair through presentations, discussion and sharing of ideas and problems among agribusinesses. The Minister of Trade and Industry visited the fair on the second day and discussed various issues concerning the business community, including the Free Trade Agreement and its impact for Kosovo businesses. As many fair exhibitors presented some of the problems they have at the customs, fair organizers invited the General Custom Director of Kosovo to discuss all the problems and to find the solutions. AKA and AKB staff met individually with all participants at the fair, and all of them gave the fair a good grade, particularly mentioning a big number of visitors at the fair. Organizers prepared a list of suggestions to be considered for next year's fair.

During the quarter AKA visited its members and collected the data for a member database that aims to track contact history for members, dues and fee for service payments and size of business.

KDPA: During the quarter KCBS worked with KDPA to progress with the implementation of the association's strategic plan. Since KDPA was behind in collecting the membership dues, and the activities were mainly covered by KCBS grant, the increase of self-generated revenues was the main target for the quarter. KCBS advised the Board that unless the KDPA leadership gets serious about the financial viability of the organization, KCBS will reconsider its support. KDPA organized an annual election meeting with 16 dairy processors attending. Members elected a new seven-member board, and a President (Imer Berisha from Bylmeti) and an executive director were employed. A team of three members was selected to prepare the three month activity plan that was approved from KCBS, and to work on development of the second year work plan. Based on the first year's experience of KDPA, a more realistic schedule of activities and budget should be drafted.

The board agreed on the structure and amount of membership dues for 2007 as follows: €100 for small processors and milk collection centers, €300 for medium processors and €500 for larger ones. Dues were collected from nine members during individual visits to milk processors. The new dues structure is based on milk output rather than a single fee for all,

KDPA worked with 7 dairy plants to do testing of the products that dairy processors are planning to export in Albania and Macedonia. The test results showed high quality of products, such as yogurt, white cheese and UHT milk. KDPA conducted a training program for 14 dairies on personal hygiene, cleaning and disinfections of dairy plants. The training material was distributed to the participants that they will use to train workers at their plants.

Activity 8.2.2: Support two new cluster associations in developing first year work plans from their four year strategic plans and issue SAF grants.

BCC: During this quarter the BCC dedicated much effort to start some of their activities planned to be finished under time line of grant agreement, but many activities took longer than expected. BCC evaluation committee selected MDA for delivering the first two models of the BCC training program, but the BCC has not been able to start with the training program in the first five months as originally planned. Having in mind that the BCC plan for the first year is very ambitious it requires fully dedicated board and staff, and we hope that the new BCC executive director will be more aggressive and independent in implementation of the BCC activities.

In this quarter STTA Association Advisor Joan Perrin worked with BCC to prepare Product Development Plan [PDP]. The first objective is to increase membership from 6 members by at least 100% for first year, after organizing and executing the Membership Campaign 2007 recruitment. At this moment, it is essential for BCC to have paying members in business, and offer quality services. The campaign aims to increase membership, bring in additional revenue and provide customers to attend trainings. The needs and framework for the planned workshops will have to be altered when more members have been recruited. By increasing membership and capacity building of consultants, BCC members and non-members, will create better opportunity for BCC to implement Code of Conduct, Quality Control Standards and development of the quality certification program to be owned by BCC.

These will be essential steps for BCC to develop into a strong, professional and respected association in Kosovo.

KACP: KCBS assisted the new association of concrete producers in completing the preliminaries for formation: registration, bank account and accounting procedures. As usual, there was a slow recovery of fees, which had been established at €500 for Board members and €300 for regular members. The association began to recruit members. Meetings were held to solicit support and associate membership from the major suppliers of cement. The association will share offices with RČAK if their Board approves. The Board intends to create a budget for hiring an executive director. KACP agreed to ban from association management board representatives from companies that do not fulfill their obligations to tax authorities and those that do not pay membership fee to the KACP. The KACP President prepared a Product Development plan, which was discussed with KCBS. KACP completed their grant application and submitted to KCBS for review in late March.

Activity 8.2.3: Implement a certification program for association executives

This activity will not start until Q3 of FY 2007.

8.3 Strengthen Business Consulting capacities

Activity 8.3.1: Support BCC in designing Kosovo consultancy standards

During this quarter STTA Henry Goldman assisted BCC in developing a Code of Conduct for the consultant's profession and drafting comprehensive compendium of quality standards for consulting industry in Kosovo. As we agreed with BCC, they recruited local business consultant who was obliged to prepare a model code of conduct and served as a facilitator between the BCC Board, local consulting market and the international expert. The STTA revised Code of Conduct; initially prepared by BCC, with current business and management codes as published by the Institute of Management Consultants, USA (IMC-USA) and the Association of Professional Consultants (APC). The BCC Board approved the final version of Code of conduct and accepted that the ethic codes have to be agreed with BCC members and violation of one or all of the codes' elements will be criteria for expulsion. Completion of this activity will occur in the next quarter.

Activity 8.3.2: Support the development of a quality certification program to be owned by BCC

This activity will not start until Q3 of FY 2007.

8.4 Increase Use of Improved Business Practices

Activity 8.4.1: Disseminate the findings of the SWOT analyses on the BSP market.

This activity was completed in the first quarter.

Activity 8.4.2: Train at least 20 accountants in minority areas on Kosovo accounting standards.

This quarter we started planned activity with PIRAMIDA, a consulting company in North Mitrovica, on new advanced training program on Kosovo Accounting Standards (KAS) for accountants from minority areas. The aim of this project is to effectively train accountants to be competent in the area of preparation of financial reports in accordance with KAS. In addition, the trained accountants will help local companies to be more competitive and better related to unified Kosovo market. During this quarter PIRAMIDA has finished all planned activities for starting of this project in northern Kosovo. They finalized training material, organized a good promotion campaign, which resulted in 19 participants/accountants interested to become more competent in using of KAS, and started with the training. 19 accountants who are attending the accounting training in Mitrovica is almost the whole number planned under grant agreement in three regions. The advertisement in Gračanica is

in the process and we hope that they will exceed the planned number as in other areas. All activities were kept as scheduled, which was the lesson learned from previous SCAAK/PIRAMIDA project that “good planning and efficient management are necessary precondition for success.”

8.5 Improve Access to Credit

Activity 8.5.1: Product Development for Banks and MFIs

Activity 8.5.1: Project Development and Product Development

Leasing: Three banks and two MFIs signed MOUs to introduce commercial leasing in Kosovo (New Bank of Kosovo, Kasa Bank, Bank for Business, KEP and Atlantic Capital Partners). The initial groundwork was completed with discussions with CBAK confirming that leasing could proceed even though there is no separate lease legislation (it is currently covered by the banking law).

SCAAK has stated that although Kosovo does not strictly adhere to International Accounting Standards (IAS), for leasing, they do follow IAS – 17, which is the recognized procedure for lease accounting. The EU Customs and Fiscal Assistance Office to UNMIK Kosovo (EU CAFO-UNMIK) was contacted to determine appropriate tax regulations and VAT treatment that would affect any leasing product developed. Questions were submitted and a detailed explanation was included in the presentation to the banks and MFIs. For tax and VAT purposes, leasing is considered as a “supply of goods” while a loan is considered a “financial product.”

The effect is that the lease payments attract VAT, but that the VAT can be offset by the lessee against VAT collected. Agriculture equipment is zero-rated and therefore neither the equipment nor the lease payments attract VAT. An outstanding issue was depreciation and who can take the depreciation for tax purposes. EU CAFO-UNMIK clarified this issue in that the lessor, as the owner of the equipment, can for tax purposes claim the depreciation. In many cases, the lessee does not have the tax base to utilize the depreciation while the lessor does. As the lease product becomes more developed, the lessor will factor the depreciation into the lease payments, which will lower the lease payments to the lessee.

Purchase Order Finance: The CBAK approved in principle POF as a new loan product and draft POF policies and procedures will be submitted to the CBAK for review and input. KCBS is working with each partner financial institution and the CBAK to ensure that adequate and appropriate POF credit policies and procedures and loan agreements are implemented for proper risk management of any new/enhanced products.

KCBS first requested all three partner institutions to provide copies of their current credit policies and procedures for review prior to the drafting of new POF policies and procedures:

- **New Bank of Kosovo:** The first bank to promptly provide a copy of its credit policies and procedures, which were then translated from Albanian.
- **Kasa Bank:** Initially hesitated in providing copies of their policies and procedures, citing reasons of confidentiality. Eventually, Kasa Bank sent the relevant sections of their procedures manual for our review in mid-March.
- **KEP:** Finally provided copies of their credit policies and procedures, which are in English, in late March.

Given these delays, KCBS decided to draft standardized POF policies and procedures both in English and Albanian and forward these to the three financial institutions for their review and approval the week of March 19. The CBAK will also review the draft POF policies and procedures to ensure compliance with current Kosovar banking laws and other regulatory requirements.

In addition, POF loan agreements, including assignments and guarantee forms were adapted for the Kosovo environment. Both English and Albanian drafts were forwarded to the legal staff at all three financial institutions for their review and comments.

Nova Ljubljanska Banka (NLB) of Slovenia announced it was buying a majority interest in both New Bank of Kosovo and Kasa Bank. The POF working groups at both banks have indicated that their banks will postpone the final review, approval and implementation of the draft POF policies and procedures during this "transition" period, until after they sign the agreements with NLB.

Kasa Bank expects to sign the agreement with NLB on April 4 [done]. New Bank expects to sign the agreement with NLB later in April.

Activity 8.5.2: Implement Initial Six Months Plan for Technical Assistance and Training and Extend Pilot Loans under new lending Program

Leasing: A two day workshop held 15 & 16 February on "Leasing for Small, Medium and Micro Enterprises" covered the basic elements of leasing, lease accounting, the legal and regulatory framework, marketing lease products, performance monitoring and transaction flow. The workshop was attended by all five of the partner Banks and MFIs, KCBS and USAID staff. The workshop was followed by individual seminars with each of the five institutions, and loan managers, accountants and legal officers attended. The seminars provided an opportunity to address questions and further explain the various lease products and their advantages and disadvantages.

A detailed lease procedure was developed and each of the institutions will review the procedures and present them to their boards for approval. The lease procedure details the working of the lease operation including sales and marketing, the credit department, credit ratios for the lessee and lessor, description and ratios of equipment to be leased and examples of lease proposal forms and certificate of acceptance. Follow up seminars and workshops will be developed to provide actual examples of lease transactions and credit flow analysis. This hands-on technical assistance will guide the partners through the lease transaction process and provide cash flow analysis of the equipment to be leased.

KCBS developed a program for the leasing of Lactofreezers strongly advocated by the Livestock cluster. There are two suppliers of new Lactofreezers and one supplier of used equipment. The product price is between €2,000 and €6,000 depending upon capacity and condition. The dairy processor and the dairy farmer agreed that the lease payments can be withheld from the dairy farmers' proceeds and sent to the lease company. The Kosovo Enterprise Program (KEP) met with the dairy farmers and the suppliers and will provide the lease financing.

KCBS staff has also developed a list of potential clients and their equipment requirements either to replace existing equipment or to purchase additional equipment to increase their current productivity. These prospective clients will be contacted and the opportunity will be followed with the partner banks.

Purchase Order Finance: POF presentations were delivered to the credit staff and key branch managers of all three partner financial institutions during this quarter. The presentations were followed by a lively "Q & A" session, which further elaborated on and clarified POF loans and the procedures for their implementation within the banks. Both Kasa Bank and New Bank have requested additional POF training, utilizing case studies specifically to better illustrate the benefits and advantages of POF loans. Dates for additional training sessions will be discussed with both banks.

The original POF Implementation Plan called for the initial pilot POF loans to be launched by mid-April 2007. Given the delays highlighted above, particularly the NLB equity investments, the launch of pilot POF loans has been delayed. Based on the results of meetings held recently with all three partner financial institutions, a revised timetable for the first pilot POF loans has now been re-scheduled as follows:

- **KEP:** KEP has requested a delay in the implementation of the POF pilot loans until June, citing delays due to the introduction of several recent new micro-loan products. Furthermore, KEP would prefer to first introduce leasing in May followed by POF in June.
- **New Bank of Kosovo** With the signing of the agreement with NLB scheduled for late April, New Bank had requested a temporary postponement for the introduction of POF and leasing until further notice. New Bank has reiterated their commitment to the KCBS project, and is only requesting a temporary delay. New Bank will also inform us when they would like to renew the training schedule.
- **Kasa Bank:** Kasa Bank plans to sign the agreement with NLB on April 4 [done]. The bank is still committed to the KCBS project, but likewise anticipates a temporary delay in launching the pilot POF loans and leases. Kasa Bank would like to continue the POF training at this time and will inform KCBS on scheduling dates. Kasa Bank would like to schedule additional POF training for April – May, with the launch of pilot POF loans during the second quarter.

Activity 8.5.3: Develop Collateral Instruments and Possible Guarantee Mechanism with CBAK

The KCBS legal advisor held meetings with the Supervision Department and the Credit Registry of the CBAK to review current Kosovar legislation regarding collateral instruments for trade finance and other short-term working capital loans. CBAK gave its tacit approval to KCBS to develop “new” collateral instruments and to also draft corresponding regulations governing such instruments for POF loans.

KCBS legal advisor focused on working with CBAK, local financial institutions partnering with KCBS, and KCBS’s expatriate consultants, to develop a plan to make necessary changes to banking rules and regulations to clarify and increase the utilization of various forms of “soft asset” collateral in lending and leasing.

Leasing: There is currently no lease law in Kosovo and the general law on contracts and obligations apply to leasing. Meetings with CBAK reaffirmed that leasing in Kosovo does not require a separate law. Because there is no specific law it is important that a lease agreement is developed to protect the rights of the lease parties. In discussions with the partner banks it was agreed that one contract would be developed. Then, in the event of future legal action, the lease companies would only need to defend one generic legal document. Although not specifically covered by the Scope of Work, the consultant drafted a Model Equipment Lease and circulated it in Albanian to each of the partner financial institutions with which KCBS is working. Comments were then requested from partner banks. Atlantic Capital Partners’ lawyer proposed an article be included that allowed the lessor, as the owner of the equipment, to recover the equipment in the event of default. This would be done quickly, in eight days, with an expedited legal proceeding. This is an important inclusion as the equipment is the collateral for the lease. This article was added to the draft contract. The sample lease contract was developed in English and translated into Albanian.

Utilization of Soft Asset Collateral: UNMIK Regulation 2001/5 “On Pledges” is applicable to all non-real estate secured loans. Although by its terms the regulation covers both tangible and intangible property,² and any “Moveable Property” may serve as collateral.³ This regulation’s wording indicates that it is mostly tangible goods that were contemplated when it was drafted. This regulation should be amended to specifically enumerate and provide for the types of intangible property we would like the banks to accept as collateral. This regulation falls under UNMIK’s “Reserved Powers” and can be approved directly by

² “Moveable Property” means any property, tangible or intangible, excluding immovable property. (Section 2, Definitions)

³ Any movable property that may legally be transferred pursuant to the applicable law may serve as collateral. (Section 3.1, Collateral)

UNMIK without submission to the Kosovo Parliament. This will give support and comfort both to the banks and to the Pledge Filing Office.

In addition, UNMIK Regulation 2001/32 establishes the Pledge Filing Office and Administrative Decision 2001/20 implements Regulation 2001/32. These directives require that all filings are public documents. In practice, only banks that are authorized users of the system may access the information in the system. Those institutions, which are authorized users, can inquire of the system whether a potential borrower has any recorded pledges of assets

There appears to be no Kosovo equivalent of the Uniform Commercial Code, which governs negotiable instruments. It would be desirable to draft selected portions of this law so that the rights, priorities and obligations of lenders are spelled out in a comprehensible manner. This will assist the banks in entering into new types of lending operations. Specifically, relevant portions of Article 3 (Negotiable Instruments) and Article 9 (Secured Transactions) must be adapted for Kosovo.⁴

Regulations on Bills of Exchange were drafted and have now been circulated for review and comment to the CBAK. It is expected that Bills of Exchange will be introduced in Kosovo as collateral based on KCBS' work. The next steps will involve proposed legislative changes by CBAK and interested parties, and consultation and negotiation on these proposed changes.

Activity 8.5.4: Provide Targeted Assistance and Guidance for Preparation of Second Kosovo Finance Fair

KCBS continued to work with KBA, AMIK and MDA to develop the Finance Fair. KCBS undertook efforts to improve the communication and cooperation among the partners to enable the team to successfully plan and implement the Fair. In the beginning of January KBA signed the first MOU with AMIK, second with AMIK and KCBS, and contracted with MDA, consulting company chosen to manage the Finance Fair.

In February, KBA unilaterally decided that the Fair would be two days, April 11 and 12, with workshops on April 11. This was contrary to the originally agreed plan for a one day fair. Six banks and three microfinance institutions committed to sponsor the Fair in total amount of €24,000. This amount has been paid, which means that more than 50% of actual expenses has been covered by sponsorship revenue. From 54 constructed booth places only two are left not rented. There will be five workshops at the Fair on April 11. KCBS's partner, Crimson Capital, will present two workshops, one on POF and one on Leasing.

The promotion campaign has covered all Kosovo by banners, billboards, TV and radio advertisement. MDA has engaged Cactus, a company with 24,000 client companies from Kosovo in their data base, to invite and attract business people to visit the FF. KCBS has actively campaigned amongst its clients for attendees. If only 5% of them attend, the partners will have a very well attended fair which will exceed expectations.

8.6 Cross-cutting Themes in the Business Operating Environment

Promoting Women in Business: KCBS met with Ms. Mirlinda Kusari, President of Women Business Association "Sheera" from Gjakova. Ms. Kusari presented their planned project "Diversification and Seasonal Extension of Vegetable production in Disadvantage Area". The project will cover 12 villages in Gjakova municipality and the main goal of the project is increasing of productive capacities of 12 beneficiaries and income of at least 48 workers from rural area who will get employed. Sheera claim that the project will be financially supported by beneficiaries, municipality, MAFRD and Sheera but still 28% of total value of the project or €40,176 remains uncovered. The technical competence of beneficiaries and market for products are only some of questions raised by KCBS for which answers were requested if viability of the project is to be considered for KCBS support.

⁴ In addition, portions of Article 7 (Documents of Title) may be helpful in the future. This Article deals with such matters as Bills of Lading and Warehouse Receipts.

Minority Area Activity: KCBS continues to support development of the business operating environment in minority areas. Special attention was directed to the technical and financial support to the most promising cluster leaders from whose development the wider community will benefit, especially in terms of creating new employment in rural areas. Integration of companies from minority regions in KCBS activities, and thus their integration into the Kosovo economy and cooperation with other local and regional partners, remain part of KCBS' daily obligation. Many of our interventions are recorded elsewhere in the report under specific cluster activities. In addition:

- Majority of farmers in minority areas who commercially produce milk, and municipality government agriculture officers, has been informed by KCBS of the new milk quality decree.
- Significant number of minority-area farmers have reported huge problems with Mastitis on their cows and sheep. In collaboration with KAMP association KCBS organized the presentation training for owner and farm staff of sheep farm in Laplje Selo on the topic Mastitis Control system on the farm.
- KCBS assisted minority farmers on selling their products, corn seed and other crops through a linkage between farmers and feed producer from Ferizaj and Lypjan municipality. Result achieved from sales: Farmers from Suho Doll sold 27MT of corn seed, other farmers from village Kosovo Polje and Lypjan sold 35 MT corn seed. The members of association Agroseme have sold 35 MT corn seed, 56 MT Wheat, 55MT Barley, 16 MT oats. To ensure continuation of good relation sheep among farmers from minority regions and owner of chicken farm Mr. Xheajli Reqica, KCBS initiated conclusion of agreement for regular supply and cooperation between the two parties.
- KCBS assisted sheep farmers from Novo Brdo and Gjilan municipality to participate in export of live lambs to Bosnia and Hercegovina. In total 60 lambs weight approximately 1,300 kg in value of €3.200 were exported.
- Association of sheep farmers, Golden Fleece from Leposavic municipality, submitted a SAF application for sheep shearing equipment and health supplies in amount of €4.590. Concept paper is accepted and association will submit complete Grant Application.
- Regarding pasture management trials several locations in minority area are selected and one will be in Lipljan municipality and other in Strpce municipality.

9.0 MARKETING AND TRADE LINKAGES

[NOTE: In September 2006 a Senior Competitiveness Advisor joined the KCBS project to lead the new Marketing and Trade Linkages team [MTL], formerly identified as Sales and Marketing within the General Business Support Services. Since the Year 3 workplan was drafted only in-part with the MTL leader's input (based on initial assessments of marketing and linkage needs), several activities have since been modified from what was originally envisioned.]

Activity 9.1: Organize Marketing & Linkages Conference

On March 21, KCBS hosted Kosovo's a Marketing & Linkages Conference at the Pristina Grand Hotel with approximately 200 guests representing retailers, producers, processors, wholesalers, associations, Ministries, donor projects and marketing agencies. This activity was a realization of more than 40 interviews that had been conducted by the MTL and F&V clusters in the first quarter with local retailers and wholesale/traders. According to participants and presenters, the event successfully accomplished its four main objectives:

- 1) To provide a forum where producers and processors could carry on a direct dialog with retailers to learn about their supplier requirements and current market conditions in order to do business together.
- 2) To learn about a successful vertically integrated value chain retailer.
- 3) To discover new ideas from a panel discussion on integrated supply chain management.
- 4) To provide a setting for networking linkages to occur at all levels of the value chain.

There were 13 presentations with keynote speeches from Croatia's Konzum, and Macedonia's Ramstore retailers and two member companies from their supply chain (meat and dairy). The conference was tailored to both Fruit & Vegetable and Dairy/Meat audiences and allowed each cluster to present industry specific information during separate break-out sessions. The three networking sessions have already produced a number of positive linkages between existing KCBS clients and new potential suppliers, buyers, distributors or general partner contacts. Media coverage of the event appeared very favorable and included, (on TV) RTV21 & KTV; (on radio) Blue Sky, Free Europe and Radio Kosova; (in daily newspapers) Koha Ditore, Zeri, Iliria Post. MTL will work with clusters and M&E to explore and track future linkages.

Activity 9.2: Conduct Merchandising Activities

MTL worked very closely with the Livestock cluster to maximize the impact of Marketing Consultant STTA Marilyn Phillip's two visits to Kosovo. First, as a result of the retailer interviews conducted for the Conference, KCBS learned that our processor clients have been missing out on a large (and mostly free) opportunity to promote the sales of their products in-store. Through the STTA's expertise, an in-store merchandising training workshop was held on two separate occasions to educate both processors and local marketing agencies on the practice of in-store promotion, shelf-display, branding and point-of-sale pieces. Low workshop attendance (ie no interest), limited, or zero, marketing budgets, and no dedicated marketing staff will continue to challenge most local producers to successfully maximize this critical marketing component which is the most effective way to generate more product awareness.

However, two immediate activity extensions did arise from this training. Two of the local business service providers who "shadowed" the STTA and attended the sessions met on a second occasion with STTA to further explore and define new services they could offer their clients along the lines of merchandising. Recommendations included products such as market research, strategic planning, plan-o-gram technology (shelf space system) and category management. Additionally, potato processor Pestova requested for a personal consultation to advise them on their marketing strategy, packaging, flavor offerings and merchandising. KCBS conducted a thorough evaluation of their present situation and made

numerous suggestions on how to better produce, package, position and support their products.

The final merchandising activity involved a KCBS client retailer 'Maja' in Leposaviq who greatly needed assistance in organizing and marketing his small shop. Suggestions were made regarding his negotiating and sourcing strategy for acquiring products and an in-store visit resulted in the MTL team providing a completely new shelf organization strategy and diagram for all his products. Appropriate follow-up and data will be collected on the long-term impact of these merchandise assistance activities.

Activity 9.3 Research, Test and Promote Locally Produced Cream Cheese

MTL, along with local consulting agency UBO Creations, produced a relatively detailed market analysis on cream cheese consumption in Kosovo to evaluate the feasibility for launching a locally produced product. Research indicated that a growing yet small demand for the product could provide a very good opportunity for a local producer to gain market share if the cream cheese was properly designed, packaged and marketed. After several months of production, Bylmeti and Abi (through assistance from Livestock cluster) have both produced different varieties of cream cheese to be tested before final mass production and roll-out.

To this effect, MTL and Marketing STTA prepared a detailed blind taste testing methodology to be implemented by a local dairy processor, UBO and KCBS. Survey findings will provide product attribute ratings that will allow the processor to tailor product production before introducing the cream cheese to market. Additionally, a New Product Launch Manual has been designed to advise local processors on the best marketing tactics in order to generate awareness and sustained sales of the new cream cheese product once it is introduced into retail. Both these activities will be realized in the next quarter.

Activity 9.4 Accelerate Kosovo's Recycling

KCBS grant beneficiaries companies Niti Com from Ferizaj and Eko Kim from Zvecan received and installed new Vertical Balers for compacting PET waste. Niti Com signed a contract with Peja communal Landfill and one baler was installed at the landfill so they can organize regular collection and export of compacted plastic. Eko Kim continued its cooperation with the Danish KFOR, and collection from the landfill Balaban will be resumed after winter break.

In order to support and encourage separation and recycling MTL also initiated and hosted a meeting between stakeholders involved in collection, disposal and separation of communal waste from new recycle containers (Star Boxes) throughout Pristina. Attendees included: representatives of Public Utility department from Pristina municipality, owner of the Niti Com Company, operational manager of public (waste removal) company Pastrimi and representatives of Information Center Pristina (owners of the trash containers). The main topic of the meeting was that in spite of the willingness of the citizens to separate waste for disposal, this waste is not recycled but collected, combined and then disposed of by workers of public company Pastrimi. Unfortunately in spite of their good intentions, due to the lack of proper equipment (investment of about €50,000) Pastrimi is not able to organize separation of the waste. MTL intends to connect the Information Center with current recycling efforts as they prepare to introduce Star Boxes in Pejë and Mitrovica.

Additionally, IREX awarded a grant to the Women's Business Association from North Mitrovica valued at US\$5,000 for Recycling Awareness Campaign among school children in Mitrovica. Expected result of this campaign is increased quantity of collected PET for Eko Kim who is a partner in this campaign and education of kids about the importance of environment protection.

Activity 9.5: Expand Regional Linkages

To promote its ongoing regional cooperation during this quarter, MTL team continued to dialog with USAID's and other donor's projects in several regional countries. MTL distributed KCBS client's exportable products inventory list to more than 60 contacts with positive

replies from Albania, Montenegro, Macedonia, Moldova and Serbia. Several F&V buyers have tentative interest in some of the KCBS products (such as blueberries in Moldova). A delegation from USAID/EDEM project in Albania attended the Marketing and Linkages Conference, and cooperation with this project will continue in numerous directions that will hopefully lead to a more intensive presence of KCBS clients in the Albanian market. Also USAID/IRD project from Serbia plans to visit Kosovo with group of potential buyers for mushroom, blueberries and other forest fruits which is planned for the first half of April.

MTL team members participated in USDA/USAID Agricultural Committee Meeting in Kragujevac hosted by ACDI/VOCA. KCBS used this opportunity to raise awareness among partners about KCBS initiative for regional cooperation and also Marketing & Linkages Conference and to learn about the activity of similar projects in Serbia.

Activity 9.6: Coordinate Local Donor Assistance Projects

As part of its efforts to coordinate and maximize impact with similar assistance projects, MTL maintains consistent communication with a number of local donors.

- **EAR MSP:** As the Marketing Support Project enters their final year of operation with new management, KCBS has had numerous meetings with their staff not only to explain our activities but to guide their feasibility studies into areas where KCBS has not focused its attention. Coordination discussions and joint participation range from 'Regional Food Basket' workshops to potential promotional efforts for launching a locally produced cream cheese. Overall, MSP has failed to make any measurable impact and in many cases KCBS has picked up 'their ball' after it has been dropped (but only in overlapping sectors).
- **EU IPA:** Although another international from the EU has recently been staffed to work with the Investment Promotion Agency, KCBS continues to provide lists of company contacts and potential investment opportunities (and literature). MTL will be providing minimal support for several upcoming investor tours from EU member states interested in KCBS cluster areas.
- **GTZ:** MTL participated in GTZ's 2007 Planning Workshop to provide input on marketing of the Sharri cheese and wood products. There is little overlap with GTZ's project, which is on a very slow and long-term plan of addressing Kosovo's development needs according to a holistic sector model approach.

Activity 9.7: Conduct Special Marketing Assistance Activities

Since MTL was designed primarily as an internal support center for the KCBS project, all of its initiatives are either directly or indirectly linked to one of the Clusters. Therefore, some of the activities provide additional (marketing/linkage-related) assistance for the Cluster Specialists whereas many of the aforementioned are larger projects lead by MTL for the direct benefit of our clients or associations. The following list details a number of these special activities:

- **Organic F&V:** Based on information gathered from potential blueberry buyers, KCBS realized that Organic Certification of wild blueberries and other berries has become almost mandatory for sales and export to the EU, USA and Japanese market. In order to learn more about Organic Food Standards & Certification process KCBS attended seminar in Belgrade organized by NSF International and America's Development Foundation. The certification procedure is complex and strict but such a certificate will allow companies from Kosovo to export wild berries to more profitable markets and will add significant value to domestic products. MTL will continue to work with companies and support them in their certification process.
- **Kitchen Carts:** As a result of a connection with US based Home Depot, MTL has investigated the possibility to manufacture kitchen carts in Kosovo in order for Home Depot to diversify their supply channel away from China. MTL negotiated with two Kosovo companies that work with metals and granite and the Proad Co accepted the threshold price of US\$70 per unit to be delivered FOB (Free on board) in Thessalonica. Proad is in the process of manufacturing three cart samples as proof

of their capabilities. Due to the potentially large number of units that could be requested from Home Depot, Proad agreed to work with minimum profit margin. If Home Depot sends their Specialist to inspect the site and product quality and enters into a contract with the manufacturer, KCBS will work with Proad in securing financial resources in order for him to invest in molding tools that will be needed for mass production of these carts.

- Berries & Herbs: MTL was involved in finding a possible market for Juniper berries and dried blueberries for KCBS client Agroprodukti which are presently sitting in storage. MTL delivered samples to Albin Co in Belgium to find possible buyers of berries from Kosovo. Albin has also searched the medicinal herbs markets in a couple European countries like France and Holland. Although the biggest provider of medicinal herbs in Europe is “Martin Bauer” Co. in Germany, MTL hopes to avoid the middle man and link collectors directly with the end users in Europe.
- Lamb Export: Lamb production in Kosovo remains around 20,000 live lambs per season. In an attempt to explore new markets, MTL contacted PALMA Group in Dubai to learn that their market would offer US\$5 per kg versus the price of live lamb in Kosovo at 2.5 € per kg plus slaughtering and shipping costs. MTL also was in contact with 7 Meat processing companies in Bosnia but only Dayton and Primainter besides Ljjanovici expressed their interest to import lambs from Kosovo. The final outcome is still pending.
- Styrofoam: MTL assisted the Construction Materials cluster by providing data and contacts for the import and export of polystyrene insulations materials in Macedonia and Serbia. This information will assist local manufactures of styrofoam like Fetoshi, Kosovoplast and Satstyro to better price their products and understand the regional competitive market environment.
- Fertilizers: Fertilizers are an important input for Kosovo agribusiness and until now the main products in Kosovo have been imported from Serbia and Croatia who are no longer competitive with quality. Since Kosovo does not have production facilities for this product, MTL has been working with KCBS clients to research and contact new producers. As a result of these ongoing efforts, KCBS client BUJKU purchased from Agrosativa a load of 70 MT worth €21.000 for this season.
- Marketing Training: Although a lower priority, there is an obvious need for more basic marketing training to all types of local businesses. After meetings with the recently formed BCC association, MTL will coordinate a series of basic marketing principles classes in the next quarter, adding to the training based on demand according to particular topics.
- Dairy Packaging Assistance: MTL accompanied local dairy processor Bylmeti and a KDPA association representative to link with packaging material producers in Kraljevo “Cedo-Mont” and “ATM” in Pozega. Prices were negotiated and packaging samples were informally tested by presenting them to a number of local (hypermarket) retailer contacts KCBS was working with for the Conference. Feedback was provided to the Livestock cluster.

Activity 9.8: Generate Trade Linkages

Even though MTL focuses most of its activities on a demand-driven marketing model, there will be continual efforts made to connect current clients and their products to buyers, both locally and regionally. A great deal of personal attention and relationship building is required in order to successfully coordinate the trade linkages, but then it is up those individuals to ‘close the deal’. At least a dozen ‘linkages’ remain outstanding with the hope that through ongoing follow-up and fruitful negotiations, business deals will be transacted. This number does not include the several dozen initial linkages that were made at the very recent Marketing & Linkages Conference. These will be reported on as they develop some substance.

10.0 STRATEGIC ACTIVITIES FUND [S.A.F.] MANAGEMENT

For this reporting period (January–March), KCBS awarded ten grant agreements and two fixed price subcontracts. The value of signed awards for this quarter is €185,897. Of this value €175,440, are awarded for grants, and €10,457 for subcontracts.

During this reporting period, two subcontracts were awarded to Livestock Cluster with value of €10,457, one grant to Fruits and Vegetables Cluster with value of €35,152 and nine grants for General Business Support with value of €140,288.

From the start of the project until end of March 2007, KCBS has signed 53 fixed price subcontracts and 42 grant agreements through SAF. Total value of signed subcontracts, grants, and procurement of goods is €1,458,312.

From this value, €879,716 awarded for grants, €526,399 for subcontracts, and €52,197 for procurement of goods. 11 grants and 25 subcontracts were signed for the Livestock cluster in total value of €575,908 (including procurement of goods); eight grants and three subcontracts with Fruit and Vegetables cluster €200,877; four subcontracts and four grants in Construction Material cluster €61,137; and 19 grants and 21 subcontracts, for General Business Support €620,390.

Renewal of grants with associations that completed implementation of their first year strategic plans characterized this reporting period. Four associations (AKA, KAMP, SHPUK and AWPK) successfully submitted their grant renewal applications and were awarded grants for implementing year two strategic plans. RCAF also requested renewal of the grant and submitted their application, which after evaluation was recommended for approval to USAID. KDPA ended their year one strategic implementation grant on March 15, and we expect to receive grant renewal request from them in April.

KCBS also awarded two grants to AKB and one to AmCham for support of activities that will enable better implementation of good business practices, increase policy dialogue between Business and Government, and establish a better operating business environment in Kosovo.

During this period KCBS awarded a grant to Piramida which is continuation of a previous project supported by KCBS, entitled “Basic Accounting Training” and implemented by SCAAK in cooperation with Piramida. The objective of this grant activity is to educate professional accountants in minority areas of Kosovo to become more competent in accounting using the International Accounting Standards (IAK) and Kosovo Accounting Standards (KAS). Through this training, participants will be educated on proper financial reporting and accounting practices. The aim of the project is to train at least 20 participants in the area of advanced accounting by improving the level of quality of accounting services, which will help companies to prepare relevant financial reports and advanced bookkeeping. Indirectly Kosovo will benefit from this project as the minority areas will better relate to unified business practices and market needs.

During this reporting period KCBS has arranged on-site visits for USAID to businesses that received equipment for demonstration purposes through grants. There were visits to five grants; Fruti Association, Legjendasi Farm, NITI COM, Vukosavljevic Family and EKO KIM. Site visits will continue in next reporting period to other grantees that received equipment for demonstration of new technologies.

Subcontracts and Grants awarded are reported under the Strategic Activities Fund Data section later in this report.

11.0 PERFORMANCE-BASED MANAGEMENT SYSTEM

11.1 Summary

Performance Based Management System monitors progress against program targets, facilitates reporting of the results attributable to KCBS efforts and provides data for reporting to USAID. It identifies successful enterprise and industry clients, interventions and consultants and allows the team to compare projected results to actual results on a monthly, quarterly, semi-annual and annual basis.

11.2 Data collection

The data is collected from 93 companies in all three clusters. The data for non-client companies on blueberry collection is consolidated in one figure and presented in the table of the data for Fruit and vegetables cluster as “Blueberry collectors”.

From this number of companies, 20 companies are not active. Five new companies were added during this quarter as explained in Annex, Cluster breakdown of activities.

Indicators for performance at the quarter end are as follows:

	After 30 Months	
	Target	Actual
Number of companies assisted	n/a	93
Increase in sales compared to baseline –		
Euros (in millions)	27.5	64.4
Increase in sales over baseline - %	29.1%	68.3% ⁵
Increase in FTE jobs	2,000	2,849
Increase in financing – euros (in millions)	8.0	10.4
Increase in capital investment – euros (in millions)	3.8	26.1

- ◆ The main contributors to the increase in sales from the start of the project till the Q2 FY 2007 are companies Abi, Devolli, Fan Zahir Pajaziti, NewCo Silcapor, Pestova, Rona and Xeni with total of €41.4 million or 64 % of the total increase in sales.
- ◆ The main contributors to the increase in employment from the start of the project till the Q2 FY 2007 are companies Agroprodukt Commerce, Bejta Commerce, Hit – Flores, New Co. Silcapor, Soni and Tulletorja L.L.C with total of 1,241 FTE or 44% of the total increase in employment.
- ◆ The main contributors to the increase in financing from the start of the project till the Q2 FY 2007 are companies Bejta Commerce, FAN Zahir Pajaziti, Kabi, Korenica, New Co. Silcapor, Tulletorja L.L.C and Ukaj, with total of €8.4 million, or 80% of the total increase in financing.
- ◆ The main contributors to the increase in investment from the start of the project till the Q2 FY 2007 are companies Bejta Commerce, Eskavatori, FAN Zahir Pajaziti, Fetoshi, Kabi, Korenica, Korrotica J.S.C, New Co. Silcapor and Tulletorja L.L.C with total of €19.3 million or 74% of the total increase in investment.

⁵ Represents the percentage of total sales to date over total ANNUALIZED baseline sales by all companies currently in the database. Total sales to date are €58,893,901 and total annualized baseline figure for companies is €94,431,639.

11.2.1 Livestock [Dairy-Beef-Poultry-Animal Feed] Cluster

Number of companies assisted	41
Number of active companies	36
Increase in sales - euros (in millions)	36.30
Increase in FTE jobs	762
Increase in financing – euros (in millions)	1.48
Increase in capital investment – euros (in millions)	4.66

11.2.2 Fruits and Vegetables Cluster

Number of companies assisted	22
Number of active companies	16
Increase in sales – euros (in millions)	9,79
Increase in FTE jobs	630
Increase in financing – euros (in millions)	0.55
Increase in capital investment – euros (in millions)	0.66

11.2.3 Construction Materials Cluster

Number of companies assisted	31
Number of active companies	22
Increase in sales – euros (in millions)	18.37
Increase in FTE jobs	1,457
Increase in financing – euros (in millions)	8.45
Increase in capital investment – euros (in millions)	20.78

11.5 Quality of the data.

The cluster advisors are responsible for the first-order data quality control. The quality checks have been made to ensure that data collected and included in database are accurate and reliable. Every single transaction entered in database was checked for accuracy.

11.6 Data verification

During the quarter PBMS specialist conducted site visits and interviews with representatives from the client enterprises and organizational partners to verify the results that have been reported. In addition to verification of the accuracy and consistency of the results reported, PBMS specialist also determined whether the results were caused by the KCBS intervention and thus attributable to the project.

11.7 Status of the Indicators

The status of Project Indicators is set out in the Annex entitled Performance Data. The Annex gives the status of three sets of indicators:

- A. Established Indicators – those set at the start of the Project
- B. Additional Indicators agreed in April 2005
- C. New Common Indicators that were added at the start of Year Two.

12.0 COMMUNICATIONS AND PUBLICITY

In the first quarter of 2007, the KCBS Communications team worked closely with both the KCBS clusters and USAID to make the project as visible as possible through various activities in conformity with the work plan.

12.1 Events

This has been a very active quarter for KCBS as far as events are concerned. In addition to organizing workshops, conferences and field days in support of its own project objectives, KCBS continued to support associations and other partners in organizing successful events.

KCBS put together a workshop on leasing, which was attended by several financial institutions. The aim was to provide the local institutions with information about this new financing product being introduced in Kosovo as part of KCBS' access to finance initiative.

An illustrious event was the Marketing and Linkages Conference held on March 21, at the Grand Hotel. Attendees numbered 186 guests [excluding KCBS staff], representing retailers, producers, processors, wholesalers, associations, ministries, donor projects and marketing agencies. 13 presentations were delivered which included two separate break-out groups tailored to the fruit & vegetable and dairy/meat audiences and keynote presentations from Croatia's Konzum and Macedonia's Ramstore retailers and suppliers. Initial media coverage included TV: RTV21 & KTV; Radio: Blue Sky, Free Europe and Radio Kosova; Daily Newspapers: Koha Ditore, Zeri, Iliria Post.

On March 15, MTI/EAR organized the Economic Development Coordination Conference. KCBS attended the meeting and used the forum to display many of the KCBS project brochures and publications.

AKB and AKA received aid from KCBS in organizing the 2007 Agriculture and Food Fair, which was held from March 29 – 31. USAID's Deputy Mission Director Heather Goldman spoke at the opening ceremony together with Kosovo's Prime Minister, Agim Ceku, Deputy Minister of Agriculture, Tome Hajdaraj and the AKA and AKB Presidents. KCBS attended the fair as an exhibitor, and KCBS staff from the agricultural clusters supported the exhibitors.

Other events include a field day at Jazi's after the new pelleting equipment financed by USAID was installed; a field day at Mujota's farm in Shtime [selected as one of two model farms in Kosovo] after the closed pipeline milking system was installed; and the delivery of USAID branded cardboard boxes to UBO and Pestova for improved marketing of their products.

During March, KCBS assisted more intensely with preparations for the Finance Fair (organized by MDA, AMIK and KBA), the Career Fair (by American Chamber of Commerce) and the AWPK Wood Fair.

12.2 Publications

KCBS Communications team continues to be innovative and plans to publish a quarterly newsletter have been listed as a priority. This newsletter containing the highlights of each quarter will be printed and distributed as a supplement to one of the daily newspapers.

The F&V team has put together a blueberry bulletin – preparing all involved in the blueberry chain for the upcoming blueberry season.

SHPUK and KCBS drafted and published a pelleting handout. KCBS communications also provided SHPUK and KAMP with guidelines on writing press releases.

RCAK is preparing a newsletter and KCBS provided them with information about the project which they have requested to include in this publication.

Other associations and partners were assisted by the KCBS Communications team to brand all publications for their events (e.g. Billboards for fairs, brochures for fairs, radio and tv spots, etc)

12.3 Other

Media:

Two interviews with KCBS specialists were published in Iliria Post: Todd Kirkbride spoke on the importance of marketing; and Albert Wanous spoke on the situation of agriculture today in Kosovo.

Martin Wood, KCBS COP, was interviewed by KTV and TV Tema

Bujku has aired several footages in different editions covering KCBS activities. It culminated on March 17, when the entire Bujku edition was dedicated to KCBS's work and investments.

Local TV RTK was present for the shipment of lambs to Bosnia, and the story was broadcast in news programs as a major achievement in Kosovoar agriculture.

E-news:

KCBS Communications has submitted three articles for USAID biweekly e-news letter: workshop on leasing; the second truckload of sheep shipped to Bosnia; and the Marketing and Linkages conference.

Branding:

Changes in branding specified by USAID have been incorporated. New branding rules only affect business cards, which ought to have the Chemonics logo; and KCBS vehicles, which are not branded in any case.