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ANNUAL REPORT YEAR THREE

KOSOVO CLUSTER AND BUSINESS SUPPORT PROJECT



October 2007

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

ANNUAL REPORT YEAR THREE

OCTOBER 1, 2006 - SEPTEMBER 30, 2007

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

This report submitted by Chemonics International Inc. / 23 October 2007

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.

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EXECUTIVE SUMMARY

In the first year's Work Plan for 2005, KCBS declared we would show tangible progress toward increased jobs, sales, and investment. After three years we believe the project had been successful in achieving these quantitative results. Moreover, in achieving the numbers, KCBS has also produced the qualitative result of ensuring a more sustainable business operating environment for the clusters with which we work. The KCBS Program is well regarded throughout Kosovo. Stakeholders understand the goals of the program, and they continue to participate in the activities of KCBS; this program cannot be implemented solely by the efforts of KCBS alone. Stakeholders have bought into the goals of the program and remain keen on ensuring their objectives, and those of KCBS, complement one another.

KCBS set a goal for the project that for every dollar we spent, at least five dollars of increased sales would result. In the first three years, we have spent \$15.6 million; and the increase in sales from our clients was approx. \$109.5 million [€84.5 million]. This gives a direct sales-to-expenditure ratio of 7.0:1. At the end of year one, the ratio was 1.9:1; and at the end of year two 3.5:1. Our original contention that the ratio would continue to improve throughout the project has been realized. Furthermore, our sales numbers only come from the companies with whom we work directly; the numbers do not capture the multiplier effect of increased sales by other companies in a cluster with whom our clients do business. Such businesses include veterinarians, feed suppliers, transport companies, business service providers and others, all of whose sales would improve the ratio further.

The KCBS target for creating additional jobs by the end of Year Three was 3,000. The actual number achieved was 4,199. This equates to a cost of creating jobs of \$3,700 per job.

There have been many significant successes in Year Three. Improved productive capacity was achieved across all clusters. KCBS introduced higher milk yields through improved feed rations; faster growth rates in calves and lambs; better use of excess milk fat by dairies; and higher crop yields through new seed varieties and better pasture management. The poultry industry now offers a full supply chain from eggs, through breeders, to broilers and layers. Had not Kosovo suffered from an extremely warm winter and very dry summer, the blueberry harvest would have been considerably greater than last year. Nevertheless, more collection centers were mobilized, and the continued revival of the industry across a wider area is assured. The post-privatization assistance given by KCBS to manufacturers of bricks and blocks, rebar, and polystyrene insulation for the construction industry, has resulted in the accelerated increase in sales by these companies.

In furtherance of improved quality control, KCBS drove the implementation of the Government's Milk Quality decree, establishing a laboratory and promoting procedures for compliance by dairies and milk producers. In parallel, KCBS initiated HACCP certification at one dairy, and introduced Good Manufacturing and Hygiene Practices at other dairies and milk collection centers. KCBS assisted Agroprodukt Commerce, a company dealing in wild mushrooms and blueberries, to become the first HACCP certified food processor in Kosovo. KCBS introduced improved post-harvest handling practices in the fruits and vegetables cluster including installation of cold storage and refrigeration facilities, all of which led to more marketable products.

In addition to several trade linkages initiated with Serbia and Macedonia, and attendance at B2Bs and trade shows across the region, KCBS's main marketing thrust was an 11-day trip in June to Albania and Montenegro. The team marketed products from over a dozen KCBS clients throughout 14 cities, and held 45 individual linkage meetings (business chambers, alliances, associations, donor projects, importers, traders, retailers, processors, producers). KCBS targeted primarily coastal cities where Kosovars spend their summer holidays and have demonstrated strong purchasing power. Although many KCBS clients have acknowledged the value of the presentations and the business contacts made, few transactions have resulted thus far from the trip's linkages. Consistent hand-holding and

pressure is being applied to KCBS clients to follow-up with contacts made on their behalf but many seem strapped for time, cash and production capacity to realize any linkages in the short-term.

In April, more than 1800 individuals attended the second Finance Fair supported by KCBS. It gathered 39 exhibitors, mainly banks, microfinance institutions, business service providers, and insurance companies. Due to strong sponsorship organized by KCBS, the event fully covered its operating costs and made a profit to be carried over for future fairs. During the year, KCBS addressed new ways to improve access to credit particularly for our cluster clients. Two financing products new to Kosovo – leasing and purchase order finance – were introduced to five financial institutions and the products were presented to a wider audience in two workshops at the Finance Fair. Unfortunately, following training, the institutions were slow to change their procedures and staffing necessary for effective marketing and delivery of the new products [at two banks, this was unavoidable following their takeover by a Slovenian bank]. Introduction of the products in the market was delayed until September.

KCBS had some notable achievements in improving the business operating environment. By successfully advocating for the elimination of 10% import duty on certain raw materials [not produced in Kosovo], which are subsequently turned into finished products by Kosovo manufacturers, we gave a boost to internal manufacture and reduced imports of similar products. Through this relief, a rebar manufacturer was able to double his sales, increase his labor force by 60% to 240 employees and to gain substantial export orders. KCBS also advocated for a repeal of legislation prohibiting imports of Heavy Fuel Oil unless it met unrealistically low sulfur levels. Had the legislation not been suspended for two years, we estimated that fifteen major users of HFO would have incurred increased operating costs of more than €5 million per year.

KCBS was also active in trying to promote greater transparency and professionalism in tendering and award procedures for road construction contracts. Working with the road contractors' association, we were successful in getting a number of awards overturned by the Public Procurement Agency and in having these actions reported by the media. Unfortunately for the development of this industry, which is essential for the effective improvement of Kosovo's infrastructure, the fundamental problems remain. Too many contracts are still being awarded on dubious grounds and with predictable unsatisfactory results.

In the Year Three Work Plan, we listed targeted results for the year and an accounting of these is provided in Annex 4. Most of the goals were achieved; those that weren't, were generally not met for reasons outside of KCBS' control e.g. customs problems, delays in procuring equipment, reorganization of two major banks, and collapse of the Swedeco initiative. Our quantitative performance against the primary indicators of sales, jobs, financing and investment are summarized on the graphs overleaf. We have exceeded the targets for the end of Year Three for all four indicators by substantial amounts. The annualized increase in sales over baseline is 66.0%. A complete report on the performance indicators is included in Annex 2.

In the third year KCBS reduced the number of short-term technical advisors [STTAs] brought to the project. In the first three years of the project, KCBS has engaged 72 different STTAs - expatriates, TCNs and Kosovars - for more than 115 assignments, providing nearly 3,400 days level of effort and 78 technical reports. The findings and recommendations of these reports have been disseminated by KCBS staff to the Kosovar stakeholders to whom the recommendations are of most interest and who will benefit greatly from their implementation. A summary of the reports issued this year by STTAs is provided in Annex 3. Some of the STTA advice was incorporated in brochures produced by KCBS for distribution within the clusters and to other stakeholders. A list of the brochures produced in Year Three is included as Annex 6.

During Year Three, KCBS awarded through the Strategic Activities Fund 19 simplified grants, 13 standard grant agreement and 11 subcontracts, bringing the total awarded since

the beginning of the project to 53 grants and 58 subcontracts and four procurements of goods for a total of \$2,094,549. Year Three has been the busiest to date in terms of disbursing SAF funds. It should be noted that the exchange rate for the dollar against the euro worsened considerably in Year Three, declining from an annual average of 0.80 at the beginning of the year to 0.75 by the end; the consequences for the purchasing power of the SAF are obvious.

Some 40% of SAF funds have been awarded to local business associations and business service providers in furtherance of the project objective of improving the business operating environment. We have limited the number of associations with which we work to ten, aiming to concentrate on those which represent many members or whose impact on the economy will be most significant. In the past year, we have given more attention to strengthening local business consulting capacity and this will be a prime focus in the last year of the project.

KCBS has stated that the drivers of the project are increased jobs, sales and imports substitution, and everything we do should contribute directly to those results. However, KCBS recognizes that in striving to achieve the primary goals of the project, our activities may give opportunities to respond to USAID's cross-cutting themes of addressing minority and gender issues. At the end of Year Two, USAID asked KCBS to give more attention and support to minority regions particularly in the north of Kosovo, and we did so in Year Three. As predicted, these interventions did not have the comparative impacts as similar ones in the south, largely because the minority regions needed significant financial assistance as well as technical assistance. The modification to the Contract at the end of Year Three, injecting a further \$600,000 primarily for projects in minority regions will increase the impact and results of KCBS interventions in these areas. KCBS has also responded to a few particularly promising projects proposed by women's businesses, even if the nature of the business does not fit into one of our clusters.

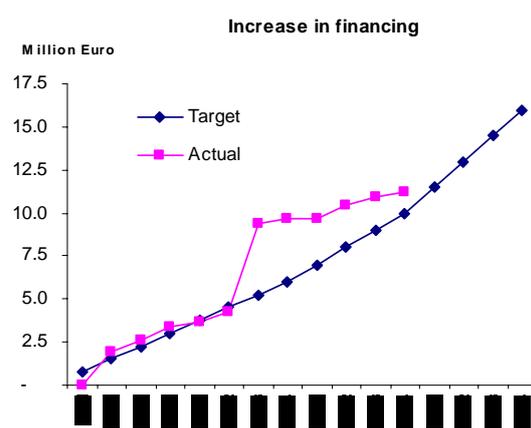
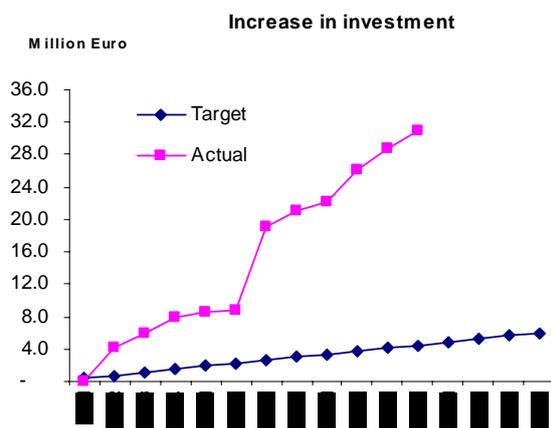
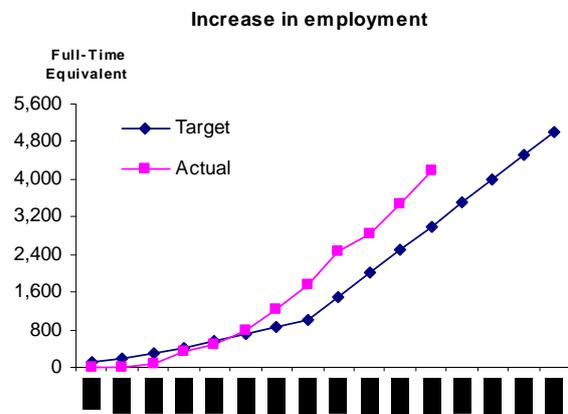
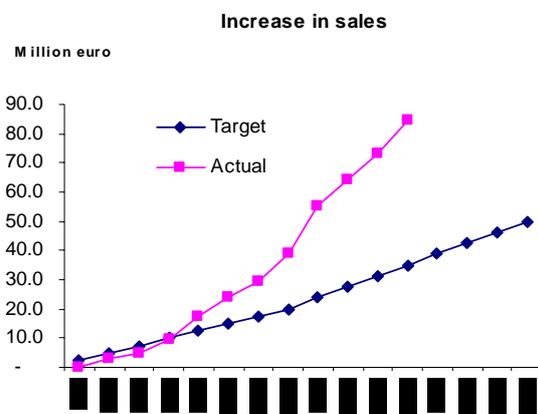
The KCBS results in Year Three demonstrate an acceleration of private sector growth. This growth is being achieved by ensuring that the three clusters selected for attention under the program become truly competitive. They are among the leaders in the economic recovery and growth of Kosovo. They are supported within Kosovo by a business operating environment which is constantly improving. The KCBS Work Plan for Year Four will build on these achievements.

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

PERFORMANCE SUMMARY

Cumulative changes to date in primary indicators

	After 3 Years	
	Target	Actual
Number of companies assisted	n/a	111
Increase in sales compared to baseline– euros (in millions)	35.0	84.5
Increase in sales over baseline - %	27.4%	66.0% ¹
Increase in FTE jobs	3,000	4,199
Increase in financing – euros (in millions)	10.0	11.2
Increase in capital investment – euros (in millions)	4.5	30.9



¹ This amount represents the percentage of total sales to date over total ANNUALIZED baseline sales by companies currently in the database. Total sales to date are €12,460,336 and total annualized baseline figure for companies is €127,955,009.

1.0 PROGRAM DESCRIPTION

1.1 INTRODUCTION

This is the third annual report on the implementation of the Kosovo Cluster and Business Support (KCBS) project. The United States Agency for International Development (USAID) awarded KCBS to Chemonics International and its consortium of implementing partners under a Privatization II Task Order on September 30, 2004. This annual report covers the period from October 1, 2006 through September 30, 2007.

1.2 PROGRAM GOALS

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

1.3 PROGRAM COMPONENTS

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

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

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

1.4 USAID OBJECTIVES

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

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

The major intermediate results for Strategic Objective SO 1.3 are:

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

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

2.0 LIVESTOCK CLUSTER

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

2.1 Dairy Sub-Cluster – Milk Production

Fueled by good milk prices and scarcity of alternative income generating opportunities, the number of dairy farms in the last three years of the KCBS project has increased sharply in Kosovo. With the goal of keeping the Kosovo dairy industry competitive, KCBS gave specialist advice to improve production efficiency and profitability among Kosovo dairy farms through changes in production practices, reproductive efficiency, milk quality and by providing better feed formulations for higher milk yields. In Year Three 645 participants attended seminars and workshops on cattle housing, milk quality improvement, feed management and livestock health management.



2.1.1 Improved Productive Capacity

Feed costs represent 45 to 60 percent of the total cost of producing milk. The key to maximizing dairy farm profitability is to maintain nutrient levels while carefully managing feed costs. When optimal nutrition is achieved, cows will produce better quality and larger quantities of milk. Overall health should improve, resulting in cost savings in veterinary fees, breeding, and treatment with drugs. The dairy feeding program affects productivity and profitability more than any other single factor. Through KAMP, municipal agriculture officers and convening agents, KCBS continued to disseminate generic rations using soybean meal, and 36 combinations of forage and malt. Improved feed rations helped increase milk supplies to the point where, in the summer of 2006, they exceeded demand by the dairy processors. However demand in 2007 for raw milk exceeded supply due to the combination of increased consumer demand for local dairy products and the summer drought.

KCBS continued to emphasize the importance of using premixes in the daily ration. Dr. Roy Chapin formulated the base mix and gave the formula to KCBS client, Fauna, including instructions for use and suggested package labeling. Producing a universal dairy base mix in Kosovo will be cheaper than importing one and thus will reduce the cost of milk production. A base mix contains vitamins, trace minerals and major minerals. The new base mix formulated by Dr Chapin will improve production and reproduction particularly on many of the medium size dairy farms where premixes have not typically been used. Because it will give nutritional support for a stronger immune system it will also improve the health of dairy cows including less mastitis, improved reproductive efficiency and better quality milk. The price of the base mix produced at Fauna will be 50% lower than imported base mix.

Much emphasis has been put on improving forage quality and feed rations by KCBS, KAMP and some municipal agriculture agronomists. However, testing samples of harvested forages to determine their actual nutritional value is not



practiced. KDC a private BSP was contracted by KCBS to implement FQT (Forage Quality Testing). Test results confirmed that the quality of forage used by dairy farmers to feed their cattle is very poor. In most cases of hay silage the moisture level was too low, while levels of protein in all cases were much below the assumed standards for protein values in forages. Based on forage test results, KDC worked with farmers to balance the feed rations to meet their cows' nutritional needs. After the intervention milk yield increased an average of 2 liters/cow/day or 12.5%.



Milk production during early lactation relates to how cows were managed one month before calving through two months after calving. Cows need to be managed and fed three weeks before calving so that they are ready to consume the type of forages and increased grain they will receive when entering the milking herd. Special feeding during this transition period helps insure they are healthy and ready to consume as much feed as possible soon after calving. KCBS distributed dry cow rations and a transition ration for fresh cows to maintain body condition and avoid reproduction problems.

KCBS is continuing to advise dairy producers that comfortable cows give more milk. That is why they should design and build barns for the comfort of their cows. Cow comfort also affects the health of feet and legs, udders and teats; eating habits; feed intake; fertility; and longevity. KCBS assisted "Legjendasi" and "Vukosavljevic" dairy farms in becoming demonstration dairy farms providing interested farmers from all of Kosovo an opportunity to come and see how a modern dairy farm should look and operate. Features and practices that will maintain the health of the animal, boost milk production and improve milk quality,



such as a good feeding program, proper records, good ventilation, good lightning and dry, clean and comfortable bedding were emphasized during training. During this year four group trainings were organized at "Legjendasi" demonstration farm. 65 dairy farmers and students attended the training. As a result of demo farm training, three dairy farmers have installed closed pipeline milking systems, which will help to improve their raw milk quality. Barn ventilation and lighting, calves raised in hutches and milk room hygiene were features that 23 dairy farmers have adopted with little additional investment.

To help promote a sustainable dairy industry, KCBS is supporting a heifer-raising program. This program will generate high quality heifers with superior genetic capabilities that are also acclimated to Kosovo at less cost than imported heifers within two years. During Year Three KCBS monitored growth progress of calves raised in hutches compare to calves raised using conventional methods. Farmers told us that the improvements in growth and health of calves raised in hutches are obvious. At Rudina dairy farm the average daily weight gain of five calves raised in hutches was 0.82 kg whilst the average daily weight gain of calves raised in the traditional way was 0.47 Kg. The farmer also mentioned that calves raised in the traditional way experienced health problems while calves raised in hutches didn't experience health problems. Recognizing the advantages of raising calves in hutches, Mazreku dairy farm with KCBS help, built 8 wooden calf hutches based on industry-accepted standards. The information gained from the demonstration calf hutches about calf health observations and calf daily weight gain is used in trainings to encourage more extensive use of calf hutches. Due to increased demand for calf hutches Mr. Sali Golaj owner of Agroschweiz Company has reached an agreement with a Swiss company who is manufacturing fiberglass

calf hutches to become their special representative for Kosovo. Now fiberglass hutches are available to Kosovo dairy farmers.

2.1.2 Improved Quality Control

For the first time in the history of the Kosovo dairy industry raw milk quality standards are in place and being implemented. The maximum allowable microbiological levels will be compatible with EU raw milk quality standards by January 1, 2009. KCBS initiated this mission of the milk quality improvement program to support Kosovo milk producers and processors in their efforts to improve and maintain the quality of raw and processed milk and milk products. Consumers will gain confidence to purchase local dairy products instead of imported dairy products. It is imperative that Kosovo citizens have confidence in the quality of local dairy products. The milk quality decree, drafted by KCBS, sets quality parameters for different classes of raw milk; it introduces an incentive payment program that rewards farmers for producing and delivering high quality raw milk and provides an economic disincentive for producing low quality.



Perhaps one of the biggest KCBS triumphs for Year Three was to motivate and help MAFRD/KFVA set up a credible, functioning laboratory for doing chemical and bacteriological analyses of raw milk which will support the milk quality decree and help create a sustainable Kosovo dairy industry. KCBS has helped the KVFA 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 encourage farmers to improve milk quality and inform dairy processors about the quality of the milk they are receiving. KCBS 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 has also conducted meetings with KDPA members both collectively and individually explaining how the milk quality decree will affect their dairy processing businesses.

2.1.3 Improved Market Chain Linkages

Including standards derived from milk quality decree, KCBS drafted a standard milk supply contract to reduce the risk of a milk producer unexpectedly losing his market. Two dairy processors, ABI dairy plant and Bylmeti dairy plant have started to use milk supply contracts when purchasing milk from farmers. Devolli is modifying their present contract to include the new pay program. KAMP & KDPA representatives are pleased with the standard milk supply contract and are encouraging all dairy processors and farmers to conclude one.

2.1.4 Strengthened Capacity to Access Credit

Banks generally consider farmers to be risky borrowers with a high service cost. In turn farmers mistrust Banks. It is important for commercial banks and MFI to start treating farmers in the same manner as other businesses. To expand and improve their operations farmers are requesting easier access to credit. KCBS recognized the problem and established the finance group to work with commercial banks and MFI to introduce favorable loan terms and lease instruments for dairy farmers. To encourage financial institutions to make loans to dairy farmers for buying small Lacto-freezers ranging in size from 300 to 500 liters, KCBS drafted a letter addressed to commercial banks and MFI, in the letter are listed some of the arguments in favor of making these loans. As a result of a number of KCBS

meetings with Raiffeisen Bank, the bank approved a new loan policy for dairy farmers under which farmers can apply to get loans lower than €5,000. Under the new policy the bank disbursed 88 loans of between €5,000 and €2,000 amounting €307,500.

KCBS improved and continued with dairy enterprise record keeping by introducing a Dairy Herd Improvement [DHI] pilot program. Six students, their professor and teaching assistant from the livestock department within the Pristina University Agriculture Faculty were contracted to obtain reproduction and production records from the six dairy farms enrolled in the program. KCBS has handed over the continuation of the DHI program to the Kosovo Center for Livestock Breeding, an EU funded project which will enroll a further 12 dairy farms in the first quarter of Year Four.

Having a good record keeping system in place, dairy farmers will be better able to determine strengths and weaknesses of their business and make better decisions for their farms. KCBS developed a simple record-keeping package for dairy farms that includes enterprise records as well as financial records that are acceptable for commercial banks and MFI. KCBS contracted a 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 standard record keeping forms. The STTA demonstrated the importance for keeping proper financial records. These forms have been duplicated and disseminated to a wider constituency of dairy farms through KAMP. It is anticipated that KAMP will take an even more active role in dissemination and training next year.

2.2 Dairy Sub-Cluster – Milk Processing

2.2.1 Improved Productive Capacity

KCBS worked at processing plants: Kabi, Abi, Bylmeti, Ajka, Lulja e Sharrit, and Golaj, preparing the new standardization plan for dairy products in order to reduce the cost of processing and increase their profit. In one case, the equipment was available but not in use. KCBS held a presentation workshop for KDPA introducing equipment and procedures necessary to improve dairy processing and product standardization. Six dairy plant members of KDPA participated in the workshop. KCBS presented a model Excel table as an example of the calculations necessary for fat content standardization. Each processing plant was losing between €37 and €187 per day through losses in fat content. KCBS continued to monitor the changes required and made. By year's end, dairy plants had increased revenues by at least 10% mainly through better use of excess milk fat.



KCBS prepared for KDPA a sample specification document for requesting a bid when purchasing a new pasteurizer in order to receive comparable bids from multiple companies. KCBS with STTA Mel Jolly prepared the layout plan of equipment to be installed at the new Kabi processing plant capacity of 20,000 liters/shift. Kabi will include standards implementation and standardization of processing in their new plant operations.

2.2.2 Improved Quality Control

Most of this year's work has focused on improving quality control at the dairy processors with the introduction of standards, GMP and HACCP requirements. KCBS started to implement GMP and Good Handling Practices [GHP] standards in two selected dairy plants - Bylmeti and Abi.



KCBS trained the processing staff and quality control managers in order to first complete GMP, and then HACCP requirements. KCBS concluded implementation of GMP at Bylmeti where they were fully implemented.

The GMP documentation was completed at Abi but not all aspects implemented because of some limitations in their present processing plant which they will not rectify until privatization is completed. Both plants have signed MOUs committing to partner with KCBS on introduction of HACCP requirements. A further four dairy processors have signed up for GMP standards implementation in the near future. Several of them are interested in pursuing HACCP certification but are in limbo waiting for the privatization process of the SOEs they are currently leasing. Golaj is one dairy processor that is pursuing both GMP implementation and later HACCP certification. It is probable that Bylmeti will receive HACCP certification by the end of calendar year 2007, and Golaj sometime in 2008.



Abi and Bylmeti agreed to increase the number of dairy products tested and frequency of testing as a part of GMP standards implementation. More testing made it possible to see the differences in the quality of final dairy products before and after GMP standards implementation. KDPA agreed 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 agreed to test a larger number.

KCBS is assisting KVFA in improving old, basic standards of licenses for operation issued to dairy processors by KVFA. 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.

Using KCBS staff and a local BSP, interventions were also made at the farm and MCC level where practical training work was done at 9 MCCs and the 154 farms supplying milk to them. These interventions contributed to improving milk quality based on total bacteria count per ml of milk on every farm. Two of the best examples of well run MCCs, with GHP standards implemented, were the MCC in Orllan which supplies milk to the Bylmeti dairy plant, and the Bec MCC which supplies milk to Golaj. The recently established MCC at Korinice, with the support of KCBS and the EAR MSP (Marketing Support Project), is owned and operated by the Women's Association of Korinice. It is operating according to GHP standards and delivering milk to Golaj. KCBS also supported development of the MCC at Krusha e Vogel with some laboratory equipment and GHP training. This MCC is also owned and operated by a local woman's association. Their milk is sold to ABI dairy processor in Prizren. Other MCC's receiving equipment and GHP training from KCBS were MCC's at Mamusha, Bushtrazhin, Novi Selle, Rogove and Glllogjan-Klone. The members of the two women's associations are all widows from communities destroyed in the conflict.

Compliance with GMP standards requires pest control and the correct preparation and use of cleaning products and supplies. KCBS facilitated training for Fauna, an existing client, in Macedonia for the purpose of qualifying the company and their staff to perform pest control services for food plants in Kosovo. Prior to this training, there was no company in Kosovo qualified to provide such services.

KCBS contacted two consulting companies at the Finance Fair, Business Consulting Council [BCC] and MDA, as potential companies to provide services for processing plants. We identified Kosova Service Company to provide services on purchasing dairy processing equipment and lab testing supplies and equipment. KCBS also identified the service provider MRTT Company from Skopje for verification and calibration of testing and monitoring devices. The company agreed to hold a one-day training seminar on verification and calibration procedures required for HACCP standards. KCBS identified Peshorja Company

from Prizren for calibration of scales, and the metrology institute in Prizren as being able to calibrate all kind of testing equipment in a processing plant as required for GMP/HACCP.

KCBS identified local dairy microbiology expert Dr. Shyhreta Omeragiq as a potential consultant to conduct training for dairy processing testing needs and GMP standards implementation. He was also recommended to KVFA to assist in the establishment of dairy product microbiology lab testing.

The quality testing of finished food products is also an integral part of a safe food system. This testing is being done now in the Land o Lakes laboratory in Skopje. It would improve the support for the dairy industry significantly if a local laboratory could provide reliable, timely, cost effective bacterial and chemical test results on finished dairy products.

2.2.3 Improved Market Chain Linkages

KCBS contracted a STTA from Macedonia to help facilitate potential export sales of dairy products to Macedonia and/or Albania. An initial shipment of dairy products was made to Albania although it was evident there still remains a need to improve the quality of some products in order to increase their shelf life. Additional sales were not made because of some misunderstandings between the local dairy processor and the Albanian importer. Thus this goal was not met during year three.

A further marketing and sales opportunity study trip in Albania and Montenegro done by the KCBS MTL (Marketing and Trade Linkages) team clearly pointed out that if Kosovo wanted to export food products into these markets on a continuing and stable basis it would be necessary to establish a local warehouse where Kosovo products could be accessed easily by the local food wholesalers and retailers.



KCBS supported dairy processors in finding suppliers for improved types and designs of packaging materials for their products. Two KCBS study trips to Serbia identified a new potential supplier, ATM Company, of packaging material with design capability for preparing improved packaging of existing and new dairy products. Bylmeti ordered new packaging for cream cheese products, and a successful linkage was created between ATM Company and KDPA members for 800 gr. white cheese packaging. KCBS identified local company Offset Print from Pristina to produce 180 gm cups for packaging yogurt and set yogurt. Abi, Golaj, Kabi tested the quality of the cups by ordering 150,000 cups, with a price of €0.08 per cup. KCBS assisted AF Plast Company from Pristina on supplying the local processing plants with 1.0 and 0.5 liter plastic bottles for yogurt.

Abi introduced two new dairy products developed with KCBS assistance with a sales value of approximately €21,000/month. The first product is cream cheese with average daily sales of 130 kg with a market price of €4.5 per kg, equivalent to over €15,000 per month. Packaging has been improved, but label design still needs enhancing. The second product, stirred set yogurt, is selling about 150 kg per day, with a price of €1.5 per kg, equivalent to nearly €6,000 per month. Ajka successfully launched three new cheeses in the market: Kabashi, White and Sharri. Ajka installed a used pasteurizer of 5,000 lit/h to increase their production but still needs to improve separation and standardization in the processing plant.



KCBS assisted Bylmeti in preparing two cream cheese samples for blind taste testing organized by the KCBS MTL team. The final cream cheese product selected has been improved and the market rollout is scheduled for October/November.

2.2.4 Strengthened Capacity to Access Credit

KCBS provided detailed information about the requirements for leasing dairy product packaging equipment. Leasing equipment is one option for processing plants to consider when preparing a business plan. All information was given to the Access to Finance team for consideration in developing a leasing product for Kosovo. Several creditors began supplying lease products in project year three.

KCBS has started assisting Shala and Aldi dairy processors prepare business plans with cash flow and income statement models included. Production standards from the dairy processing business have been calculated. KCBS also worked with Golaj dairy processor to help them access credit by modifying their business plan based on the processing plant changes needed to meet GMP and HACCP requirements. It is likely the KCBS supported accounting software developed for the poultry and feed industry can also be used by dairy processors with minor modifications. KCBS will encourage its use in the dairy processors businesses next year.

2.3 Meat Sub-Cluster

2.3.1 Improved Productive Capacity

Innate low productivity of the local sheep breed is, above all other factors, the cause of their inferior production performance, the major reason being that the local sheep breed has relatively low genetic potential. However, feeding poor feed rations is also a factor, and failure to select the best lambs for replacement slows genetic progress even with the local breed.

KCBS began cooperation with the Pristina Agriculture Faculty to demonstrate the benefits of better feeding practices and better genetics. KCBS supported creating two groups of local sheep breed at the Agricultural Faculty Research Farm with each group having 20 sheep. The control group would be fed with a traditional rations and the second group with an improved feeding program. A third group will be created with imported sheep in October 2007 [this should have taken place simultaneously with the other two, but delays in getting importation approval delayed the sheep's arrival]. To support the feeding trials KCBS bought 8 tons of concentrate formulated according to STTA recommendations, and 8 tons of alfalfa forage. The objective of the first phase of this pilot project was to see the difference in the daily weight gain of lambs and the amount of ewe's milk produced after being fed with one concentrate formulated specifically for milking ewes and another for growing lambs compared to traditional feeding programs. The first group with traditional feed had milk production for ewes of 0.5 liters per day and weight gain for lambs of 140 grams per day. The second group with improved, balanced feed rations had milk production of 0.8 liters per day and weight gain for lambs of 210 grams per day. Milk production increased by 60% and weight gain for lambs increased by 66% compared to the control group.



USAID recently approved KCBS's plan to import the new sheep breed "Lacaune" [the third group] to see the effects of this breed on milk and meat production. The sheep will be purchased in Switzerland and are due to arrive in October 2007. The "Lacaune" sheep is primarily grown for milk production, although quality of carcass and the wool gives this breed a triple purpose. The "Lacaune" breed has an average lactation length of above 150 days with average production of 400 - 600 liter of milk per lactation and a lambing rate of 150%

(meaning 50% of the ewes have twins). Comparatively, the productivity of the local “Praminka” sheep breed is very low with lactation lengths of less than 150 days and milk production from 60 to 80 liter per lactation and a lambing rate of 110 to 120 %. Thus this second phase of the trials is intended to show the benefits of improved genetics in addition to improved feeding.

2.3.2 Improved Quality Control

KCBS assisted slaughterhouse and meat processing companies EU Progres, Arqe & Iko, Meka, Coral, Apetit, LGB, Gazi, Lesak Kom, PQS and Buchuk. All companies were visited on-site and detailed recommendations were given for each company. In all facilities, non-conformances were identified regarding process layout, and all processors were given recommendations for improvement. GMP standards were not implemented in any of these meat processing plants at this time.

Two of the clients, meat processors Arqe & Iko from Prizren and PQS from Vushtri have the best conditions for implementing GMP first and then HACCP. Regarding slaughter plants, especially lamb slaughter plants, LGB Gjilan and EU Progres Prizren have possibilities to implement GMP considering the layout of the production process. Initially they must solve the problem of ownership and then make the investments regarding improvements to the production process. All four companies were found to have suitable human resources, which is crucial for HACCP certification at some point. The current owners of these four businesses say they are committed to implementing GMP and HACCP. All other meat processors and slaughter plants have smaller capacities and no other lamb slaughtering line exists at this time.



KCBS also provided a training program and worked directly on the farms with practical training to improve sheep milk quality. KCBS prepared a brochure for sheep farmers regarding sheep milk quality improvement in both the Albanian and Serbian languages. The brochure covers the topics of how to milk sheep, how to transport milk and cooling milk after milking. The brochure was delivered to sheep farmers, departments of agriculture, and to the Kosovo Veterinary Food Agency. Also during this year KCBS has assisted farmers in improving the cheese yield and

developing standard procedures for all aspects of cheese production including chemical, physical, and microbiological criteria as well as percentage of ingredients and storage time. KCBS has prepared a brochure describing the manufacturing process for three different types of Sharri cheese.

2.3.3 Improved Market Chain Linkages

KCBS together with Delfin (a Kosovar Company) and Lijanoviqi (a Bosnian Company) continued the export of live lambs. KCBS involvement was crucial in changing the procedures for live lamb exports to Bosnia, as well as finding the markets by linking domestic and foreign companies. This year 450 lambs from seven sheep farmers including two sheep farmers from Serb minority farmers were exported to Bosnia. They were assembled in two collection centers in Prizren and Kaqanik with average live weight of 23 kg (total 10,350 kg). The price was €2.5/kg and the total value of the shipment was €25,875. This was the first, but only, truck for this year. Lijanoviqi expressed interest to continue with import of lambs for the Bosnia market. During



assembly of the first export truckload local TV RTK was present at the Kaqanik assembly point and the story was broadcast in news programs as a major achievement for Kosovar agriculture. Sheep farmers were very pleased to see lambs being exported and thanked USAID/KCBS for its contribution in opening a legal market for exporting lambs.

However, this export action forced private traders to compete with Delfin in the purchase of lambs for export. Traders paid between €2.2 and €2.3 per kg of live weight, and did not stipulate a maximum weight of the lambs at 23 kg. There are still not enough lambs for the regional market at present and farmers are willing to retain animals to heavier weights even for slightly lower prices per kilogram. The common understanding in the industry is that these animals were then trucked by night to Bosnia or Serbia in an effort to escape border inspection and taxes. The VAT in Bosnia is 15% and it is believed that traders are not paying this amount. The KCBS-facilitated lamb export initiative is at a competitive disadvantage because Delfin and Lijanoviqi do pay all fees and taxes in both Kosovo and BiH.



In order to find a market for wool, KCBS arranged a meeting in Macedonia with Mr. Nazmi Ismaili wool collector from Kosovo and AGROMIS Co from Skopje. Mr. Ismaili at the beginning accepted the offer to collect wool for AGROMIS Co, but later reneged on the agreement. KCBS then started searching for another linkage. KCBS met with the DANI Company who is very interested in exporting to Bulgaria all sheep wool stocks available in Kosovo. The main problem regarding this export opportunity is that Bulgaria does not recognize documentation that comes from the Kosovo administrative authority.

KCBS also met with Sharrtex which has a plant designed for wool processing. After privatization of the plant, the five owners were interested in starting to collect wool; but later, because of a falling out among them, they divided the plant property into five parcels and no business activity is currently taking place. KCBS has helped the sheep association in Dragash municipality that

was established by FAO project in providing training brochures and sheep farmer contacts. FAO has helped the association with equipment, shearing machines, a wool-compressing machine, and a cleaning and sorting table. The association started to collect wool from farmers in Dragash, and KCBS linked the association with other sheep farmers around of Kosovo. The association may begin collecting wool from these farmers at some future date.

In order to help sheep farmers and dairy processors successfully enter the sheep cheese market on a sustainable basis, KCBS organized a 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 on processing sheep milk into Sharri cheese.



2.3.4 Strengthened Capacity to Access Credit

Farm sheep data recording system is a quality-based system, which in an effective manner promotes the sheep keeper's production interests. This system is an important management tool that farmers can use to improve their sheep management and farm financial status. Good enterprise record keeping will assist sheep

farmers in implementing proper feeding, reproduction and milk quality programs and will indicate profitability and cost savings opportunities.

KCBS established a sheep farm record keeping system and introduced this system in three sheep farms in Kosovo. The system includes 18 tables, which were distributed as a printed material to all three farms. The farms were visited and helped once each month for a period of six months in order to ensure good quality data entry using these standard farm data-entry tables. KCBS organized a workshop, with 17 participants present, explaining the importance of the farm record keeping system and how to use it. Sheep record keeping promotion material was developed and given to the participants. A business plan was developed for one of the farm participants covering a three-year period. This model format will be used for other sheep farmers as well. The record keeping system has been shared with loan officers from a number of credit institutions and municipality staff.

2.4 Animal Feed Sub-Cluster

2.4.1 Improved Productive Capacity

Based on previous local and regional market research KCBS determined it was important to proceed with alfalfa seed multiplication trials in 2007. Production of alfalfa for seed in Kosovo is relatively new. During Year Three KCBS provided support to KODAA to establish five alfalfa test plots in two Kosovo agro-zones. The objective of this activity was 1) 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; 2) to compare several regionally available alfalfa seed varieties and observe any obvious differences in seed production ability; 3) to determine which regions of the country have an advantage in alfalfa seed production capacity; 4) to provide some forage yield information on the various varieties being tested; and 5) 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. KCBS helped MAFRD and a local seed cleaning company in setting up seed production schemes.



KCBS and its subcontractor HAK continued working with dairy and sheep farmers in educating them on improving pasture management. Two new test plots were established in minority areas (Leposaviq & Shtpce). and will be monitored by HAK. The goal of these test plots was: to evaluate techniques at the farm level by focusing on increasing pasture production per unit of area; evaluating different methods of seed bed preparation and seeding; improving the feed value of the grasses; renovating pasture with improved forages; trying alternative species like Red and White Clover and grass mixtures; and evaluating different fertilization practices. Farmers began collecting and submitting soil samples for analysis which is a big step forward. The results are being used to guide farm fertility programs and improve general pasture management. HAK provided training programs to over

175 farmers in improving pasture management, and 45% of the farmers began to implement improved pasture management practices that resulted in increased milk production for them.

KCBS also assisted MAFRD in drafting regulations to improve pasture management as well as in designing long-term leases so farmers could make improvements in their leased pastures. Farmers need to have ownership or long-term (3 to 5 year) leases before they are willing to make improvements leading to increased yields and increased animal numbers.

During previous years, farmers performed only a small number of soil sample analyses; they lacked the knowledge for taking soil samples themselves and the price for soil analysis was high. To solve this problem KCBS, in coordination with the Agricultural Institute in Peja, organized four training programs to guide farmers on how to take soil samples for agrochemical analysis. KCBS also developed and published a brochure explaining methods of collecting soil samples. More than 550 brochures were delivered which resulted in increasing the number of farmers who are taking and analyzing soil samples. Due to the influence of KCBS, the price per sample was reduced from €15 to a more reasonable €5. A total of 275 soil samples from 27 farmers were independently taken and analyzed at the agricultural Institute in Peja, and the Agro Vet private laboratory in Fushe Kosovo.



Five different types of fertilizer recommended by KCBS were registered by MAFRD and will be imported by input dealers such as Agrosativa/Italy, Xeni and Fitofarma. This provides the opportunity for crop producers to choose the appropriate fertilizer based on soil analysis and will result in more economical use of the fertilizer.

Sales figures of KCBS agriculture input supplier clients show a significant increase in sales of some of the newer alfalfa varieties that KCBS has been including in recent field trials. The volumes indicate that many more farmers have begun using the

newer, more productive alfalfa varieties such as *Soqa* from Seminarna company from Slovenia, *Mediana* from AgroSativa company from Italy, and *Sanditi* from Barenburg company from the Netherlands.

2.4.2 Improved Quality Control

KCBS continued to work with KAMP through field visits to introduce the benefits of using wrapped bales to new farmers. KAMP extension staff reported that the number of new farmers using wrapped bales for the first time increased by 32 % (first and second cutting) from 124 to 164 new farmers with 45 being the average number of bales baled. This year the climate conditions for forage preparation was not very favorable with frequent rains during the first cutting harvest time and very dry climate conditions for the second cutting. The low volume of second cutting resulted in a decreased number of wrapped bales for that cutting. KCBS recommended measures to counter the effects of the severe drought, which has resulted in animal feed shortages in many regions of Kosovo. These included: recommending early cutting of corn silage to salvage nutrients; trial Sudan grass planting in certain regions; and using straw in feed rations as an emergency feed.



During Year Three, KCBS provided three intensive training programs focused on minimizing harvest and storage losses, maintaining feed quality, maximizing profits, improving settings and adjustments on harvesting equipment, and proper storage of silage. As a result of these

trainings more than 280 tons of a grass/alfalfa mixture of silage was produced for the first time this year. Dairy farmers who started to feed their cows with the silage have reported an increase in milk yield.

2.4.3 Improved Market Chain Linkages

KCBS prepared a template memorandum of understanding agreement between grain consumers and crop producers. Memoranda have been signed between grain consumers Koni-Soni, Sazli, Jazzi, and Gjini Tag and crop producers Dardania farm, Agrosem, and Triticum to purchase their products. Implementation of this agreement started with Koni-Soni purchasing 125 tons of corn with a value of €10,500 from Dardania farm; and Sazli purchased 180 tons from Agrosem as part of their 320 ton contract. More purchases would have been made had not the extremely dry summer conditions severely curtailed crop yields.

KCBS continued to actively utilize the media as a way of promoting the work of the KCBS program. The media was used to encourage the use of new crop varieties, fertilizers and agronomic practices. Main input suppliers (Xeni, Agrounioni, and Fitofarma) provided information through RTK television about the availability of new seed, fertilizer and pesticide agriculture inputs. During one demonstration plot field visit KCBS participated in an interview with RTK television highlighting the benefits of using new improved technology such as new hybrids, fertilizer and agronomic practices. Following a recent RTK broadcast concerning the importation of new hybrids from Pioneer/USA, KWS/Germany and BC/Croatia, input suppliers informed KCBS that their imports of new agro inputs had increased as follows: seed 14%, fertilizer 6% and pesticides 23%. Two RTK TV agricultural shows, one in November and another in December, reviewed the positive results of the pasture management improvement trials organized by KCBS subcontractor HAK association, and the corn and alfalfa field trial test plots organized by KCBS subcontractor KODAA.

2.4.4 Strengthened Capacity to Access Credit

As in other sub-clusters of the Livestock cluster, KCBS has stressed the importance of maintaining good records of a farm's activity to enable the farmer to access credit more effectively. To introduce this practice KCBS began working with five crop producers; Rudina, Dardania Farm, Triticum Com, Agrounioni and Gjini Tag on farm management and crop record keeping. Good crop records begin with field maps that identify and number each parcel of land (field). Each field record includes: the crop and variety planted; method of soil preparation for planting; seeding date; seeding rate; plant protection products used including dates and amounts applied; amount and type of fertilizer used and time of application; dates and types of any tillage performed during the year; and finally harvesting dates and volumes. KCBS will assist the association KODAA encourage crop farmers to practice this type of record keeping by disseminating forms and providing advice on how to use them. Good crop records improve production efficiency; they thus engender greater confidence among loan officers that loans made to the farmer will be less risky and defaults are less likely to arise.

2.5 Poultry [incl. Feed Manufacturing] Sub-Cluster

2.5.1 Improved Productive Capacity

In Year Three much progress was made to improve productive capacity in the poultry and animal feed industry.

- the first ever breeder farm (for layers) was established;
- a breeder farm (for broilers) was also established;
- 100% of pullets produced in 2007 were locally grown;
- 97% of egg needs were supplied through local production; and
- the first feed pellet line was made operational.

In all these activities, KCBS involved the Kosovo Veterinary & Food Agency [KVFA] as the governmental institution responsible for animal health and food of animal origin. KVFA is also the regulatory body that provides import licenses for animals. KCBS worked very closely with the association SHPUK and with the Livestock Department of MAFRD; MAFRD is very interested in this project through which they will develop administrative regulations and standards that will affect the poultry industry.

KCBS client, Gjini Tag, was awarded a grant to establish and manage the breeder farm. SHPUK selected Babolna Agraria from Hungary to supply the Hy-Line breed. By the time that breeders arrived and hatching started, Gjini Tag had invested approximately €40,000 in farm rehabilitation, equipment and feed. KCBS assisted SHPUK in preparing all necessary health certification, transit and tax documents for breeder import. KCBS also assisted Gjini Tag prepare for breeder arrival (light, ventilation, litter, number of feeders and nipples, farm disinfection) and after breeder arrival (feed formulation, feed consumption, breeder weight monitoring). In total 3,999 females and 600 males were unloaded and placed in the farm. Their production capacity will cover 50% of Kosovo's needs for layers. Despite the length of journey, and summer heat, there was only one casualty. KCBS STTA, Dr. Bakalli, prepared a manual for Gjini Tag that contained all the important points regarding the breeder farm and incubation and hatching of the eggs. The monitoring system was set and feed diets were changed based on the breeder requirements and based on new feed formulations developed by Dr Bakalli. Dr Bakalli also prepared and held the presentation for SHPUK members regarding breeder farms (broilers at Taka and layers at Gjini Tag).



During August and September eggs were placed in the incubator and during September four hatches were conducted and 30,000-day-old chicks sold. Hatchability was over 90% while industry standards are around 85%. Gjini Tag will incubate/hatch 7,680 female chicks per week. Gjini Tag has started to work with Raiffeisen Bank and two largest pullet producers in Gjakova to organize a credit scheme for day old chick purchase.

Taka installed breeder equipment and incubators, purchased 2,000 broiler breeders from Hungary, and is hatching 10,000 day-old chicks per week. SHPUK assisted Taka in organizing sales schedules with interested customers. Dr. Bakalli worked with Taka on weight management since rooster weight is the biggest problem with broiler breeders. Dr Bakalli also prepared a manual for Taka regarding broiler breeder farm management and egg incubation and hatching.



KoniSoni installed equipment in four barns of their Gjilan facility for broiler production and will purchase day old chicks from Taka to fill the capacity of their barns - 60,000 broilers. However the problem remains that there is no functioning slaughterhouse for broilers. KoniSoni have plans to establish a slaughterhouse. KCBS client, Jazi, was awarded a grant to establish and manage the pellet line project. KCBS went to Vojvodina and other areas of Serbia to meet with four pellet equipment producers and discuss the technical aspects of their respective pellet lines to help determine the best offer. During this trip KCBS also visited two companies that are actually using pellet lines. Of the offers received, the Metal-Matik feed equipment manufacturer from Beocin, Serbia was selected. When the pellet line arrived at Jazi, KCBS assisted the pellet line producer during the installation of the

equipment. Jazi invested approximately €10,000 in building an annex to their feed plant, upgrading their electrical supply and in other related equipment investments.

KCBS provided Jazi with a computer feed formulation program and provided training in using it. To help evaluate the benefit of pelleted feed, feed trials have been added as action points to the SHPUK 2007 Action Plan. Jazi has also purchased paper bags of 5,10 and 20 kg that were displayed during AKA trade fair and are to be distributed through agricultural pharmacies and input suppliers. Immediately after the installation SHPUK organized a presentation of new technology (pellet line) at Jazi. At this introduction/presentation there were 25 participants from the Agricultural Faculty, KCBS, and SHPUK and among them 13 were feed producers.



KCBS continuously worked with the poultry and feed industry in lowering the cost of production and improving the quality of the product. In addition KCBS provided free computer programs for feed formulation. Koni-Soni, Adi, Maluku, Jazi, Fit Dani all have feed formulation software and KCBS is continuously putting pressure on them to maximize use of this software. For that purpose KCBS and SHPUK have organized workshops and seminars in addition to providing individual trainings to feed producers.

KCBS provided advice to egg producer Maluku regarding ventilation, manure removal, installation of cages, the feed mill, and other important points. Maluku built an excellent 1,000 sq.m. barn for 16,000 layers, including space for feed production, egg grading and storage with a total investment of more than €100,000. Maluku has a contractual agreement with Ben-af to supply 50 boxes a day.

A persistent problem at Adi was to detect unproductive layers and remove them on time. KCBS and Dr. Bakalli prepared a list of criteria based on which Adi is detecting layers that are not laying and removing them from the farm. This activity has reduced overall cost by 2% to 5% depending on the age of the layers. The list was shared with all SHPUK members.

Serbia's decision, in the summer of 2007, to ban all exports of grains created unpredictable problems for the Kosovo poultry industry. Kosovo poultry producers stock feed for no more than a maximum 30 days. KCBS immediately found other sources of maize supply from regional countries other than Serbia, but at higher cost. Fortunately Serbia's ban against Kosovo had a provision allowing traders to get special licenses from the Serbian government to import corn into Kosovo. Some traders were able to obtain those licenses so Adi, Koni-Soni, and Jazi all were able to purchase corn. In the mean time the Kosovo government temporarily suspended the customs duty on corn so KCBS will focus on assisting Fauna in making large quantity purchases.



2.5.2 Improved Quality Control

KCBS continued to be very much involved in all activities regarding Avian Influenza. KCBS attended a meeting organized by KVFA to discuss the first Draft of the "Environment Management Project" in case of the Bird Flu outbreak.

KCBS assisted farmers experiencing different problems related with quality of eggs, feed, and pullets. KCBS worked with Fit Dani who received 25,000 day-old chicks from Italy. KCBS provided information for their growth and focused on vaccination and feeding procedures. Fit Dani had an outbreak of cannibalism among its pullets and the reason was that Fit Dani was varying the light schedule. Fixing the light schedule eliminated the problem.

The same activity was conducted with Maloku who had received 11,000 day-old chicks from Italy. KCBS provided him with information regarding the nutrition requirements and other important points of the Isa Brown hybrid.

2.5.3 Improved Market Chain Linkages

As mentioned above, KCBS assisted Jazi in starting production and sales of pelleted feed for the local Kosovo market. KCBS facilitated an agreement between Fauna and Jazi for the distribution of Jazi products. An initial delivery of 5 tons of different types of feed both mash and pelleted, led to a monthly commitment of 15 tons. The agreement stipulates that Jazi supplies the western half of Kosovo and Fauna supplies the eastern half.

KoniSoni remain the only poultry farm that is grading and marking eggs with “KS” logo - their entire daily production of approximately 150,000 eggs daily (adding some extra from other producers) and representing 22-30% of the eggs produced in Kosovo. KCBS asked the Livestock department at MAFRD to start implementing their Administrative Regulation that was signed more than two years ago. The regulation specifies the grading, packing, labeling, transport and storage of eggs. Unfortunately, the MAFRD is not interested in implementation of the above mentioned regulation using the excuse that in that case they will have to close all poultry farms except KoniSoni. KCBS argued that implementation of the regulation will force poultry farms to invest and thus increase the number of graded eggs sold in Kosovo.

KCBS assisted Adi in completing the documentation for proper export to the regional markets (Serbia, Montenegro, Macedonia and Albania). Adi exported 2,500 boxes to Serbia (900,000 eggs valued at €42,500) or 150% of Kosovo daily consumption.

KCBS and SHPUK (Adi, Koni-Soni, Fit Dani and Prelepnica) met with Macedonian poultry association and its three largest members. Macedonia's and Kosovo's poultry industries have similar problems yet both create problems for each other by “dumping” eggs. Agreement were reached whereby Macedonia will no longer dump eggs in Kosovo but there will be a coordination that will balance the needs and prices in both markets, and both industries will try to find supplies of ingredients for both Macedonia and Kosovo.

Mr. Hassan Ahmed, Agricultural Attaché in US Embassy in Belgrade, asked KCBS to assist the Albanian feed industry in purchasing maize and soybean meal. KCBS contacted Fauna and immediately initiated the process of preparing and presenting an offer from Cargill International to the Albania feed industry. 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. Sharri is interested to be involved in regional purchases of maize with Fauna and Albanian Feed Producers.

2.5.4 Strengthened Capacity to Access Credit

KCBS intervened at three poultry industry companies - Gjini Tag (hatchery & feed producer – breeder operation), Jazi (poultry & feed producer) and Maloku (poultry & feed producer) - to improve their records keeping. KCBS divided this assistance in two phases. In the first phase KCBS identified the most meaningful parameters from whose measurement one could most readily assess the health of the business and its performance against technical objectives (e.g. mortality rates, hatchability rates, body weight development, feed consumption etc.). For the second phase KCBS awarded a SAF subcontract for an Accounting Software Company to create/adapt an accounting program appropriate for KCBS clients (Jazi, Maloku, Gjini Tag) that would include all components/modules required for their operations. This will be installed at the three companies early next year.

3.0 FRUIT AND VEGETABLES CLUSTER

3.1 Improved Productive Capacity

KCBS devoted considerable time, resources and energy this year to increasing the productive capacity of the Kosovo blueberry industry. In March a Bulletin was distributed to all domestic participants and regional buyers, discussing the upcoming 2007 collection season. Among other things it 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." Unusually hot temperatures in spring and summer, unaccompanied by typical periodic summer rains, have exacerbated the unfavorable growing conditions. Blueberry yields, and the yields of all other non-irrigated crops in Kosovo, were estimated to be reduced by at least half. During the year multiple visits have been made to all collection centers and handlers/exporters. A result of this work has been that blueberries were collected from a much larger area in 2007 than they were in 2006, which helped offset reduced yields.

The seven members of the Kosovo Association for Development (KAD), an NGO, operate tree fruit nurseries. A grant was approved in January to assist them by providing four water wells, five drip irrigation systems (one nursery did not need a new well) and special U-shaped plows for lifting young trees for sale as bare-root saplings. Following three months of inactivity, KAD agreed to allow KCBS to assume control of the implementation of the grant. Having the wells drilled proved very difficult, but adequate supplies of water were ultimately found and the drip irrigation systems have proven to be extremely effective. Sources of the special plows were difficult to locate, and they will not arrive until October. Because the wells were installed late and therefore had little effect on nursery production this year, the requirement of the nurseries to provide approximately 5,000 trees for distribution by KCBS was delayed until fall 2008.



Sources of the special plows were difficult to locate, and they will not arrive until October. Because the wells were installed late and therefore had little effect on nursery production this year, the requirement of the nurseries to provide approximately 5,000 trees for distribution by KCBS was delayed until fall 2008.

Two groups of farmers were assisted in forming modern (for profit, non-communist) agricultural cooperatives. Farmers in both groups intensively farm vegetables and vineyards on 3 – 8 ha, with an average of over 5 ha, and are thus considered commercial farmers.



Unlike an association (an NGO), members of these cooperatives will be able to buy inputs together, own land and facilities for post-harvest handling, and do marketing together, including exporting. A group of 10 in Rahavec formed Cooperative Agrovita and 20 farmers in Qyshke – Peje formed Cooperative Agro-Qyshqu. Board members have been elected, and plans launched for business activities, primarily in-group marketing. In Project Year Four KCBS will provide training to the boards and directors on their duties and responsibilities.

3.2 Improved Quality Control

In October 2006 KCBS launched a program to implement Good Manufacturing Practices (GMP) at agribusiness engaged in food and milk processing. GMP is the foundation of all food safety programs and is the starting point for HACCP certification. The two participants from the F&V Cluster clients were Pestova Company in Vushtrri, a maker of potato chips, and Agroprodukt Commerce in Podujeve, a processor of mushrooms and other wild forest

fruits. During the initial six months of the program, Agroprodukt implemented all phases of GMP and Pestova most of them. Another four-month food safety program was started in March 2007, during which Agroprodukt completed all requirements for HACCP and passed its certification inspections, becoming the first food processor in Kosovo to do so. Pestova put its program on hold pending installation of a new processing line. A final four-month food safety program started in September, and Pestova is expected to achieve full HACCP certification by December 2007.

In the spring of Year Two, KCBS decided its highest priority activities in the F&V Cluster should be post-harvest handling and marketing. These priorities remained throughout Year Three. In the Year Three work plan, we wrote that farmers in Kosovo were very capable of producing high-quality fruits and vegetables, but for the average farmer there was no economic motivation to increase the percentage of production meeting high quality from the currently common low percentages. The farmer was not hearing the ever-increasing shout of the market demanding higher quality with a willingness to pay for it. The most fundamental disconnect between economic expectations on the part of the farmer and the market expectations is that most F&V are not graded, sorted and packed into proper packages. Closing that gap, making that message heard, is the mission of KCBS.



A major thrust of the F&V Cluster has been the use of cost-sharing grants to improve post-harvest handling and marketing and thereby improve value chains between farmers and wholesalers/exporters. This year four grants were used to procure equipment for Grading/Sizing/Packing (G/S/P) equipment which will improve the uniformity of marketed products, thereby improving sales opportunities in both domestic and export markets. Agrocompani Association in Qyshqe - Peje obtained a semi-automated potato and onion G/S/P line, for the nearly 80 hectares of crops grown by its members. Pema Association in Kovrage – Istog



obtained a semi-automated apple G/S/P line that will be used for the 21 Ha of apples cultivated by its members. In Dragash, Juniperi Fructus received a wood-fueled tunnel dryer for mushrooms, blueberries, juniper berries and rose hips, and a cleaning and calibrating machine for blueberries and juniper berries. Agroprodukt Commerce in Podujeve received a large capacity cleaning and calibrating machine for blueberries, designed to meet HACCP standards.

Value chains can also be strengthened by improving product quality through the use of refrigeration to preserve freshness, whether by freezing or keeping the products cold (above freezing). In this case, three cost-sharing grants were used. At UVB Association in Blagaje – Peje four common farm storage rooms were converted into refrigerated chambers for storing apples from harvest in the fall until early spring, by which time prices nearly double. At Scardus Company in Strpce and at As Promet Company in Laposavic, facilities have been built for handling, freezing and frozen storage of blueberries, mushrooms, and other wild forest fruits.



The case in Strpce is especially significant because Scardus Company, owned by Serbian Kosovar, formed a legal joint venture with Qinghat e Sharrit Cooperative, whose members are Albanian Kosovars. KCBS originally estimated that its €25,000 grant contribution would

represent 50% of the total cost. However, the joint venture partners contributed a total of about €60,000, such that KCBS's portion is only 29%. Aside from the new full-time on-site jobs created, the indirect beneficiaries are the hundreds of collectors in the surrounding mountain villages. Because this facility can handle a wide array of products, it will expand the duration of the collection season so that it will start in late March and end with the first snowfalls of November, thereby providing longer-term employment and incomes for the collectors. (This is also true for collectors selling to As Promet in Leposavic and the duration of their season.) In mid-September KCBS assisted in hosting a ribbon-cutting ceremony at the facility. The keynote speaker was Tina Kaidanow, the US Chief of Mission, who thought the event was highly successful. About 70 people attended and there was significant press coverage, highlighting a success in re-integration of multi-ethnic communities.



An added benefit of new facilities in Strpce and Leposavic will be to stimulate the creation of new product value chains in Kosovo by encouraging the planting of other berries which have known market potential, especially cane berries such as raspberries, blackberries, and red and black currents. As with blueberries, these other berries also suffer from high rates of post-harvest respiration and require freezing soon after harvest. By planting cane berries near the existing freezing facilities, farmers will be assured that their post-harvest handling problems are already solved. These berries have the positive features of being labor intensive with high returns per unit of land area cultivated: they are about four times as profitable as growing corn. Efforts to realize this potential will be a Year Four Activity.

3.3 Improved Market Chain Linkages

The principle location of vegetable production in Kosovo is in the Dukagjini Valley, particularly around Peje. In order to create better linkages between producers and traders, KCBS initiated a pilot program by having 12 manual G/S/P tables built and distributed through traders to farmers who grow products for those traders. A business service provider was engaged part-time to collect data with hopes that a measurable difference could be found between properly sorted products and those sold unsorted. However, the shortage of vegetables in the local markets, caused by the drought, increased prices and demand so much that there was little incentive on the part of farmers to improve product quality or presentation. As a result, the study was stopped. However, all users report the tables are an amazing labor-saving (and back-saving) device, increasing the rate at which tomatoes and peppers can be packed by 50%.

To test the concept that improved packaging and labeling will improve sales volumes and prices, KCBS conducted another pilot program by providing 5,000 sturdy cardboard cartons to farmers at UVB and Pema associations of apple growers. While the study proved the cost of the cartons could easily be covered by the 20% increase in sales price, a more important discovery was that post-harvest grading prior to winter storage had a more pronounced effect on prices than using only post-storage grading on apples that were not graded prior to storage, and that the combination of post-harvest and post-storage grading had a bigger impact on price than the use of the cartons. This vindicated the labor-intensive but worthwhile methods employed by the farmers at UVB while clearly teaching the farmers at Pema that by changing their handling practices they could increase their earnings.

KCBS conducted several initiatives to link Kosovo blueberry exporters to markets. In early spring a Bulletin was written and distributed to all domestic and regional participants. In mid-June KCBS hosted the 2007 Blueberry Buyer-Seller Meeting. Attendees included operators of collection centers, intermediate handlers, refrigeration service providers, exporters, regional buyers (one from Albania and two from Serbia) and representatives from local internationally-sponsored projects working in the agricultural sector. Presentations were

made by the heads of three organizations that have received assistance from KCBS that is helping the industry build new vertically-linked value chains between rural collectors and export markets that promote product quality: Agropordukt Commerce in Podujevo; Juniperi Fructus in Dragash and Scardus Company in Shtpce. The meeting served to confirm the serious interest in collecting and exporting blueberries that was initially stimulated by KCBS in summer 2006.

In mid-July an American STTA provided a seminar for exporters on the international markets and marketing of blueberries, attended by representatives from eight of the 10 exporters. Before and after the seminar, the STTA visited all exporters to provide ideas on how product quality at each facility could be improved. With the advent of the ability to freeze blueberries, Kosovo blueberry exporters are now able to market their products anywhere in the world. In mid-August two buyers visited Kosovo, one from Canada and one from The Netherlands. They visited the three exporters with the best equipment for handling and exporting blueberries, and chose to form a strategic alliance with Agropordukt Commerce in Podujevo. During the year KCBS also hosted visits from several groups of buyers from Serbia. Despite the meager harvest in 2007, due to unprecedented weather, international exports in 2008 are expected.



3.4 Strengthened Capacity to Access Credit

To assist lenders and borrowers, KCBS used a local business service provider to create cash flow models and recordkeeping forms specifically for the F&V sector. Separately, model crop budgets were created by the F&V Cluster for all major and minor fruit and vegetable crops grown in Kosovo. These budgets include all standard costs, average expected yields and historical average selling prices to provide anticipated average net returns.



In a joint program by USAID/World Learning and the KCBS project, staffs at three commercial banks and four MFI recently received in-depth training in lending to agriculture. Training was conducted in two one-week sessions, the first with people having limited experience in agricultural lending and the second for people with moderate to advanced experience. In addition to classroom exercise and discussions, KCBS hosted the groups on one day field trips to visit a farm machinery company, a vegetable farm, a feed mill and a dairy farm. In other sessions, KCBS Specialists reviewed the kinds of

technical assistance the project has provided to agriculture and presented record keeping systems, budgets, cash flow models and list of contacts for future reference. All seven institutions are in the process of creating new loan products, policies and procedures.

In the last week of the project year KCBS hosted a very successful seminar for agricultural lenders and credit managers, focused mainly on production budgets and recordkeeping forms. There were 10 presentations from members of the Livestock and F&V Clusters. The audience was composed of 40 loan officers from nine commercial banks and micro-finance institutions. Attendees were given a CD containing all of the materials presented, and CDs were later delivered to invitees who could not attend. The array of information is extensive.

During the year the Senior Fruit & Vegetable Cluster Advisor presented a seminar entitled "Risk Management in Agricultural Lending" eight times at many of the financial institutions in Kosovo.

4.0 CONSTRUCTION MATERIALS CLUSTER

4.1 Engineered Wood Flooring Project

In the first quarter, the Engineered Wood Flooring [EWF] project moved into the production phase for both Korenica and Ukaj bringing a new set of challenges for both factories. The KCBS team continued to provide critical technical industry expertise, management and operations guidance. KCBS worked directly with machine operators and set-up personnel in overcoming initial technical operations and machine problems at both plants. Machines of various ages and states of wear and depreciation were brought into production and achieved output quality levels needed for this program. It became apparent that the companies' level of technical knowledge was much lower than had been originally assessed. Low levels of technical expertise and serious power disruptions compounded production problems.

Unfortunately, the EWF project suffered a setback at the beginning of the second quarter, when the LTTA Matt Anderson, who was pivotal for the 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, and progress remained depressingly dependent on KCBS. The project suffered a second, more serious and permanent, setback at the beginning of April, when after only one month back in Kosovo, Matt Anderson had to return to the US for further treatment and effectively terminated his involvement with the project. KCBS still hoped that from a base in the US, Mr. Anderson would continue to be the go-between with Swedeco (the Seattle-based purchaser of EWF products) and Kosovo.



By the end of March, Korenica had manufactured one container load of unfinished beech flooring. It had been triple-inspected and met all the specification requirements that Swedeco had demanded. The product was packed and stored ready for shipment pending receipt by Korenica of 50% payment. Neither this payment, nor a follow-on order for the second



shipment materialized from SwedeCo. KCBS believe that SwedeCo was suffering from a slowdown in the US economy and a change in procurement policy from Home Depot for whom the EWF shipments were intended. After several unreturned approaches to SwedeCo, and without the personal relationship operating between Matt Anderson and SwedeCo, the KCBS project reluctantly concluded that the relationship with SwedeCo was finished. The project started to address disposing of the packaged materials and seeking out new markets.

Another setback, which ultimately was a blessing, occurred in January when it was learned that Ukaj's initial production runs of EWF 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. Ukaj lost the bid and was forced to relocate his chair factory immediately. The most logical location was the new building he had recently constructed in Pristina to house the EWF factory. Fortunately, this change did mean the amount of unpurchased EWF in Kosovo was much less than it might otherwise have been.

The evaporation of the planned market concentrated the minds on finding alternative markets. Korenica had proved that a highly technical product could be produced in Kosovo. KCBS prepared a review of the first unfinished beech production. Production procedures and QC/QA requirements were presented in two sessions to Korenica's crew. All personnel participated in discussions on further simplification of the production process. Improved methods were implemented and the costs of manufacture were reduced.

Korenica committed to future production of EWF for the regional and local market. KCBS advised and supported Korenica on preparing new packing design, EWF installation instructions, flooring maintenance instructions and product warranty declaration, as well as in the marketing aspect with emphasis in distribution methods and price policy considered crucial for a good marketing plan. KCBS searched for other markets in Asia and Europe for EWF and wood elements that can be produced by Ukaj, Korenica and other wood processors. KCBS established contacts with several local flooring traders in Kosovo with purpose of promoting EWF, which translated into direct orders for Korenica. KCBS promoted EWF at the AWPK trade fair held from 9-12 May; at promotional events facilitated and sponsored by KCBS for architects and engineers in Pristina and Prizren; and in attendance at a wood cluster B2B in Italy. Samples of EWF, along with promotional material, were provided for the marketing team's visit to Albania and Montenegro.



Particular interest was shown in finished EWF, encouraging Korenica to set up a lacquer and oil finish line using his existing equipment. Test runs were made and further improvements identified in order to achieve a quality finish. KCBS arranged a visit to Kosovo of a Danish Company "WoodCare" manufacturer of oil and water based stains. Visits were paid to Ukaj and Korenica who both expressed readiness in cooperating with WoodCare. Their representative came with a variety of stains and walked the two companies through the steps of manual finish. Ukaj showed particular interest on finishes after he received his first order for 500m² of finished EWF.

There has therefore been some recovery from the SwedeCo setback. At the end of September, there had been orders for over 5,000 m² valued at €75,000. Though this is nowhere near the scale that was originally anticipated, it does represent a new business opportunity to be built upon.

4.2 Other Wood Processing Activities

In Year One of the project, KCBS assisted in the formation of the trade association for wood processors, the AWPK. Since then, KCBS has supported the association's three trade fairs, and each one has been a great improvement on the previous fair. As a result of AWPK activities, members of AWPK had exported in the first six months of 2007 wood products valued at €680,000; this compares with all of their exports in 2006 of €200,000. It is an indication that Kosovo wood industry is becoming competitive and being further developed to penetrate export markets.

KCBS worked with a number of smaller wood processors to encourage them to make elements for subsequent final processing by other Kosovo companies and wood processors abroad. KCBS provided company "Druri" with the proper sawmilling procedures, layout plan, lumber stacking procedures and other technical advice in order to increase quality of primary processing of beech logs and lumber. Druri completed installation of a Swiss band saw head rig and carriage.

4.3 Forest Certification

The importance and need for forest certification was stressed in last year's Work Plan. There is a growing, consumer-driven trend that all wood products sold globally are certified to have been derived from properly managed, sustained yield forests. Since there are no certified forests in Kosovo, wood processors are forced to source lumber from other countries where Chain of Custody can be confirmed, in order to comply with consumer requirements. Neighboring countries are all taking steps to have their forests certified. Croatia already has all its 22 forests certified; Bosnia has had its first four forests certified in the past year – the culmination of four years of intensive donor activity in the sector. Despite contributions from the EAR, Norwegians and Swedish aid organizations, Kosovo does not enjoy a similar intensity of effort as was donated to Bosnia.

In November 2006, KCBS accompanied key players from the MAFRD, the KFA and the public and private forest owners' associations on a study tour to Croatia. This provided the opportunity for the Kosovars to learn from the experience of the Croatian State Forestry Company in forest certification over the past five years. The study tour was followed by two field assignments by an STTA who reported his evaluation of forest management in Kosovo's publicly owned forests, and developed a Roadmap setting down the actions



necessary for obtaining certification of two forests. Throughout the year, KCBS raised the importance of forest certification at the Wood Processors Trade Fair, on radio interviews and at meetings with the MAFRD. KCBS supported the MAFRD's application for additional funding for KFA's operational plan for forest protection activities. Two critical objectives of this plan were to reduce illegal logging activity and to improve forest management planning – two essential prerequisites for moving forward on forest certification. For the rest of the year KCBS provided constant encouragement and monitoring of the implementation of the operational plan.

By the end July, field data collection and measurements in one pilot forest, "Ahishte" Kacanik of 2500 ha. were completed. Data control of field measurements, funded by the Norwegians was completed by end August, and the data sent to Sarajevo for additional evaluations. A draft of the forest's long-term management plan will be completed by end December.

4.4 Other Construction Materials

4.4.1 Increased Productive Capacity

KCBS continued to work with the four privatized former SOE's: Silcapor – thermally insulating concrete blocks; Tulltorja – terra cotta blocks and bricks; FAN – reinforcing steel; and the Trasing Group - aggregates, asphalt and concrete.

KCBS believes that purchase of "Grand Hotel" on Special Spin-Off, and investment commitments of 20 million euros over the next two years, had a negative impact on investments at the Silcapor block manufacturing plant; the planned, and much needed, investment in lime production and improvements to existing machinery was not achieved. Based on KCBS recommendations, EAR's BAS/TAM project provided technical support to Silcapor to improve management and technical operations, such as new mix designs. Silcapor did purchase packaging machinery worth €1.2 million allowing it to comply with EU packaging requirements; and it upgraded some existing machinery with assistance from a Slovenian company; most notably, the filters were replaced in the lime mill which doubled

milling capacity from 2.5 t/h to 6 t/h. Sales in period April-September were €5.06 million [c.f. €2.07 million in same period 2005, and €4.15 million in 2006]. Between 10-15% is for export.

As a result of the elimination of 10% tax on imported raw materials – strongly advocated by KCBS with UNMIK Customs and EU Pillar IV's CAFAO office - the FAN factory increased the number of employees from 120 to 236 in total and are now working on two shifts. The factory is producing from 1,500-1,600 tons/monthly compared to 900 tons/month prior to the tax exclusion. The company has exported over 2,000 tons [€1,4 Million] since March 07.

Trasing recognized that in order to be in a competitive position they have to increase production and invest in a modern quarry, concrete and asphalt plant; the priority is the quarry operation. In the second week of December, one of the owners of the Trasing Group was in Germany with the aim to purchase quarry equipment and/or find an investor in order to increase production. A machinery producer was identified and his offer was presented to the other two shareholders for approval. However, two of three partners (Clirimi and Graniti) did not have financial means to cover equally the investments. The company ended up making some minor investments in order to upgrade existing quarry, but the large investments are planned to take place in the 2008 construction season if the two partners find sourcing for finance.

KCBS facilitated the Joint Venture agreement between the new "Tulltorja" owners setting out the basis for future management. The company sells 100% of their production representing 8% of Kosovo market. It has outstanding requests for as much again; 60% of the Kosovo market is currently filled by imports. The potential to increase production relies on mixture and machinery improvements, especially on the drying line; and in order to decrease waste, investment in packaging machinery is necessary. KCBS and the company developed options to improve brick sales. KCBS contacted several machinery manufacturers and requested information for production equipment for blocks, bricks, roof tiles and fert blocks. An STTA made a first visit to assess current production and operation systems. Weak points in production were identified. Company management developed an action plan in order to improve production and 70% of the plan was implemented. The balance of the planned investments could not be implemented due to losses incurred by increased price of Heavy Fuel Oil. The STTA will return in November for a second visit. The company is planning to purchase a second hand production line from Germany with capacity of 40,000 pieces per day, in order to increase production by 100%. The loan application is approved by Pro Credit bank in amount of €3,0 Million, tenor 6 years and one year grace period.



progressed impressively and Fetoshi started production in July. KCBS facilitated negotiations with KEK to secure power supply 24/7 and constant 220v for the new plant (Euro Fat Company) and for the existing (Fetoshi).

SatStyro Company had a terrible tragedy when its factory was burned down and according to the owners the damages were over €1.5 Million. The company requested financial support from donors and local government but without success. However, in order to provide technical and marketing support to the remaining two manufacturers, KCBS subcontracted with a local company to create a technical package providing information on the entire range of locally manufactured products, and how to install them correctly, for promotion to buyers, students, design and construction companies and other interested parties.

The Association RČAK proposed a pilot project to recycle demolished construction materials. KCBS supported the RČAK in creating awareness at the Municipality and Central Government level of the importance of reusing waste construction materials, but it proved to be ineffective. Despite the need, municipalities were not interested to support such activity. However, some contractors such as KAG asphalt, Eskavatori and Papenberg & Adriani have started to recycle for their own purposes.

KCBS representative visited BAUMA trade fair in Munich along with 19 participants from 10 local companies. Participants were introduced to new technologies in concrete industry, road construction industry, steel, Styrofoam, clay, leasing products. KCBS and KAG asphalt continued contacts with AMMANN Company, and outcome was agreement to upgrade the asphalt plant and the total investments will be over €150,000. KAG asphalt signed a contract in Albania for supplying 14,000 tons of asphalt worth approximately €700,000.

KCBS and RČAK worked with quarry industry for a year on changes to royalty fees. After detailed analyses, and several requests and proposals from the RČAK, the industry and KCBS, the ICMM and Government finally decided to decrease royalty fees for minerals in Kosovo. The royalty fee for crushed stone, limestone and other blasted stones for road construction industry has been decreased from €1.02 to €0.50 per m³; quartz sand (required by Silcapor) from €2.50 to €1.25 per m³; and clay (required by "Tulltorja" and other clay bricks/blocks producers) from €0.15 to €0.13 per ton. As a result of these decreases, production has been increased at legal quarries, and at clay blocks and bricks producers; the prices are more competitive; and the number of applications to ICMM for obtaining licenses has increased, thus contributing to a reduction in the illegal economy.

4.4.2 Improved Quality Control

KCBS provided technical assistance to the local concrete producers (KACP members) and for two weeks an STTA worked with quality control personnel of Vellezerit e Bashkuar, Renelual Tahiri and Papenberg & Adriani. These companies were selected as they were the only companies with a laboratory for QA/QC, but visits were also conducted to other companies for information exchange. The presentations and reports were made available to all KACP members and the trained staff will be available for technical support. The main activities covered were optimization of mix designs, information on fresh and hardened concrete test methods, concrete mix proportioning, and statistical analysis of concrete test results and introduction of the EN standards to the producers. The on-job training was implemented successfully and the lab technicians learned all procedures according to standards. Further procedures were developed for their own internal company purposes. As a result the Eurokos hired the technical expert from Vellezerit a Bashkuar and tasked him with preparing mix designs and conducting testing on concrete works for highway project in Albania.



KCBS followed through with the private sector and government the recommendations of the STTA who assessed the asphalt industry. Moreover, this STTA indicated that if the procurement process specifies and demands EU quality standards in all its road construction tenders, there were colleagues in Germany who would be willing to invest in establishing in Kosovo a central laboratory and a Bitumen modification plant, which would provide a bitumen suitable for locally produced aggregate. Road quality will improve and be more durable. Another potential investor was interested to invest in creating a department for road planning and design. All these investments are conditional upon improvements in Government procurement procedures. This STTA had also commented during his assignment on the poor quality of aggregate and asphalt production being used at Pristina Airport. Subsequently, the construction company changed their suppliers after testing the samples from leading quarries in Kosovo and selected aggregates from KCBS client, Bejta Commerce, as having the best quality.

RCAK took the lead, with KCBS assistance, on monitoring the MTPT procurement procedures on road construction industry. MTPT tenders still 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. The Kosovo Government did not take into consideration any of KCBS and RCAK recommendations; moreover the

tendering process continued the same as in the past. RCAK registered several complaints against violation of the procurement law by MTPT; only one tender was annulled and the other RCAK complaints were not accepted by PPRC (Public Procurement Regulatory Commission) on spurious grounds. However, RCAK encouraged their members to complain if they believed there were violations and as a result there were complaints in almost all MTPT tenders. According to the PPRC, almost 60% of tenders were annulled, and re-tendered or put for review. The daily newspapers “Koha Ditore” and “Expres” published articles concerning several tender violations by MTPT. For each complaint the RCAK send a copy to the Prime Minister Office, Assembly and political leaders but there was no response. This was a disappointing outcome, and one KCBS and RCAK will continue to work to remedy in future.

As a result from visit to Germany and lessons learned the KAG Asphalt and Renelual Tahiri invested on machinery and they purchases equipment for quarrying and asphalt plant upgrade, respectfully on concrete products. Renelual Tahiri purchased the machinery for production of concrete elements in amount of 390,000 Euros and in premises investments were over 60,000 Euros. The KAG asphalt did purchase machinery and equipment in amount of 350,000 Euros for the quarry and upgrade of Asphalt plant.

4.4.3 Improved Market Chain Linkages

In furthering the initiative to bring potential investors to Kosovo, KCBS realized that a likely route would be through formation of Joint Ventures between international and local companies. Since knowledge of JVs is very limited amongst Kosovo entrepreneurs, KCBS followed its initial workshop held in March 2006 with a second Joint Venture Workshop in October at which there were over 70 attendees. The participants were jurists from private companies (22), private lawyers and advocates (19), commercial representatives (5), commercial judges (9), businessmen (9), and other legal representatives. The workshop



ROAD CONSTRUCTION IN KOSOVO INVOLVES:

Investors – Municipal and Ministerial
Designers – Public and Private
Contractors
Quarry Operators
Asphalt Plant Operators
Inspectors
Testing Laboratories

AND MOST IMPORTANTLY
The Road Using Public

highlighted the need to anticipate all possible outcomes once a JV is formed, and to ensure the written JV Agreement provides for dealing with these when they occur.

KCBS arranged meetings between real estate developers the ACRED Group from Czech Republic and six companies from Kosovo that are interested in real estate development. The main topics discussed were type of investments, assessment, construction and rent costs, market, administrative usage and similar.

KCBS assisted Investment Promotion Agency of Kosovo [IPAK] with technical and logistical support for three days on organization of the business activities for German delegation and local companies. The focus was investment in road industry, pre-cast concrete, design services, bitumen modification plant, and laboratory. All delegates emphasized that future investment was conditional upon EU standards being applied to their activities. The German delegation was not satisfied with the IPAK organization as they failed to introduce them to private companies; the IPAK focus was introduction with government officials. As a result the German delegation asked KCBS to organize any future meetings.

KCBS provided technical assistance both companies KAG Asphalt and Renelual Tahiri on the project for construction of the commercial and residential building in Prizren. The approximate budget for completion of this project is estimated to be 4.0 Mil. Euros. The project will be completed in summer 2009 and will be constructed with local construction materials.

4.4.4 Strengthened Capacity to Access Credit

Many of KCBS's large clients in this cluster have already invested heavily in purchasing former SOEs, or in repairing conflict-related damage to their facilities. Yet the facilities' infrastructure often remains in need of further investment. KCBS worked with its clients to explore the various sources for additional financing, and assisted applicants to present their companies, and their prospects, in the most favorable light. Sources were not just limited to loans; KCBS considered leasing, joint ventures, and international investments.

5.0 MARKETING AND TRADE LINKAGES

At the end of Year Two, KCBS recognized that one sub-objective of the program, which had not been adequately addressed in the first two years, was that of improving market chain linkages. A Marketing and Trade Linkages [MTL] team was formed. KCBS knew that demand for several of our clients' products existed, both within Kosovo and in the region. Each cluster wanted to respond to that demand. The challenge for MTL was to create awareness among potential buyers and to enable our clients to win sales.

5.1 Expand Linkages

Donor Linkages: KCBS has participated with the USDA/USAID Agricultural Committee Meeting in Serbia hosted by different implementing partners. Each two-day meeting included field visits to various agribusiness operations supported by USAID along with a several hour meeting allowing each organization to update the rest of the programs on their activities and to discuss common initiatives. KCBS used this forum to contact new buyers, distribute the KCBS Export Product list and make arrangements for linkage visits. Regional contacts were made with all USAID projects at the RCI Conference hosted in Romania in October to help promote/link potential buyers from other projects (countries) to Kosovo products. Additional assistance has been provided to RCI Washington on launching their regional sales/database agribusiness project. MTL maintained continuous contact and coordination with other key Kosovo donor-assisted related agribusiness projects including EAR's Marketing Support Project, GTZ, EU Pillar IV, Swiss Intercoop, EU IPA and SME Development Agency and EAR's Export Promotion Project.

Local Linkages: During the second quarter 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. 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.

KCBS provided numerous examples of direct linkage assistance for KCBS clients to reach both new markets for their products or partners with whom to expand their business. These included: Engineered Wood Flooring; Sharri cheese; Styrofoam insulation materials; and Serbia; and fertilizer suppliers. KCBS supported two NGO's from Mitrovica, Women Business Association from north side and Mundesia from south side in organizing a multi-media Recycling Awareness Campaign in Mitrovica, primarily directed at schoolchildren.

Regional Linkages: During the third quarter, the MTL team showed products from over a dozen KCBS clients over an 11-day period throughout 14 cities in Albania and Montenegro. KCBS held 45 individual linkage meetings with business chambers, alliances, associations, donor projects, importers, traders, retailers, processors, and producers. The primary purpose of the trip was to increase trade linkages between those KCBS clients with export capacity and buyers/markets in Albania and Montenegro. A key communication piece used for both this trip and many other MTL promotional



activities is the KCBS Export Product list which was produced earlier in the year and sent out to over 100 regional contacts in the hope of linking clients to new markets.



Additional regional linkages and competitive analysis were conducted on behalf of KCBS clients interested in new suppliers by MTL at the Autumn International Fair in Zagreb and the International Agriculture Fair in Novi Sad. The Regional F&V Processors Conference in Sarajevo also provided new market information, advice on certification standards and several new linkages for food processor clients.

Results: These efforts to expand linkages did not produce immediate results. Rather, they opened opportunities for our clients that had not previously

been identified. The proof of their effectiveness will be in the sales that develop in Year Four. A number of KCBS clients participated in agricultural fairs/shows in Albania in September, and others have committed to attend further B2Bs in the fall of 2007. KCBS continues to track the results but by year's end there had been very few sales made as a result of linkages established. It must be recognized that all these interventions will only be successful if the Kosovo clients themselves respond with enthusiasm and commitment to KCBS initiatives. KCBS will address this aspect next year by communicating to our clients on an individual basis the benefits to be gained by improved marketing and follow through.

5.2 Provide Marketing Assistance

MTL is an internal resource to facilitate KCBS clients' understanding and use of marketing. MTL was approached by both KAMP and KDPA to develop a marketing strategy to assist in solving the over production/shrinking demand problem that milk producers and processors are facing. It explained the basic steps they need to undergo in order to properly design a consumer awareness campaign which, over time, would help increase consumption of locally produced dairy products (vs. imports). A similar communication brief was also created for AKB to guide them in working with a local marketing agency to produce several brochures and a TV spot generating awareness about the harm of the informal economy.

MTL expanded awareness among KCBS clients, local retailers and local marketing agencies on in-store merchandising. 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. But 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.

Potato processor, Pestova, requested a personal consultation to advise them on their marketing strategy, packaging, flavor offerings and merchandising. MTL conducted a thorough evaluation of their present situation and made numerous suggestions on how to better produce, package, position and support their products. Pestova has since hired local marketing consultant and outsourced new packing design to a local agency.



5.3 Promote New Products

KCBS worked extensively with client Bylmeti to research, develop, test, and launch a new locally produced cream cheese product. Along with local consulting agency UBO, KCBS 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 also another client, Abi, both produced different varieties of cream cheese to be tested before final mass production and roll-out. KCBS prepared a detailed blind taste-testing methodology to be implemented jointly by a dairy processor, a local consultant, UBO, and KCBS at three different retailers.



KCBS also developed a consumer intercept survey for the Kosovo market to collect data on the perception, purchase and usage of sheep milk products (specifically Sharri cheese) among 200 qualified shoppers in Pristina. Initial results show that customers are presently happy with the large plastic containers versus a smaller, vacuum package which would have to charge a slight premium price. Unfortunately, a majority of Pristina shoppers believe the Sharri cheese brand to be made from cows' milk versus the original sheep milk (which has to be sold at a higher price due to collection

and production costs). This data will be taken into account in organizing technical assistance for processors and will direct marketing efforts and specific packaging improvements towards the more receptive Prizren market.

KCBS assisted Proad Company in producing several prototype models of a utility kitchen cart that included both an artificial granite top along with several different wooden 'butcher block' variations. Although originally designed for the US market, Proad had already secured several hundred regional orders for the product and developed their own promotional brochure. Feedback from the US supplier to Home Depot indicated that although the wooden top was very well done and professional (and they might consider other wood based products in the future), the metalwork did not meet up to US market specifications. They provided a detailed list of design improvements that were communicated to the local manufacturer to improve their product and hopefully enable them to continue to market and produce the cart to meet regional demand.



6.0 IMPROVED BUSINESS OPERATING ENVIRONMENT

6.1 Improved Policy Dialog

OEK Business Club: KCBS staff, many of our clients and associations, including AWPK, RCAF, BCC, KDPA, AKA, SHPUK, have attended the meetings of the Business Club hosted by OEK. Fiscal policies remain at the heart of this series of informal discussions and the main concern of business community. The need to advocate for favorable fiscal policies has brought business organizations together on a number of occasions.

MTI Industry Roundtable: KCBS attended meetings of the MTI industry roundtable, an advisory body to the MTI composed of government agencies, private sector representatives and donors. One meeting focused on strategic priorities of MTI to be incorporated under the Development Strategy for Kosovo. The meeting did not have a satisfactory turnout, with only a few public officials present, mainly from MTI. Businesses complained that their concerns were going unheard and that the relevant institutions such as MEF and Customs Service were not present in the meeting. They asked MTI to properly plan and organize similar events in the future. The next meeting of the industry roundtable, with a focus on quality infrastructure issues, had a better turnout from both public and private sector representatives. KCBS advocated for a higher participation of private sector representatives in similar events and stressed the role of private sector in standards development, implementation and supervision. The following conclusions were drawn at the end of the meeting:

- a) Government institutions should further work on the elimination of the technical barriers to trade, in particular in the context of CEFTA;
- b) Certification of industrial products should be carried out in line with EU and international standards;
- c) There is a need for further financial support to institutions operating in the field of quality infrastructure, including labs and government bodies;
- d) Establishment of technical committees under the Standardization Agency on specific industrial products;
- e) Public promotion campaign for the purpose of raising public awareness on the importance of industry standards;
- f) Better cooperation between different stakeholders involved in standards development and implementation, even within government actors;
- g) In the course of standards implementation there is a need to strengthen the role of, and support to the inspection services.

Following the industry roundtable meeting, KCBS-sponsored associations (AKB, AKA, KDPA, SHPUK, RCAF and KACP) attended in June the conference “The Application of International and European Technical Standards for Kosovo”, organized by the MTI and EAR/MSTQ Project. The conference provided an opportunity for government officials and businesses to share views on the application of EU and international technical standards for the purpose of increasing the quality, marketability and acceptance of Kosovo products and services into the EU and regional markets.

Improving Market Intelligence: To improve the communication channels between the associations and Statistical Office of Kosovo [SOK], KCBS hosted a joint meeting of industry associations, SOK, EAR and IMF statistical experts. The meeting was very well attended with more than 22 participants including representatives of 10 business associations (AWPK, RCAF, AKPB, KODAA, AKA, KDPA, KAMP, OEK, BCC and AKB). The purpose of the meeting was to discuss the importance of industry data collection, and the need for private – public partnership in this process. Ilir Berisha, Director of Economic Statistics and National Accounts in SOK, expressed willingness of his institution to cooperate with business

associations on data sharing; and EAR experts, who were just starting a new project, expressed their readiness to advise associations on individual basis on the type of data they collect and databases they use. All participants in the joint meeting agreed to follow up with individual meetings, as appropriate. To date, there has been little action.

6.2 Improved Responsiveness of Business Associations

General: KCBS's goal is to develop sustainable associations, which will provide valuable services for their members, such as: business development skills, technical information, and consolidated procurement to members, policy advocacy and participation in policy negotiations, networking and information. Emphasis has been placed on training, institution building and financial self-sufficiency. To build the financial and business support service capability, KCBS established an association management center for our agribusiness associations that will not only improve organization and specialization, but also improve efficiency and reduce cost. Having all agricultural associations in one location helped the integration of association work with cluster companies and project cluster staff. Likewise, the two construction associations, RCAF and KACP now share an office and services. Associations and their members were invited to several workshops and seminars referred to elsewhere in this report, particularly those addressing access to finance.

On May 3 and 4, KCBS accompanied KAMP, SHPUK, KDPA and AKA representatives to a business visit in Macedonia in order to work on promotion, exchange of information and joint investment of Kosovo and Macedonian agribusinesses. More than 40 agribusinesses from Kosovo attended this event organized by the Agro Berza Company from Macedonia in conjunction with Kosovo Chamber of Commerce (KCC). Presentations were given on subjects of common interest such as implementation of the Free Trade Agreement, Quality Standards and joint investment initiatives. More than 70 agribusinesses from Macedonia attended the B2B following the presentations.

Product Development by Associations: KCBS worked with all KCBS sponsored associations to develop profitable products and programs. An STTA, Joan Perrin, held a joint workshop on the basics of product development, at least two one-on-one mentoring sessions per association, and a joint final meeting to review the progress made by each association. Associations identified one profitable product/program that was later included in their work plan for 2007. KCBS helped all associations draft product development plans and marketing plans respectively for the selected product. All the associations showed high appreciation for this kind of assistance and put concrete efforts in drafting themselves either a product plan, or a marketing plan. 'Learning by doing' was the motto of Joan Perrin's assistance. By year's end all the associations had advanced in implementing their strategic plans including fee-for service products. Associations have successfully begun to develop an entrepreneurial spirit for bringing the revenue to the associations.

The following review of Association activities lists the associations in alphabetical order:

AKA: AKA hired a regional lab specialist to examine testing laboratories in Kosovo and abroad to see testing needs for agricultural inputs and products (seed, fertilizer, animal feed, wheat and flour). Based on testing needs and existing capacities in Kosovo the Macedonian lab specialist prepared a business plan for testing of agricultural inputs and products and presented to the AKA and KODAA Boards. AKA delegation visited companies in Macedonia that are implementing quality standards and the work of agencies on harmonization of the national legislative in the field of food safety with that of the EU and competent authorities that implements the harmonization. AKA is planning to engage international companies that implement the



quality standard programs to provide information and to implement food safety standards to the Kosovo agribusinesses.

AKA held their agricultural fair on March 29 – 31, 2007. 52 companies from Kosovo and region participated as exhibitors. Compared to previous fairs, this event marked progress; there was broader representation from agricultural companies and a many more visitors, all of whom seemed pleased with the quality of exhibited products and booth arrangements. 35 contracts were signed during the fair. Association completed trainings for enterprises on proper use of KEK maxigraf and other electrical equipment. This training aimed to decrease the electrical bill through the better production management. AKA hired specialists from Electrical Energy Regulatory Office to conduct trainings at 15 businesses and distributed a brochure on maxigraf use.

AKA was very active working with decision makers on the shortage of feed ingredients and increase of price of agricultural products due to the dry season. In order to keep cheaper price of the main products such as bread, milk, eggs, etc, AKA requested the reduction or exemption of VAT for the locally produced flour, milk and exemption of taxes for the packaging material used at food industry.

AKB: The Alliance, with KCBS support, started a pilot project aimed at reducing the informal economy in three selected municipalities (Prizren, Pejë and Ferizaj). The project originated in the Private-Public Dialog of 2005 whose aim was to encourage the private sector to take ownership of the business environment and to address different issues that are important for the business community and society in general. Lack of transparency and the informal economy were identified as significant problems for Kosovo economy. Two working groups were established: one, to review the existing laws and regulations and their implementation; and a second to work on promotion and media campaign. Representatives of Kosovo Chamber of Commerce, Custom Service, Tax Administration, Ministry of Trade and Industry, Riinvest and the business community were included in the first group and collected existing laws and regulations that have impact on formal/informal economy. A questionnaire on the existing



level of informal economy and methods to solve this problem was prepared by Riinvest and completed by decision makers and businesses. Two roundtable discussions were held in each of the three municipalities, where the business community and decision makers worked on developing an efficient model for moving the businesses from informal to formal track. Meetings had a very good turn out with representatives from the private and public sector attending. Open debates on informal economy and corruption were held at local TV stations in the three municipalities.

With Riinvest support, a consultant was engaged to work on a strategy for attracting informal businesses to join the formal economy and for registered businesses to pay taxes regularly. The consultant's final report and recommendations will be published and distributed to decision makers and businesses. AKB prepared a brochure on promoting the formal economy, fighting corruption, moving financial transactions from cash into the banking system and increasing labor inspections. A promotional TV spot to promote the formal economy was developed and broadcasted in September 2007.

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 spring and fall of 2007. The career fairs facilitate contacts between companies (potential employers) and students (potential employees) and provide networking opportunities for both parties.



The spring fair, in which 19 companies presented their profiles, was visited by 800 registered jobseekers, mainly students from different universities of Kosovo. The spring fair alone generated 104 internships and full time jobs for students. The KCBS grant also included organization of a business lunch with representatives from AmCham and the US Consular Office in Skopje on June 20. Its aim was to answer questions for many association member companies and promote opportunity for US business trips and business linkages between two economies.

AWPK: The grant awarded to AWPK supported selected activities from their work plan for 2007. The Wood Fair was the main profitable program for 2007, and as such attracted most of KCBS financial and STTA assistance during 2007. KCBS guided the association towards using alternative ways to increase profits from this activity, through raising sponsorships and lowering costs. From May 9-11 AWPK hosted its traditional Wood Fair “Natyra 2007” which was opened by the President of Kosovo. 45 local companies exhibited their products, including doors and windows, wood flooring, cabinets and furniture, as well as lumber. The event drew considerable media attention, with TV 21 and KTV reporting on the opening event of the fair in their main news editions. In addition, during the days of the fair AWPK members were invited to a number of TV and radio programs and received considerable media exposure. Compared to last year’s event the fair progressed in terms of management, number of exhibitors, variety and quality of displayed products. The fair also generated higher revenues than the last year’s event (over €41,000).

AWPK income statements show that the association is in good financial health. The financial sustainability of the association has improved compared to last year, with non-donor funds counting for 63% of the total revenues. AWPK became the first association to meet the ‘60% own generated revenue goal’ set by KCBS for associations in year three.

BCC: As a newly established association, KCBS assisted BCC in a number of start-up activities, such as preparation of the membership application set in three languages (consisted of a formal letter, application form and BCC brochure), opening a bank account and preparation of a launching event. The formal launching of BCC on Dec.18, on the occasion of the final conference on the MTI Voucher Scheme, was well received by all the participants. At this conference both the BCC President and the BCC Coordinator delivered presentations on the purpose and vision of BCC, as well as on its schedule of activities for 2007. BCC promotional material was made available to conference participants in three languages. Conference participants provided very positive comments to BCC and they clearly saw the value of such an organization in the Kosovo consultancy market.

The main focus of BCC in their first year was on promotional events. On April 11 and 12 BCC exhibited at the Finance Fair organized by AMIK and KBA, with KCBS support. In May BCC held the first three regional conferences in Gjakova, Peja and Prizren with more than 20 participants attending each meeting from local business service providers, free-lance consultants, municipality officials, private businesses, NGOs. A fourth conference held in June in Mitrovica attracted a modest group of participants. The BCC code conduct has been widely promoted at the regional conferences.

BCC to date is not yet a functional organization. In the course of 8 months, it had three executives. It had unrealistic expectations on donors’ support, overdependence on KCBS and recently lack of motivation from the board). Delays in following the schedule of grant activities and problems with the executives led KCBS to suspend the grant to BCC in July. The main conditions that the association should meet in the meantime are to hire an

executive or management company to manage BCC activities, and add at least 10 new dues-paying members by Dec. 31. We hope the association will use this period to reorganize and further build its internal capacities.

KACP: In Year Three the new association of concrete producers launched its full operation, becoming in a short period of time a visible and well-functioning organization. The General Assembly and Election Meeting of KACP, which was held at the end of 2006, approved the three year strategic plan of the association (prioritizing the activities for 2007-2009) and elected the new board and officials. The general assembly also voted a decision on the membership schedule, requiring members to pay a flat fee of €300/year, and board members €500/year.

Pursuant to KACP strategic plan the new board prioritized the activities for their first year of operation. The association website, a membership database, an industry conference on new concrete products and industry trends, a training program for operational staff on all aspects of the concrete production cycle and promotion of EN standards were the KACP priorities for their year one. These activities were later translated into a grant application that the association submitted to KCBS for support. However, it should be noted that KACP own contribution to their first year budget will be approximately 55% (i.e. revenue coming from membership dues, fees for services and sponsorships), which places KACP from the outset in the lead of KCBS-sponsored associations.



KACP agreed to ban from election to the Association's board representatives from companies that do not fulfill their obligations to tax authorities and those that have not paid their membership fee. This decision was executed in the June board meeting, which replaced three non-dues paying board members with three new companies. This is the first time in KCBS experience that the board of an association executes self-disciplining measures, which is a sign of responsible core members. Recruitment of new members has been one of the KACP priorities during their first year of operation, while the responsibility is being shared between the executive director and individual members of the board. So far KACP has 11 dues paying members, and two sponsor member, Sharcem who provided a €5,000 contribution to the association, and TTK, a Slovenian company who provided €2,000.

In September, KACP held a two days concrete seminar with more than 75 attendees participating in both days of the seminar. Such turnout exceeded all expectations of the organizing team (as 25-40 participants were anticipated). More than 10 speakers delivered lectures during the two days of the seminar including a speaker from Slovenia and one from Albania. Attendees included university students, KACP member companies and public officials (such as the participants from the Independent Commission for Mines and Minerals). More than €300 was collected in entrance fees alone. This activity marks the first project of a KCBS sponsored association entirely independent of any donor or grant money. Although no grant money was made available, KCBS provided much technical and logistic support to this project.

KAMP: KAMP Annual Meeting had a very good turn out with more than 150 attendees. Association elected the new 17 members board in order to cover small, medium and big farmers in all Kosovo regions. KAMP developed an association and industry database with more than 600 milk producers included. KAMP staff attended at two study visits to Switzerland and to England to learn from the Dairy Producers Association and Farmers Federation, and from several dairy farms. The organization model of these associations was presented to the KAMP visitors from which they might improve some aspects of association development. KAMP has identified support industries and business service providers which

would make the cluster more competitive. KAMP disseminated this information, as well as a summary of lessons learned on the two study tours, through a TV show introducing dairy farmers to best farm management practices. The show aimed to increase consumer confidence in the quality of locally produced milk, by demonstrating correct dairy farming practices, proper milking, sample taking for analysis, milk hygiene, basic standards on fresh milk quality, milk storage in lacto-freeze and transport. A CD was distributed to farmers.



The Association focused on improving management and production practices of milk producers, implementation of health and consumer protection standards and creating a favorable regulatory and fiscal environment to the competitive industry. KAMP worked with KCBS, MAFRD and KVFA on implementing existing regulations on milk and dairy products quality and improving procedures for testing dairy products. KAMP has worked consistently with milk producers to improve milk quality, to coordinate milk collection and to stabilize milk prices with the KDPA. KAMP offered

consultancy services in more than 60 dairy farms on prevention, control and regular checks of sub-clinical mastitis, using California Mastitis Tests (CMT). Staff worked with veterinarians to recommend proper drugs for mastitis treatments to milk producers. Association supplied their members with the equipment to run CMT tests and trained farmers to use the equipment. From 60 farmers trained, 40 are using CMT; the impact was that the percentage of milk produced in Kosovo of an acceptable quality for the milk processors rose from 65% to 90%.

In the very dry summer this year the price of feed increased substantially. KAMP specialists provided information to farmers on use of different combination of feed rations that are available at Kosovo market.

KDPA: Increase of self-generated revenues was the main target for this year. A new Board agreed on the structure and amount of membership dues for 2007; €100 for small processors and Milk Collection Centers, €300 for medium processors and €500 for larger ones. Dues were collected from all 15 members during individual visits to milk processors.

KDPA also produced a TV show introducing dairy farmers to best farm hygiene management practices and a copy of this CD was also distributed to farmers. KDPA conducted a training

program for 14 dairies on personal hygiene, cleaning and disinfecting of dairy plants. The training material was distributed to the participants who will use it to train workers at their plants. KDPA worked with seven dairy plants to test products that they plan to export to Albania and Macedonia. Results, which were presented to all association members showed high quality of products, such as yogurt, white cheese and UHT milk. A number of conclusions and recommendations were prepared and discussed with milk producers in order to improve the quality of locally produced milk. The primary concern of the association was to communicate to processors and producers the advantages of the KVFA central testing lab and the pricing structure based on test results. KDPA agreed to start with a new milk payment scheme from 01 September 2007. KDPA worked on generating awareness



Marketing begins with the consumer...

They Like

This is where your marketing starts – with the consumer!!

VS.

You Like

Not here...

"Marketing is not something we do to the Consumer, it's something we do with the consumer."

among consumers that locally produced milk and dairy products are healthy, fresh and as safe as imported products.

In contrast to previous years, when there has been a surplus of milk during the summer, this year some of dairy processing plants had problems to find sufficient milk. KDPA and KAMP met continuously to coordinate activities by their members in purchasing locally produced quality milk and to find possibilities to keep its price stable. A white paper was prepared and addressed to MAFRD, MTI, MEF and Pillar IV asking for a reduction or exemption of VAT on locally produced milk and an exemption of taxes on packaging material used by the dairy industry in order to keep more stable their price of locally produced milk and dairy products.

OEK: The Kosovo Chamber of Commerce approached KCBS with a grant concept for establishing a legal office within the current OEK's structure. The main function of the legal office will be to provide arbitration and legal services related to commercial disputes, and to assist on legal policy issues. At the same time the legal office will serve as a training center for younger lawyers, who will benefit from the experience of senior professionals. Specific conditions were incorporated in the grant agreement to allow for the proper functioning of the legal office and KCBS supervision on revenues generated by the legal services. KCBS financial support under this grant started on September 1 for a nine month period.

RCAK: The main activities of the second grant include: catalogue of equipment of RCAK members, training for asphalt and quarry producers, a promotional DVD for RCAK members, the annual stakeholders' conference, and a study on procurement practices and business dealings with private sector in road construction sector. During April and May the association has been very active in advocating for incorporation of EU standards in all Government procurement contracts and in promoting transparent tendering procedures. RCAK members are becoming more and more aware of the association capacity to influence change and have expressed their support for the association course of action.

Even though the association is stable in terms of the executive and institutional capacities, RCAK income statements show that the association depends strongly on grant and membership fees. RCAK has not been able to develop sustainable fee for service programs, which still makes the financial sustainability of this association fragile. KCBS has identified a need for improving marketing skills for some of the executives, including RCAK executive, and will address this need in year four.

SHPUK: Association organized the study tour to *AGROTICA 2006*, an agricultural trade fair in Thessaloniki, Greece in February 2007 and several members made a study tour in Zagreb – Croatia on September 7th. SHPUK produced the *Best Practices Guide* that will serve as a resource for poultry producers and other industry groups, and as a revenue earner for the association. It addressed: safety and compliance with industry regulations; increased knowledge of farm management; hygiene; and quality standards. As SHPUK had prepared a data base of commercial poultry producers, KVFA promised that the association would be in charge for distribution of the Newcastle vaccine to its members.

Association completed training on quality poultry feed preparation, using the recommendations developed by KCBS STTAs. This training program is very important for feed millers as over 80 % of animal feed in Kosovo is produced locally. KCBS awarded two grants to poultry producers, one for starting up layer parent stock and other for pelleting of poultry feed. SHPUK worked with KCBS, MAFRD and KVFA on scheduling vaccination program of imported day old chicks and at the parent farm. SHPUK held two workshops to present the results of parent farm and pellet mill. The testing of prepared feed was conducted at Ag Faculty in Pristina. KCBS assisted SHPUK in designing two brochures; on pelleting technology, and on best management of layers at poultry farms. During the summer, this sector also suffered from the high cost of feed ingredients and lower egg



prices; SHPUK worked with MAFRD to decrease duties on imported maize and to improve the control of imported eggs at borders. SHPUK invited the Macedonian Poultry Association to discuss the coordination on animal feed supply and egg sales. There was an agreement signed for regional cooperation, meaning on coordination of feed and eggs supply.

SHPUK organized a workshop on proper use of antibiotics and vitamins at poultry farms. SHPUK explored the opportunities to start a broiler production in Kosovo. The data on sales of broiler meat, domestic capacities and other data that demonstrate the size of needed domestic broiler production were presented at the meeting. The main barrier to a broiler production is investment in a modern slaughterhouse, which would be used for slaughtering broilers from many producers.

6.3 Strengthened Business Consulting Capacities

KCBS assisted BCC in developing a Code of Conduct for the consultant's profession and drafting comprehensive compendium of quality standards for the consulting industry in Kosovo. KCBS revised the 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 Code of Conduct was made part of the BCC membership application process, and through signing the membership application, members commit to adhere to the code of conduct of the profession. The code was widely promoted in the BCC regional meetings, meetings with donors, partner associations and government officials, in particular with SME department under MTI. The code sets the basic principles of the quality standards. However, a compendium of quality standards per se is not developed.

Due to limited and slow progress of BCC in 2007, KCBS plans for designing a quality certification program was suspended. It was also deemed necessary to first learn from experiences of consultants' associations from the region in developing standards and quality certification programs. In June 2007 KCBS facilitated for BCC a one-day-experience-sharing-event with the board of the Management Consultants Association 2000 (MCA 2000) in Skopje, Macedonia. MCA 2000 is an association of individual consultants committed to promote the standards of excellence with a similar profile as BCC. It has 21 members and 15 of them are Certified Management Consultants (CMC). Since 2002 MCA 2000 is a provisional member of the International Council of Management Consulting Institutes (ICMCI), an international organization with more than 40 member organizations worldwide. ICMCI runs an internationally recognized certification program for consultants and owns the CMC brand. Membership in ICMCI is crucial for BCC, if it aspires to design a certification program in line with international standards. The meeting with MCA 2000 helped outline potential courses of actions for BCC. KCBS is willing to support BCC efforts in any direction; however, BCC engagement is crucial. From the experience to date the association relies too strongly on KCBS support. Future KCBS assistance to BCC in the area of quality standards remains conditional upon meeting the grant application criteria referred in 4.1.3 above.

6.4 Increased Use of Improved Business Practices

On the occasion of the successful termination of the second MTI Voucher Scheme on Dec. 18, KCBS and MTI co-hosted a conference that echoed the progress achieved by the scheme. We also agreed with MTI to use this forum to formally introduce in public the new BCC and the results of the UBO Consulting study on the business service provider market needs. The conference had a good turnover with 48 participants including BSPs, donors, MTI and the media. The Minister of Industry and Trade, Bujar Dugolli, addressed the event and praised USAID/KCBS for its support to businesses in general and BSP market in particular. At this conference UBO Consulting team delivered a presentation where they made public the results of their SWOT analyses on the business service provider market. Through the year KCBS disseminated the UBO report on a number of occasions. The report was also made available to the Austrian Development Agency for consideration in the course of finalizing the preparations for a new Voucher Scheme project.

A new grant to PIRAMIDA to provide advanced training on Kosovo Accounting Standards (KAS) for accountants in minority regions was a logical continuation of the previous year's SCAAK/PIRAMIDA project to harmonize the financial record-keeping practices in minority regions with the rest of Kosovo. The accountants were trained to become competent in preparing financial reports in accordance with KAS, which would help local companies to be more competitive and better related to unified Kosovo market. PIRAMIDA successfully trained 32 accountants from three minority areas, i.e. North Mitrovica, Gracanica and Strpce. Trainees represented 36 companies from minority areas. Three consultants, all certified accountants from North Mitrovica, were engaged as trainers under this project.

KCBS facilitated SCAAK start pre-professional training for accountants from Minority regions in North Mitrovica. This was an opportunity for accountants from North Kosovo to get licensed as certified accountants. Unfortunately only four enrolled in this course, but these trainees are now eligible to become accounting technicians, which is a precondition to enroll in the professional stage.

6.5 Improved Access to Credit

KCBS worked with five financial institutions to introduce leasing to the Kosovo market and helping three financial institutions complete necessary steps to introduce purchase order financing. Five financial institutions (New Bank of Kosovo, Kasa Bank, Bank for Business, KEP and Atlantic Capital Partners) received tailor made training sessions to help them develop the in-house skills to roll out leasing products. Leasing procedures and a standardized lease contract were developed and provided to each partner to be included in their institution's procedures. Memoranda of Understanding were signed with Kasa Bank, New Bank of Kosovo and KEP to help these institutions introduce Purchase Order Financing [POF] to the Kosovo market. Extensive training and technical assistance was provided to each of these institutions to develop appropriate policies and procedures and to educate management and loan officers on utilization of this new product.

POF credit policies and procedures were drafted and forwarded to the respective credit departments of the three financial institutions. Also, POF loan agreements, including assignments and guarantee forms were adapted and contextualized for the Kosovo environment and translated into Albanian, and then both English and Albanian drafts were forwarded to the legal staff at all three financial institutions for their review.

Much of the challenge related to developing these products in Kosovo has had to do with lack of clarity on legal and regulatory issues related to product development. With regard to this, Laws on Bills of Exchange and on Negotiable Instruments were drafted by KCBS and have been reviewed by the Central Banking Authority of Kosovo (CBAK). The CBAK has endorsed both laws and given their support to have the laws submitted to the government for approval, while the Ministry of Economy and Finance agreed to sponsor these laws. These new instruments will allow much more widespread use of trade finance in Kosovo, and will in fact increase access to finance much more broadly, allowing increased lending based on cash flow and on orders, and much less dependence on real estate and other hard asset collateral.



Nova Ljubljanska Banka (NLB) bought the majority interest in both New Bank of Kosovo and KasaBank, and as a result, the working groups at both banks decided to postpone the implementation of the products during the transition period. They have decided to launch the first pilot POF loans and leases in September and then in January of the next year they will officially promote these two new products. Bank for Business has approved the leasing product and its procedures and to date they have approved a car lease while are in process of looking for potential deals on equipment leasing. KEP has four potential clients interested on leasing agricultural equipment and is ready to do the first leases, subject to a repurchase agreement on which they are working jointly with the supplier. KEP has decided to launch the pilot POF loans after they have successfully launched leasing. ACP was requested by CBAK to acquire the proper leasing software prior to making their first leases.

KCBS staff developed a list of potential clients and their equipment requirements and provided the list to the partner institutions so they could follow up on potential deals. KCBS will monitor the deals that are developed, but will leave further promotion of these instruments of financing to be managed by the institutions themselves.

KCBS supported a successful second Finance Fair organized by Kosovo Bankers' Association (KBA) and Association of Microfinance Institutions of Kosovo (AMIK). KCBS undertook efforts to secure sponsorship, and to improve the communication and cooperation among the partners to enable the team to successfully plan and implement the fair. The fair gathered 39 exhibitors, including banks, microfinance institutions, business service providers, insurance companies, etc. More than 1800 individuals visited the fair and the event received extremely positive feedback from both exhibitors and visitors. The Fair was covered by the three national televisions (RTK, KTV and RTV21), VOA, several major radio stations and at least three leading local newspapers.

7.0 CROSS-CUTTING THEMES

7.1 Work in Minority Areas

KCBS continued support to the individual farmers and farmers' associations from different minority regions in Kosovo: Strpce, Lipjan, Gnjilane, Novo Brdo, Kosovo Polje and in North Kosovo. The main activities were related to milk quality improvement, facilitating milk producer and processor linkages, facilitating linkages between corn producers in minority areas and animal feed producers throughout Kosovo, working with sheep farmers on productivity improvement and marketing, and establishing pasture improvement test plots and Sudan grass field trials.

Poor milk quality has also been identified as a major problem in minority areas as it has throughout the rest of Kosovo. KCBS worked with farmers assisting them with STTA recommendations and technical support to improve general farm management and especially to improve hygiene in the barn and with milking utensils. KCBS organized several presentations about milk quality improvement and mastitis control and informed farmers about the new administrative order on raw milk quality implemented from January 2007.

KCBS provided technical advice and some dairy barn equipment to Vukosavljevic Farm in Dren Village, Leposavic Municipality enabling it to establish a modern dairy barn to be used for demonstration purposes. KCBS will use this farm for trainings in the north minority area. A number of dairy farmer members of the Agrohit Farmers Association have already made use of some of the barn design features.

Agrohit Farmers Association applied for a KCBS grant for equipment for three MCC's. The grant includes equipment to stabilize the electrical supply and other equipment to test milk quality. KCBS provided information and trainings for improving milk quality to the farmers selling milk to the three MCC's; this will help improve understanding between the milk producers and local Milkop dairy processor.

Through its SAF fund, KCBS supported Sheep farmer's Association "Golden Fleece" to purchase equipment for sheep sheering and basic veterinary equipment that will be used to serve association members and other sheep farmers in the Leposavic Municipality

KCBS assisted minority farmers in selling their products such as corn grain and other crops through creation of linkages between farmers and feed producers from Ferizaj and Lipjan municipalities. Sales by farmers included corn grain, wheat, barley, and oats. KCBS assisted Agrosemi cooperative in signing an MOU with animal feed producers Msilosi, Koni-Soni, Sazli and Adi for sale of crops grown in minority regions to the above mentioned companies. KCBS also assisted sheep farmers from Novo Brdo and Gjilan municipalities to participate in the export of live lambs to Bosnia and Hercegovina. In total 60 lambs weight approximately 1,300kg with a value of €3,200 were exported.

KCBS established two pasture improvement test plots in minority regions in Leposavic and Strpce municipalities. Also one test plot of Sudan grass was established in the Lipjan municipality. Sudan grass is sometimes used as an emergency crop in dry years because of its relatively good drought tolerance.

KCBS continued the distribution of new training brochures and other material that was translated into the Serbian language during Year Three. This included training material on sheep nutrition and health, sheep cheese processing, alfalfa and corn silage production practices, using large round bales for hay silage, quality milk production, reproduction issues in dairy cows and how to properly take soil samples. These materials were made available to farmers directly, farmer associations, municipal agriculture staff and educational institutions.

KCBS gave client retailer, 'Maja' in Leposaviq, much needed 'hands-on' merchandising advice 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 KCBS/MTL team providing a completely new shelf organization strategy and diagram for all his products.

Much of the KCBS work in promoting the blueberry trade took place in mixed areas where the minority businesses played a significant part. The description of work performed is covered under Section 3.3 of this report.

7.2 Women's Issues

Promoting Women in Business: KCBS helped NGO "Lady" to obtain financial support to expand her production line. This multiethnic organization employs nine women, mainly Bosnians, and it has a well-equipped production and selling space. In recognition of the progress made by this organization, KCBS donated them a computer and provided them through KCBS's client companies with construction material for refurbishment of their new production place. NGO Lady is currently preparing a marketing plan and promotional material with the assistance of EAR/Marketing Support Project. EBRD/TAM-BAS project selected "Lady" to represent women businesses from Kosovo in the Women Prize Conference, in Kazakhstan later in 2007. KCBS has also recommended NGO "Lady" and NGO Avenia from Laplje Selo (the latter is planning to establish a mini-textile factory) for consideration under the upcoming GTZ gender project. GTZ has expressed interest to work with women organizations engaged in production activities, rather than those focused on handmade products, the typical case for women businesses in Kosovo.

NGO fair in North Mitrovica: From Dec.11-12, Women Business Association from North Mitrovica and NGO "Mundësia" from South Mitrovica organized the NGO fair in North Mitrovica, where 19 exhibitors from local and international organizations had a chance to present their products and their work to about 150 attendees. KCBS facilitated a roundtable on the role of associations in economic development for local and international NGOs. KCBS Association Manager delivered a presentation entitled "Some practical steps on NGO registration in Kosovo and the Associations' role in development". In addition, two of our grantee associations, RČAK and AWPK, and NGO Lady presented their experiences in serving their members, and talked about their partnership with KCBS. 29 participants attended this roundtable.

Work with WfW International Kosova: KCBS continued working with WfW. KCBS visited a storage place in Komorane in Drenas region to advise on how to adapt the space for storage of vegetables. KCBS also facilitated a visit of WfW to the company Katarina from Zvecan. This is one of the biggest wholesaler and distributor of soft drinks, mineral waters and ice cream in the northern part of Kosovo, currently processing imported vegetables from Serbia. The company is willing to buy strawberries from businesses supported by WfW; however, such products should meet the quality that the company is already importing from Serbia. KCBS also facilitated a meeting between WfW, and WBA and Mundësia from Mitrovica. WfW is interested to expand its activities in Mitrovica region, working with multiethnic women organizations and enable their economic independence. KCBS provided to WfW written comments and suggestions for further improvements of their business plan for Women's Opportunity Center (WOC), a project to be funded by Private Equity Foundation from London, UK. We also provided to WfW a contact list of local consulting companies that to our judgment and experience are competent to conduct feasibility studies of this kind. WfW selected UBO consulting for a feasibility study for the WOC as per our recommendation.

Recycling project: KCBS successfully implemented the Recycling Awareness campaign managed by NGO Mundësia and WBA. There is an increased interest in Mitrovica on waste collection and recycling. The two associations have proposed establishing a company for recycling of aluminum cans, paper and glass. KCBS advised them to prepare a business plan for submitting to the EAR/IOM project, which has funding for such projects. KCBS will continue to provide technical support to this project as needed.



8.0 STRATEGIC ACTIVITIES FUND

In Year Three, KCBS continued to leverage the Strategic Activities Fund (SAF) to support core project activities by providing funds to local business support service providers, associations, and others to provide direct interventions to clusters, enterprises, associations, and business support service providers.

During Year Three, KCBS received 32 concept papers from organizations proposing ideas for activities to be supported by the SAF. This shows that the interest for funding was quite low compared to year two. During this year KCBS awarded 19 simplified grants, 13 standard grant agreement and 11 subcontracts, bringing the total of 53 grants and 58 subcontracts and four procurements of goods awarded since the beginning of the project.

Funds approved to date total €1,638,650 (\$2,094,549). Below is a description of funds approved noted by award-type and cluster.

Fixed Price Subcontracts: In Year Three KCBS awarded 11 subcontracts, with an obligation value totaling €61,345 (\$82,013). The total from the beginning of project for subcontracts is €561,499 (\$722,298).

	Subcontracts signed in Year 3	Value of Subcontracts signed in Year 3		Total value of Subcontracts for cluster	
		€	\$	€	\$
Livestock	7	€ 40,378	\$ 53,565	€ 352,420	\$ 451,241
Fruit & Vegetables	1	€ 3,350	\$ 4,527	€ 8,060	\$ 10,892
Construction Materials	2	€ 14,647	\$ 20,064	€ 33,487	\$ 44,230
General Business	1	€ 2,970	\$ 3,857	€ 167,533	\$ 215,935

Grant Agreements: In Year Three KCBS awarded 19 simplified grant agreements and 13 standard grant agreements, with an obligation value totaling €518,105 (\$677,810). The total from the beginning of the project for grant agreements is €1,013,414 (\$1,290,458).

	Grant Agreements signed in Year 3	Value of Grants signed in Year 3		Total value of Grants for cluster	
		€	\$	€	\$
Livestock	8	€ 113,897	\$ 149,527	€ 216,011	\$ 274,037
Fruit & Vegetables	8	€ 206,957	\$ 271,092	€ 256,437	\$ 331,777
Construction Materials	2	€ 17,000	\$ 21,795	€ 42,297	\$ 53,838
General Business	14	€ 214,850	\$ 282,298	€ 498,664	\$ 630,807

Procurement of Goods: In Year Three KCBS awarded one procurement of goods with value of €11,540 (\$15,185) for procurement of pregnant sheep.

Management and Challenges

Compared to other two years in year three through SAF have been awarded more grants than subcontracts. This third year SAF continued to support the associations in their strategic plans implementation. With six associations we renewed the grant agreements and we continued to support their activities for year two. Two new associations; Business Consulting Council (BCC) and Kosovo Association of Concrete Producers (KACP), were awarded grants for their year one strategic plan implementation, which brings the total number of the associations that are supported through SAF to eight.

Business Consultant Council grant faced difficulties from its startup as it changed three Executive Directors and this created a lot of problem in implementation of activities according to the plan. KCBS decided to give another chance to this association and suspended the grant for a period from Beginning of August up to December of 2007. In this period BCC will need to realize few tasks that were given to this association in order to continue the grant implementation.

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

	Approved	
BY CLUSTER	Euro	US Dollar
Livestock	€632,168	\$807,071
Fruits & Vegetables	€264,497	\$342,668
Construction Materials	€75,784	\$98,068
General Business Support	€666,202	\$846,742
Total	€1,638,650	\$2,094,549
BY TYPE		
Grants	€1,013,414	\$1,290,458
Fixed Price Subcontracts	€561,499	\$722,298
Procurement of Goods	€63,737	\$81,793
Total	€1,638,650	\$2,094,549

In June 2007 KCBS agreed with USAID to the transfer of funds from other line item activities to the Strategic Activities Fund [SAF], increasing its ceiling to \$2.3 million. Then on the last day of Year Three, USAID issued Modification No. 5 to the Contract, which increased the SAF by a further \$318,692, to a total of \$2,818,692. The amount awarded to date represents 74.3% of the revised SAF budget. KCBS has prepared a plan on what these funds can be used for in Year Four of project implementation.

9.0 COMMUNICATIONS

Year Three of the KCBS Project was again a very active period for all the clusters in the project and thus also for the KCBS Communications Team. The events organized, the publications, KCBS' presence at all the major events, and above all the media coverage, helped the project consolidate its reputation in Kosovo, always in close co-operation with USAID. Being energetically involved in various events in year three, KCBS has continued to be a strong supporter of the local associations and organizations in their endeavors towards strengthening their image in the Kosovo market.

Ceremonies and Events

KCBS, in cooperation with two local women's NGOs, promoted recycling in North and South Mitrovica. The effort is comprised of several inter-related initiatives including a media campaign and training of high-school students. One of the training efforts was concluded with a ceremony attended by the organizers, KCBS, IREX and USAID's Mission Director. During this ceremony the 24 highest-scoring students were awarded certificates as being certified recycling trainers to train pupils at elementary schools in recycling and environmental issues.

KCBS reinforced its relationship with the Kosovo Chamber of Commerce. A special ceremony was organized at the KCC as USAID/KCBS funded a grant for the provision of equipment to be installed in a new Business Association Development Center at the Chamber. This support ceremony also marked the holding of the first General Assembly and Election Meeting of the Kosovo Association of Concrete Producers.

The KCBS project booth was visible at a large number of fairs both as a donor and as an exhibitor:

- Early in the year off there were two smaller fairs: Agrokos, the main fair for agriculture held in Pristina; and Agrohit Fair held in Leposavic, attracting mainly minority farmers.
- KCBS was one of the main supporters of AKB and AKA in organizing the 2007 Agriculture and Food Fair, which was held on March 29-31. Deputy Mission Director Heather Goldman spoke at the opening ceremony together with Kosovo's Prime Minister, Agim Ceku, AKB President, Agim Shahini and Deputy Minister of Agriculture, Tome Hajdaraj.
- The Finance Fair 2007 hosted by the KBA and AMIK on April 11-12, attracted 39 exhibitors (banks, microfinance institutions, business service providers, insurance companies etc) who promoted their products and services to around 1,700. There was also a remarkable media coverage: four TV stations (RTK, KTV, RTV21 and Voice of America), several major radio stations, and at least three leading newsletters.
- Over 800 young people attended the Careers Fair, organized by the American Chamber of Commerce and supported by KCBS; although it lasted only one day, both exhibitors and visitors declared it to be a very rewarding experience.
- The "Natyra 2007" Wood Fair, hosted by AWPK and supported by KCBS, was held from May 9- 12. AWPK hired a PR team who have worked closely with KCBS to obtain approval for all their activities and who ensured that promotional events started prior to the fair and continued until the very end. This has resulted with various programs on the major TV stations and articles being written in the main daily newspapers.

Conferences, Seminars and Workshops

Year Three started with the first seminar ever in Kosovo on HACCP, "Good Manufacturing Practices: The Basis for HACCP Food Safety Systems", held at the Grand Hotel. The seminar was open to representatives of the public and private sectors of the agricultural economy of Kosovo who are stakeholders in the advancement of HACCP standards and was attended by around 120 participants.

KCBS put together a workshop on Leasing, which was attended by several financial institutions. The aim was to provide local financial institutions with the necessary information on this new product being introduced in Kosovo.

The Marketing and Linkages Conference held on March 21 at the Grand Hotel, has also been marked as a much-celebrated event. Approximately 160 guests representing retailers, producers, processors, wholesalers, associations, Ministries, donor projects and marketing agencies attended the conference. 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.

KCBS project hosted the 2007 Blueberry Buyer-Seller Meeting on 21 June at the Grand Hotel. Operators of collection centers, intermediate handlers, refrigeration service providers, exporters, regional buyers and representatives from local internationally-sponsored projects working in the agricultural sector came together to discuss the future of the blueberry industry. Presentations were made by the heads of three organizations that have received grant assistance from KCBS to help the Kosovo blueberry industry build new vertically-linked value chains between rural collectors and export markets that promote product quality.

Media Coverage

The project's successes did not go by unnoticed by the media. In addition to the cases mentioned above, media have been closely following the KCBS activities.

- ◆ The daily, Iliria Post, has paid special attention to our project with four stories being published on KCBS within a month. There were interviews with COP, on Lamb exports, on Local dairies becoming competitive, and on the Milk Quality Improvement Project.
- ◆ Two further 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. Another article under the title "More favorable business policies needed to attract foreign investors" quoted the COP providing information on the business environment in Kosovo.
- ◆ KCBS COP, was interviewed by KTV and TV Tema; and by Radio Kosova on their weekly "economic" show.
- ◆ The Agricultural program, Bujku, has aired several footages covering KCBS activities. It culminated on March 17, when the entire Bujku edition was dedicated to KCBS's work and investments. KCBS COP, was interviewed by RTK's Bujku on Engineered Wood Flooring and the importance of the forest industry in Kosovo.
- ◆ The monthly magazine "Biznesi" published an overview of the KCBS Project in their July edition

KCBS Publications

KCBS Communications has also worked closely with its grantees and subcontractors to help them put together brochures, calendars and newsletters.

Hundreds of copies of the second annual KCBS Project brochure were distributed in all three languages. A list of other brochures produced in Year Three, generally in trifold format, is given in Annex 6.

10.0 PERFORMANCE MANAGEMENT

10.1. DESCRIPTION OF THE SYSTEM

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

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

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

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

Selection of the clients: Cluster specialists are responsible for selection and recruiting of new clients. The selection process of the clients continued also in the third year of the project. While in the first year KCBS had 60 clients on its database, and in the second year the total number of companies increased to 85, in the third year the total number of companies increased to 111. The data for non-client companies on blueberry collection is consolidated in one figure and included in the data for Fruit and Vegetables cluster as "Blueberry collectors". From this number, 23 enterprises have become non-active from the start of the project to date.

In just the last quarter of 2007, 12 new companies were added to the list of KCBS clients, mainly enterprises in Fruit and Vegetables cluster.

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

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

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

is designed in two parts: data entry and data reporting. The data entry part of the database consists of Baseline entry data, Monthly entry, and Quarterly entry and Action plan. The data reporting part also consists of the reports generated from the entry part of the database.

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

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

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

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

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

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

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

10.2 STATUS OF ESTABLISHED INDICATORS

IR.1.3 (1) Accelerated Private Sector Growth

Indicator: Company Profit Taxes Collected, Kosovo-wide

Baseline set for CY2004: €28,412,404
Target for FY2007: €42,100,000

Taxes reported are made up of:

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

Actual total for FY2007: €57,430,732

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

Tax Administration has a consolidated system for data collection and reporting. Data is received electronically. Tax Administration have information technology department that records the data and prepares reports. Tax Administration have reported on this indicator upon written request made from COP to Director of Tax Administration. KCBS is satisfied with cooperation with Tax Administration. Requests for data to the TA were processed and prepared during the day and send back to KCBS. The only issue is the timeframe of the data, or period covered by these data, e.g. data for last quarter consists of the payments made by the companies to the TA for obligations of previous quarter, while the deadline for the payment of obligations for this quarter is October 15, 2007, and the data will be processed at least 10 days after. Then these data would be included in the next quarter.

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

The figure of €57,430,732 represents the data for the taxes collected till August 2007. Tax Administration sent also the updated data on taxes collected for the period April-June 2007. This report shows that the taxes collected during (April-June 2007), were higher by €5,057,539 than those previously reported by TA. The cumulative number included in this report reflects these corrections made for the previous quarter.

IR.1.3 (2) Accelerated Private Sector Growth

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

Baseline data for CY2003: 3.70%
Target for FY2007: 10.00%.

In FY2007, total exports were €104.6 million, while imports were €1,199.3 million (Data as of July 2007).

Actual cumulative % for FY2007: 8.72%

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

The data for this indicator was collected from Statistical Office of Kosovo. The data covers period from October 2006 till July 2007. SOK didn't process and published any data for August and September, so the data for these months will be included in reports of following periods.

IR.1.3.1 (1) Increased Competitiveness of Targeted Clusters

Indicator: Sales within Targeted Clusters

Baseline data for CY2004:	€35,755,626
Target Increase for FY2007	31.7%.

Cumulative sales - end of FY2007	€212,460,336
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Increase in sales – in Euro	€84,505,327
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Actual % increase in sales:	66.0%
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The definition of this indicator is: Value of goods and services sold during the year is measured as gross business sale. It is an aggregate of all business sales related to the cluster over a given period. This is measured for enterprises that receive KCBS assistance directly or through SAF.

The figures for sales are calculated on enterprise level first, and then aggregated in the category of sales. Total cumulative sales from start of the project to date are €212,460,336. This figure is then measured over the baseline for the same comparative period; for example, if we worked with the company for 33 months (from January 05 till September 07) and we have sales data for these months, that figure will be compared with baseline data for previous 33 months [calculated as 33/12 x annualized baseline data]. Baseline established using this methodology is €127,955,009. So we have an increase over baseline of €84,505,327, which represents 66.0% increase in sales over baseline, and is way above the targeted increase of 31,7%.

IR.1.3.1 (2) Increased Competitiveness of Targeted Clusters

Indicator: Jobs Created within Targeted Clusters

ANNUAL REPORT INDICATOR

Baseline data for FY2003:	Taken as Zero
Target Increase for FY2007	1,100 FTE
Revised target increase for FY2007:	3,000 FTE

Actual job increase in FY 2007:	4,199 FTE
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This indicator is defined as full time equivalent jobs in micro, small, medium and large enterprises resulting from direct KCBS assistance or through the Strategic Activities Fund.

Baseline data was set for the Annual Report at the end of FY 2003 data and was taken at level zero. The same zero level was assumed for FY2004, and subsequent changes were to be measured against this zero level. The total increase of direct employees from the start of the project to date over the baseline is 4,199, including full time [2,993] and part time employees [1,206]. In 2007, KCBS has ensured that records for employment, as for other indicators, have been kept on a quarterly basis, but recorded for each month separately.

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

IR.1.3.1 (3) Increased Competitiveness of Targeted Clusters

Indicator: Labor Productivity

Baseline data for FY2004:	Taken as Zero
Target Improvement for FY2007	15%

Improvement in Productivity in FY2007	16.6%
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This indicator is defined as: decreasing labor involvement in producing the same value of sales in micro, small, medium and large enterprises, resulting from direct KCBS assistance or through the SAF. Later in the course of the project we have revised this approach and now we are using the cost of production per FTE instead of the sales.

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

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

Comparing increase of monthly production over annualized baseline, with baseline FTE, we have revised figure for 2006 (instead -9%, we have now 4.2%) and the increase for FY 2007 has reached 16.6%.

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

Indicator: Value of Capital Investment within Targeted Clusters

Baseline data for FY2004:	Taken as Zero
Target Increase in Investment for FY2007	€4,000,000

Actual Increase in Investment in FY2007	€30,941,217
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This indicator is defined as: increased capital investment by, and in micro, small, medium and large enterprises resulting from direct KCBS assistance or through the Strategic Activities Fund.

Our baseline in PBMS for 2004 was the actual capital investments at the companies with which we were working. This was taken as level zero. Value of capital investment from the start of the project to date is €30,941,217, figure that exceeds LOP target for capital investment.

IR.1.3.1 (5) Strengthened Capacity to Access Credit

Indicator: Value of Financing within Targeted Clusters

Baseline data for FY2004:	Taken as Zero
Target Increase in Financing for FY2007	€10,000,000

Actual Increase in Financing in FY 2007	€11,175,700
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Definition of the indicator: Financing includes commercial bank, non-bank and micro financing of micro, small, medium and large enterprises, resulting from direct KCBS assistance or through financial institutions

Our baseline in PBMS for 2004 was the actual financing at the companies with which we were working. This was taken as level zero. Value of financing from the start of the project to date is €11,175,700. So, the total cumulative increase till the end of FY2007 is €11,175,700.

IR.1.3.2 (1) Improved Business Operating Environment

Indicator: Number of Companies Registered – Kosovo Wide.

ANNUAL REPORT INDICATOR

Baseline data for CY2003:	30,966
Target for FY2007:	51,000

Actual Companies registered in FY2007:	60,308
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Definition of the indicator is: The number of companies registered with Agency for Business Registry in Kosovo.

This figure is updated using the latest report sent by ABRK. The data is as of September 20, 2007.

The figure from last year was 65,051 registered businesses in Kosovo (the data from Publication on SME-s in Kosovo, MTI).

The LOP target for this indicator is 54,000 registered businesses by the end of FY 2008.

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

Indicator: Number of Associations with Strategic Plans

Baseline data for FY2004:	Zero
Target No. Associations with approved strategic plans in FY2007	14

Actual No. Associations with approved strategic plans in FY2007:	9
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Definition of the indicator is: Total number of USAID supported associations with approved strategic plans.

In the first year, KCBS has given much effort in working with associations and assisting them to identify their priorities and how to get there. This resulted in seven (7) strategic plans approved by respective boards of the associations. In the second year the number of associations remained the same. KCBS was concentrated on ensuring sustainability of the associations with whom we had already developed strategic plans, rather than adding new associations to the portfolio. However, in the year three two associations (BCC and KACP) approved their strategic plans.

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

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

Baseline data for FY2004:	Zero
Target for FY2007	10 self-generating > 80% of revenues

Actual No. Associations self-generating > 40% of operating revenues in FY2007:	6
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Definition of the indicator: Value of operating revenues generated from the associations, which are independent of donor agencies' funding, expressed as a percentage of total operating revenues. Revenues include membership contributions with all types of contributions paid to the associations for their direct or indirect facilitation, and may include fees or other contributions.

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

Indicator: Number of Associations employing Permanent Staff

Baseline data for FY2004: Zero
Target for FY2007 8 associations

Actual No. Associations employing permanent staff in FY2007: 12

The target for FY2007 was set that at least eight associations will have employed non-volunteer staff. By the end of FY2007, the number of associations was twelve (12) employing permanent staff (the same figure as in 2006).

10.3 ADDITIONAL INDICATORS AGREED IN APRIL 2005

IR. 1.3.1.2. Improved Quality Control

Indicator: Number and type of standards approved by target associations

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

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

- Number of associations with Quality Standards Committees. *There are four associations (AKA, KAMP, KDPA and SHPUK) that have established technical committees for quality standards.*
- Number of accredited independent testing labs. *Three associations (SHPUK, KAMP and KDPA) signed MOU with Ag Faculty/AVUK that manage tests of their member's products.*
- Number of associations with published products standards. *Kosovo Standardization Agency issues product standards. Two associations (KACP and RCAK) promote these standards to their members.*
- Number of associations with published process standards (best practices). *Three associations (KAMP, KDPA and SHPUK) prepared and published manuals for best practices. BCC approved and published Code of conduct for their members.*
- Number of certified members by associations. *Associations are not entitled to certify or to license their members (Except SCAAK that certifies accountants). However, KDPA is member of the Committee for Licensing under MAFRD for licensing dairy processors. In the process is initiative that also SHPUK would cooperate with MAFRD on issuing licenses to its members as part of similar committee.*

IR.1.3.2 Improved Business Operating Environment

Indicator: Business Environment Index

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

There were seven components that are part of BCI, and for them a total of 27 different measures. KCBS selected three measures, and one associated measure, on which Kosovo scores least satisfactorily and on which KCBS, through its program activities, has the opportunity to make some positive impact. These measures were:

- Cost to Create Collateral (% of income per capita)
- Private Bureau Coverage (borrowers per 1000 capita)
- Cost of Enforcing Contracts (cost as % of debt)
- Number of Unresolved Claims

It was intended that the methodology to be used for measuring these four indicators would be similar to that used for the BCI in 2005 and would be based on research and analysis of laws and regulations, with inputs and verifications from local government officials, lawyers, business consultants, and other professionals.

However, KCBS has not proposed another assignment for a consultant to conduct a survey, and no survey has been conducted in FY2006 or in FY2007. The KCBS project focus has moved away from areas where the project's ability to influence change is limited, and to areas where resources can expended can have a more immediate and practical benefit.

IR.1.3.2.1 Strengthened Business Consulting Services

Indicator: Number of businesses using business consulting services

The number reported is 636; it consists of the companies that KCBS is working with, and also companies which benefited from voucher scheme of MTI and KCBS. The data was also collected from members of Business Consulting Council. The creation of the Business Consulting Council has provided a medium for monitoring improvements in this ratio, and efforts will be made during the last year to develop with the Council a methodology for assessing the respective percentages. KCBS will then perform survey on business consulting companies in Kosovo to get an estimate of the number of businesses using consulting services, and also number and types of services provided by business consulting companies and/or individuals.

IR.1.3.2.2 Improved Capacity for Policy Dialogue

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

The following is a list of recommendations that are in the process of implementation, or have just started the process:

- Alliance of Kosovar Businesses (AKB) received a grant from KCBS for a project to work on reducing the informal economy.
- MTI organized Meeting of Industry Roundtable, and one of the conclusions was to organize public promotion campaign for the purpose of raising public awareness on the importance of industry standards

- AKB and OEK were involved in the consultative process for drafting the long-term development strategy for Kosovo. The recommendations of the infrastructure task group were considered in terms of the development strategy.
- Decentralization of education and establishment of apolitical accreditation bodies were the recommendations of the task group suggested to the Assembly of Kosovo, i.e. Assembly Committee for Education.
- KCBS organized meeting with associations, Statistical Office and EAR to improve statistical data collection.
- OEK is preparing grant proposal for Legal Office to strengthen provision of arbitration and other legal services for commercial disputes

10.4. STATUS OF THE NEW COMMON INDICATORS

Total number of companies that KCBS assisted from the beginning of the project is 111. However, there are more companies and individuals that are assisted directly by KCBS or through associations. We are capturing that number of assisted entrepreneurs through indicator 2 – Number of entrepreneurs receiving services supported by USAID.

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

The total number of USAID–assisted enterprises to date in FY 2007 is 111 (plus Blueberry collectors aggregated as one client). The number represents direct KCBS clients since the start of the project.

Indicator 2: Number of entrepreneurs receiving services supported by USAID

The actual number of entrepreneurs in FY 2007 is 594. This number represents clients assisted by KCBS through associations. From the time that we have started to collect the data for this indicator (2005), the cumulative number of entrepreneurs receiving services supported by USAID to date is 1,479. [This figure represents the number of people receiving services delivered by the service companies; one entrepreneur receiving three services counts as three].

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

The total number of companies using accounting assistance in FY 2007 is 37. This is the number of firms received bookkeeping and accounting services supported by KCBS. From the time that we have started to collect the data for this indicator (2005), the cumulative number of firms using improved accounting and reporting as result of USAID-assistance to date is 148.

Indicator 4: Number of people trained

The total number of people trained in FY 2007 is 4,591. From the time that we have started to collect the data for this indicator (2005), the cumulative number of people trained to date is 13060. [This figure represents the number of people attending trainings; one person attending three trainings counts as three].

People attending activities through USAID/KCBS assistance in 2007:

• At trainings, field days, seminars, workshops and presentations:	3,730
• At conferences:	376
• At roundtables:	141
• Through study tours and trade fairs outside Kosovo:	<u>344</u>
	4,591

In addition, USAID/KCBS also organized and/or funded four significant Trade Fairs within Kosovo, which attracted considerable attendance. These were approximately recorded as:

AKA/AKB Agricultural Fair in March	4,000
Second Finance Fair in April	1,800
American Chamber of Commerce Careers Fair in April	800
Association of Wood Processors Annual Fair in May	8,000

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

The number of full time jobs of 4,199 is related to the IR.1.3.1 (2) Jobs created within targeted clusters. These are the additional jobs created over the baseline.

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

The total number of USAID-assisted transactions completed by local firms with US and other foreign firms in FY 2007 is 2,479. From the time that we have started to collect the data for this indicator (2005), the cumulative number of USAID-assisted transactions completed by local firms with US and other foreign firms to date is 4,452. Below is the number of transactions segregated by the type and origin in the FY 2007:

- Number of importing transactions
 - From US firms 35
 - From other foreign firms 1,736
- Number of exporting transactions
 - To US firms 1
 - To other foreign firms 707

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

The total value of transactions of USAID-assisted firms with US and other foreign firms in FY 2007 is €35,151,150. From the time that we have started to collect the data for this indicator (2005), the cumulative annual value of transactions of USAID-assisted firms with US and other foreign firms to date is €81,361,553. Below is the value of transactions segregated by the type and origin in the FY 2007:

- Value of importing transactions
 - From US firms €1,218,420
 - From other foreign firms €27,791,036
- Value of exporting transactions
 - To US firms 7,200
 - To other foreign firms €6,134,494

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

There was no activity performed on trade and investment.

10.5 Stakeholder Satisfaction Survey

A recommendation from the mid-Term evaluation of the KCBS project undertaken for USAID by SEGURA/IP3 Partners LLC in 2006, the consultants was that KCBS should conduct Client Satisfaction Surveys semi-annually using independent contractors. Early in Year Three, KCBS contracted with a local business service provider, MDA – Management and Development Associates – to carry out the first survey.

59 Cluster Clients Surveys and 40 Stakeholder Surveys were completed. In answering questions – other than those requiring a straight “Yes” or “No” answer - interviewees were asked to rate their answers 1 through 5, where 1 = poor; 2 = fair; 3 = satisfactory; 4 = good; and 5 = exceptional. If some interviewees answered a question with “Not Applicable” these interviewees were excluded from the size of the sample when determining the overall average response to that question

On the 15 questions that were asked of Cluster Clients, which required a rating answer, the average score was 3.85; on the 12 questions that were asked of Stakeholders, which required a rating answer, the average score was 3.98.

The final question asked of interviewees was “what other services and assistance did they think KCBS should provide to the business community? (services, clusters, events, workshops, seminars, trainings)”. [It should be noted that additional financial assistance as an answer was excluded]. The most frequently made requests by Cluster Clients were for more trainings, seminars and workshops; technical assistance from experienced international experts; and assistance in understanding and getting access to regional markets. The Stakeholder interviewees also most frequently requested more trainings, seminars and workshops; they also requested assistance in certification processes, and more involvement by KCBS with the financial institutions.

MDA concluded that overall, Cluster Clients were satisfied with the level of advisors and experts provided by KCBS. However, MDA said that KCBS should stress the importance of the involvement of cluster clients in the KCBS project, and should strive to reach out to every business belonging to the cluster sectors and provide them with information regarding the services that KCBS can provide. MDA recommended that KCBS conduct a needs analysis with all cluster clients to help when compiling the yearly plan for educational seminars and workshops. MDA also recommended that KCBS prepare a weekly or monthly newsletter in which KCBS services would be explained and offered to all cluster clients.

As a result of the Stakeholder survey, MDA made similar recommendations that KCBS improve the communication of its role and activities, as well as the project’s achievements. MDA also suggested that KCBS should research the possibility of including other clusters in the program. While the attendance in seminars/workshops of surveyed stakeholders was 93%, and the quality and quantity of seminars/workshops scored 3.8 out of 5, MDA recommend that KCBS should implement better quality control when implementing

seminars/workshops. This conclusion is prompted as a result of some of the comments received in answer to the final question about additional services.

In response to these recommendations, KCBS has initiated:

- KCBS started to involve more companies in a cluster, other than its database clients, in trainings, workshops and seminars;
- KCBS continued to spread the technical advice, given directly to its database clients, to a wider constituency through cluster associations, especially by means of brochures;
- KCBS has responded to requests by clients for educational seminars and workshops in fields such as marketing, standards, and improved technical practices, and these are included in this Year Four work plan; and
- KCBS will publish in Year Four a bi-monthly E-Newsletter, with wide distribution list of clients and stakeholders, reporting on project interventions in the economy.

ANNEXES

- Annex 1 Financial Data
- Annex 2. Performance Data
- Annex 3. Short Term Technical Advisors [STTA] Summary of Assignments
- Annex 4. Targeted Results 2007
- Annex 5. Hierarchy of Objectives
- Annex 6. Brochures Produced in Year
- Annex 7. Glossary of Acronyms

PERFORMANCE MONITORING REPORT

SO 1.3 Accelerated Private Sector Growth

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

SO# IR#	SO Name	Unit measure	Base-line Year	Base-line Value	2004 Target	2004 Actual	2005 Target	2005 Actual	2006 Target	2006 Actual	2007 Target	2007 Actual	2008 Target	2008 Actual
1.3	Accelerated Private Sector Growth													
Indicators														
1	Value of company profit taxes collected	Euros	2003	28,412,404	34,100,000	42,840,000	38,200,000	39,228,497	40,500,000	38,054,639	42,100,000	57,430,732	43,800,000	
2 (AR)	Exports as a percentage of imports	Percent	2003	3.70%	4.00%	4.90%	6%	5.59%	8%	6.11%	10%	8.72%	12%	
1.3.1	Increased Competitiveness of Targeted Clusters													
Indicators														
1	Increase in sales among targeted enterprises	Euro	2003	0	0	35,755,626	10,000,000	6,682,433	20,000,000	34,720,638	35,000,000	84,505,327	50,000,000	
	% increase in sales over current baseline (€127,955.009)	Percent	2004	0	0	0	5%	22.2%	10%	44.5%	31.7%	66.0%		
2 (AR)	Jobs created within targeted clusters	Number	2003	0	0	0	200	327	600	1,860	1,100	4,199	1,700	
2a.	Jobs created within targeted clusters (Revised targets of KCBS)	Number	2003	0	0	0	400	327	1000	1,860	3,000	4,199	5,000	
3	Labor productivity among targeted enterprises	Percent	2005	0	0	0	5%	-11%	10%	4.2%	15%	16.6%	20%	
1.3.1.1	Improved Productive Capacity of Private Enterprises													
Indicators														
1	Increased capital investment among targeted enterprises	Euro	2004	0	0	0	1,500,000	7,881,475	3,000,000	20,985,588	4,000,000	30,941,217	5,000,000	
1.3.1.2	Improved Quality Control													
Indicators														
1	Number and type of standards approved by target associations	Number	2004	0	0	0	0	0	TBD	0	TBD	0	TBD	
1.3.1.3	Strengthened Capacity to Access Credit													
Indicators														
1	Increased financing among targeted enterprises	Euro	2003	0	0	0	3,000,000	3,380,200	6,000,000	9,664,300	10,000,000	11,175,700	16,000,000	

PERFORMANCE MONITORING REPORT

SO 1.3 Accelerated Private Sector Growth

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

SO# IR#	SO Name	Unit measure	Base-line Year	Base-line Value	2004 Target	2004 Actual	2005 Target	2005 Actual	2006 Target	2006 Actual	2007 Target	2007 Actual	2008 Target	2008 Actual
1.3.2	Improved Business Operating Environment													
Indicators														
1 (AR)	Number of companies registered - two quarters	Number	2003	30,966	37,000	40,703	42,000	48,497	47,000	65,051	51,000	60,308	54,000	
2	Business Environment Index (reduction of business constrains)													TBD
	a. Cost to create collateral - % of income per capita	Percent	2004	22.0%			N/A	N/A	16.0%	0	12.0%	0	8.0%	
	b. Private bureau coverage - number of borrowers per 1000 capita	Number	2004	46.8			N/A	N/A	100.0	0	200.0	0	400.0	
	c. Cost of enforcing contracts - cost as a % of debt.	Percent	2004	29.0%			N/A	N/A	26.0%	0	23.0%	0	20.0%	
	d. Number of unresolved claims	Number	2004	N/A			N/A	N/A	TBD	0	TBD	0	TBD	
1.3.2.1														
Indicators														
1	Number of businesses using business consulting services	Number	2004	0	0	0	N/A	N/A	TBD	0	TBD	636	TBD	
1.3.2.2	Improved Capacity for Policy Dialog													
Indicators														
1	Number of Private-Public Task Group irecommendations implemented	Number	2004	0	0	0	N/A	N/A	TBD	0	TBD	-	TBD	
1.3.2.3	Business Associations Responsive to Client Needs													
Indicators														
1	Number of associations with approved strategic plans	Number	2004	0	0	0	6	7	10	7	14	9	20	
2	Percent of non-donorrevenues generated by the associations	Percent	2003	0	0	0	4>50%	4>50%	7>70%	4>40%	10>80%	6>40%	14>80%	
3	Number of associations employing non-volunteer staff	Number	2004	0	0	0	3	7	5	12	8	12	14	

PERFORMANCE MONITORING REPORT

SO 1.3 Accelerated Private Sector Growth

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

SO# IR#	SO Name	Unit measure	2005 Actual	2006 Target	2006 Actual	2007 Target	2007 Actual	2008 Target	2008 Actual
1.3	Accelerated Private Sector Growth								
1	Total number of enterprises benefiting from USAID business development assistance-Direct clients	Number	56	62	85	90	111	100	
2	Number of entrepreneurs receiving services supported by USAID-Through KCBS supported associations	Number	56	67	829	800	594	1,061	
3	Number of firms using improved accounting and reporting as result of USAID assistance *	Number	40	48	71	58	37	70	
4	The number of people trained	Number	4,113	4,500	4,276	4,900	4,591	5,400	
5	Number of full time jobs in excess of two weeks	Number	327	1,000	1,860	3,000	4,199	5,000	
6	Number of USAID-assisted transactions completed by local firms with US and other foreign firms	Number	795	950	1,178	1,140	2,479	1,370	
7	Total annual value of transactions of USAID-assisted firms with US and other foreign firms	Euro	26,572,245	31,800,000	19,638,158	38,000,000	35,151,150	45,600,000	
8	Number of people trained in trade or investment	Number	None	None	None	None	None	None	
9	Has your mission engaged in programs to improve the business environment	Yes/No	Yes						
10	Did your program described above have a positive impact	Yes/No	USAID						

* See Comment in the report, Status of the Indicators, Part C. Indicator 3

SUBJECTS OF SHORT TERM TECHNICAL ADVISORS' REPORTS

Development of Profitable Products for Business Associations – October 2006

The purpose of this assignment was to provide technical assistance to current recipients of association management grant awards by teaching KCBS-sponsored associations how to develop profitable product lines and design a for-profit services portfolio. In this context, the consultant will provide direct assistance to boards and staff to turn specific plan goals into dues financed or fee-paid products and/or service.

Post-Harvest Handling and Storage of Fruits and Vegetables – August & October 2006

The purpose of this assignment was to continue assistance in post-harvest handling and storage establishment, which were initiated in 2005 by KCBS. The original group of three beneficiaries of this assistance will be doubled to six. The primary avenue toward creating more employment and higher incomes in the Kosovo fruit and vegetable sector of the agricultural economy is to assist associations and companies become more vertically integrated. This can be accomplished by enhancing the value-added content of their existing products and by creating new products, which will then allow them access to new markets. The first steps in this process are to perform grading, sorting and packing of fresh products, or products destined for processing that require standardization. The second step is to create alternatives to immediate post-harvest sales or processing, when market prices are depressed, through cool or cold storage.

Technical Assistance in Branding and Promotions [1] – November 2006

The purpose of the assignment was to assist selected dairy processors and firms marketing dairy products with guidelines for brand identification merchandising and promotion. Additionally, the consultant conducted a number of training sessions and developed training materials to be used by KCBS staff and local institutions in future trainings.

Evaluation of Forest Management in Kosovo's Publicly Owned Forests – January 2007

KCBS is providing technical assistance to the Ministry of Agriculture, Forests and Rural Development, and specifically to its Kosovo Forests Agency [KFA], in preparing for the sustained yield management of Kosovo's forests and eventually forest and chain-of-custody certifications. KCBS has identified activities that need to be accomplished to pave the way for forest certification. An expert specialist, familiar with the process and experienced in implementing the process, particularly in Eastern European countries, provided advice and identified activities, which will be performed over the next two years, in preparation for forest certification.

KCBS Satisfaction Survey – January 2007

The purpose of this assignment was to conduct a survey of the various stakeholders impacted by the Kosovo Cluster and Business Support Program. The Program had completed its first two years, and has two more years to complete. The survey evaluated the extent to which stakeholders were informed about the program, particularly its main objectives; their relative satisfaction with the delivery of the program by the KCBS team; and the relative benefits that they have gained from being a stakeholder in the program.

Marketing and Export of Dairy Products – March 2007

The purpose of this assignment was to work with local dairy processors (Abi, Bylmeti, Ajka, Rona, and Golaj) to enter the regional markets of Albania and Macedonia with at least two dairy products. The consultant identified potential buyers from these countries to determine dairy product marketing opportunities and supply needs. The goal is to market at least 20MT of domestic dairy products annually to Albania and/or Macedonia.

Review of Program Development of Profitable Products for Business Associations – March 2007

The purpose of this assignment was to provide technical assistance to all current recipients of association management grant awards (eight associations). Under a previous STTA assignment in September 2006, technical assistance was provided to six KCBS sponsored associations on how to develop profitable product lines. This later assignment was mainly a follow up on the earlier STTA interventions – to gauge progress and assist in implementation of the product development plans compiled under the first STTA intervention and give advice on expanding the portfolio of products for each association. In addition, the consultant worked with two new associations that did not benefit from the first intervention and walked them through the same steps of product development process. The consultant worked directly with the boards and executive staff of all associations to turn specific product development plans into dues financed or fee-paid products, as well as design new product development plans as needed.

Dairy Processing Plant Product Standardization and Processing Efficiency – March 2007

A dairy processing specialist assisted with the implementation of product standardization and improved process efficiency in selected KCBS dairy processor client plants. The goal of this assignment was to increase revenue by at least 10% at 3 client dairy processors with related improvement in profits.

Technical Assistance in Branding and Promotions [2] – March 2007

The purpose of this assignment was to promote increased sales of selected domestic food products through local food retailers by conducting training seminar for representatives from food processors, marketing organizations, and food product distributors; by conducting private, on-site interventions/consultations with selected food processors to help design a promotional campaign for an existing product or a rollout campaign for a new product; and by developing a training program outlines and providing materials regarding steps necessary to successfully launch a new product.

Alfalfa Seed Multiplication Plots – March 2007

Based on previous local and regional market research, KCBS determined it is justified and important to proceed with alfalfa seed multiplication trials in 2007. The purpose of this phase is to explore the production economics and feasibility of alfalfa seed multiplication in Kosovo. Through this activity, KCBS determined that it is possible for Kosovo to reduce imports of alfalfa seed by replacing some of them with local seed production in the future and economically produce alfalfa seed for regional markets.

Improved Apple Marketing Economic Impact Study – April 2007

The purpose of this activity is to measure the impact on the price of apples taken from storage which are properly graded, sized and packed into good quality, logo-printed, cardboard cartons, versus the price of apples sold in the traditional way, which are sold unsorted out of storage in banana boxes. The consultant will monitor these parameters and the marketing process and report the findings. Assuming the results are favorable and conclusive, they will be widely distributed and publicized to encourage other producers of other crops to do likewise.

Increasing Quality of Concrete and Concrete Related Products - April 2007

The purpose of the assignment was to provide technical assistance to ready mixed concrete producers regarding quality control (QC) testing based on European standards, developing new portland cement concrete mixes to meet the European standards, and introduce the use of chemical additives, specifically water reducing and air entraining admixtures. The goal

was to improve the quality of concrete products, increase production, and decrease operation costs in order to expand the local market.

Improving Pasture and Forage Production - April 2007

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

GMP Implementation in Meat and Slaughter Plants – May 2007

The purpose of this assignment was to implement work with Kosovo slaughterhouse and meat processing companies in Good Manufacturing Practices (GMP), the foundation for Hazard Analysis and Critical Control Points (HACCP) systems. This technical assistance helped KCBS develop an appropriate program to assist the meat industry in Kosovo to achieve and sustain a more profitable industry by improving the functioning of their meat processing lines to produce the highest quality products for the least cost. This is necessary for them to gain access to EU and other international markets.

Terracotta Products Production [Phase I] – May 2007

The purpose of this assignment was to review and evaluate the production and operations in the manufacture of terracotta products at newly-privatized Tulltorja Company. The goal is to increase production of terracotta products (brick and blocks), increase quality, and reduce production cost in order to become more competitive with imports, and for the export market. The consultant worked with factory management in order to implement standards and prepare production procedures, and left an action program for the management to execute before he returns in the last quarter of 2007.

Blueberry Marketing – July 2007

The purpose of this assignment was to build on the success of the 2006 blueberry season, Consultant provided selected blueberry handlers, processors and exporters with technical assistance and guidance in product post-harvest handling, packaging and marketing, including especially providing solid contacts with new international buyers. Additionally the Consultant conducted training sessions and developed training materials to be used by KCBS staff, beneficiaries and local institutions in future trainings.

No. Ref	TARGETED RESULT DAIRY CLUSTER - MILK PRODUCTION	OUTCOME
1.1	20 farmers adopt new technologies/practices as a result of demonstration farm visits and training.	As results of the model farm visits and training, three dairy farmers have installed closed pipeline-milking systems while 15 farmers did one or more of the following; improved ventilation, lighting or bedding of the dairy barn or built wooden hutches for raising calves.
1.2	8 dairy farms enrolled in DHI program by March 31, 2007 and 15 enrolled by September 30, 2007	Six dairy farmers were enrolled in the DHI pilot 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.
1.3	10 new farmers are using Kosovo-produced calf hutches by September 30, 2007	To date KCBS is aware of five dairy farmers that have built wooden calf hutches based on industry accepted standards. Also there now is a local distributor of the fiber glass/plastic calf hutches made in Germany.
1.4	Develop a base feed mixes for dairy cows, calves, heifer and dry cow feeding programs	The new base mix formulas were formulated, and instructional material on their usage and package design were provided to Fauna who started production
2.1	Raw Milk Quality Decree Adopted and put into effect by MAFRD	Milk Decree was signed into law in September, 2006. Implementation proceeded at an increasing pace throughout the year.
2.2	Assist in establishing one laboratory for testing raw milk quality, especially to facilitate mastitis control	The KVFA laboratory for testing milk quality is established and operating on a continuing basis. The rapid response mastitis control pilot system was completed in September, 2007. The system will continue with some refinement.
2.3	10 farmers testing 30 forage samples total resulting in a 10% reduction in feed costs, by determining actual forage composition compared to estimated forage quality.	Average milk production in liters/day on the participating farms increased by 5.7% after the intervention. A similar reduction in feed cost was estimated but difficult to determine because of the delayed response in getting forage test results from the Pristina Ag Faculty.
3.1	Develop several options for milk supply/purchase contracts between dairy farmers and processors. Have one implemented in two dairy processors	A standard contract was developed, and Bylemti and Abi implemented it with their milk suppliers. It was later extended to other dairy processors.
4.1	Two dairy farmers trained in financial record keeping - to be replicated by KAMP for additional farmers.	Fatmir Selimi was 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
4.2	Help commercial banks and MFI to develop a dairy equipment finance program, Have at least one in place by Dec. 31, 2006	Raiffeisen Bank was convinced to lower their minimum loan threshold from 5,000 to 2,000 € for farm loans on milking equipment and related. YTD they have made 88 loans with a total value of 307,500 € all within the 2,000 to 5,000 € loan amount range.
	TARGETED RESULTS DAIRY CLUSTER - DAIRY PROCESSING	
1.1	Increase revenue by at least 10% at 3 client dairy processors by establishing milk standardization procedures.	Kabi, Rona, Golaj and Shala have increased their revenues by approx. €10 per day i.e.a 12% increase in average daily revenues
1.2	Establish one new local consulting company capable of providing technical support to dairy processors	An existing company, Fauna, was assisted in acquiring the ability to provide pest control services for dairy processors and other food companies. Consult company from Gjakova was identified as a waste water treatment consulting company.
2.1	At least two dairy processor clients testing finished products in a credible laboratory on a routine (at least monthly) basis	Five dairy processor clients are continuing to test 3 to 5 finished products on a monthly basis at the Land O Lakes Skopje laboratory

PERFORMANCE AGAINST THIRD YEAR WORK PLAN TARGETED RESULTS

ANNEX 4

TARGETED RESULTS DAIRY CLUSTER - DAIRY PROCESSING Continued		
2.2	2 dairy processor clients complete GMP installation.	Bylmeti has completed GMP installation. Golaj is in the process and expects to complete installation by year end. Abi has completed the written documentation for GMP but will not be able to practice all requirements until their plant privatization process is completed.
2.3	6 MCCs supplying 2 dairy processor clients complete GMP installation in project year 3.	GHP has been installed in the following MCC's; Orllan, Krusha E Vogel, Krusha E Madhe, Mamusha, Bec, Krelan and Korenica. They supply 5 different dairy processors.
2.4	One dairy processing training center training established, with 5 new potential dairy processing employees trained.	Implementation of this goal was delayed due to budget constraints.
3.1	Successfully enter on a sustainable basis one regional market with sales of at least 20 tons of dairy product by September 30, 2007	This result was not achieved based on KCBS assistance as only one shipment of 7.5 ton was made via a KCBS STTA linkage made for Bylmeti. However Bylmeti continues to export cream filled peppers to Albania (12.5 ton in the project year 4th qtr.) through his own distributor in Albania.
3.2	Improve the packaging design, labeling and marketing of dairy products at 3 processors in order to increase project Year 3 sales over Year 2 sales by 10%.	KCBS assisted the following with specific packaging issues for one or more products. Abi with white cheese, Bylmeti with cheese and Golaj with cheese and yogurt. All have increased sales by more than 10% year on year due in part, but not solely to this assistance.
3.3	Increase Year 3 sales of at least 2 selected domestic dairy products through one supermarket [Ben Af?] by 15% over Year 2 sales.	This result was not achieved.
4.1	Assist at least one dairy processor in developing a 3 year business plan instrumental in helping acquire needed credit	This result was not achieved.
TARGETED RESULTS MEAT CLUSTER		
1.1	Conduct a Pilot Program demonstrating improvements in ewe milk production and the reduced time for lambs to reach 25 kg weight.	Phase I Completed – KCBS at the Agricultural research farm created two groups of local sheep breed. The second phase to introduce new improved breeds was left for Year Four due to delays in approval of a grant for importing the new sheep breed, Lacaune.
2.1	Support installation of GMP in at least one meat processor by September 30, 2007	A prerequisite check list for GMP has been developed and Arqe Iko and PQS have started to implement GMP
2.2	Improve sheep cheese yield by 10% due to better quality of milk and better procedures	KCBS prepared a plan to develop a sheep value chain pilot project in Prizren and Dragash area with the Sharri dairy processor – Prizren. The pilot project will cover 10 larger sheep farmers and will establish two milk collection centers for sheep milk in Year Four
3.1	Facilitate the export of 2,000 lambs by September 30, 2007	Only one shipment of 450 lambs were made to Bosnia, as part of an agreement between Lijanoviqi, meat products factory in Bosnia and Delfin, a Kosovo company
3.2	Facilitate the domestic and export purchase of 50 tons of wool	KCBS identified sales opportunity for wool in Bulgari, but Bulgaria does not recognize Kosovo documentation; KCBS is now working with the FAO project in Dragush for potential export of some wool to England.
3.3	Help at least one dairy processor successfully enter the sheep cheese market on a sustainable basis.	KCBS linked Sharri dairy plant with six larger sheep farmers from Prizren region. The dairy plant purchased 600 liters per day of sheep milk and processed it into Sharri Cheese.

	TARGETED RESULTS MEAT CLUSTER Continued	
4.1	At least one sheep farmer keeping good records with a business plan developed	Mr. Hysen Bytyqi was contracted to work with 3 sheep farmers on implementing an accounting program for their farms during the period January 25 th through May 15 th .
	TARGETED RESULTS ANIMAL FEED & CROPS CLUSTER	
1.1	Conduct market research on alfalfa seed market in region	This research was concluded with the results indicating that there is enough local and regional demand for alfalfa seed to warrant seed multiplication in Kosovo
1.2	If results of 1.1 are positive then conduct field trials	Alfalfa field trials were established at five different locations and have been used in training for farmers and seed processors. They will continue to be monitored in the 4th year of the KCBS project.
1.3	5 farmers adopt better pasture management practices resulting in a 50% increase in yield over native pasture.	Nine farmers from different geographical regions Peja, Podujevo Leposaviq and Shterpece as a result of following advice from KCBS for proper timing of fertilizer usage and weed control experienced pasture yield increases of 75% compare to natural pasture.
1.4	10 farmers independently perform a total of 20 soil tests.	During the second quarter the Peje Agriculture Institute tested 280 soil samples from more than 30 farmers; and in third quarter, 92 soil samples were tested from 7 farmers who paid themselves for these sample tests
1.5	5 farmers have planted new Alfalfa varieties.	KCBS knows of more than 5 farmers who have planted new alfalfa varieties and based on the sales of new alfalfa varieties many more have planted them.
2.1	20 farmers using wrapped bales as demonstrated by the rotobaling SAF grant; and 20 farmers harvesting corn silage for the first time.	47 farmers began using wrapped bales for the first time this year. More than 20 farmers began harvesting corn silage for the first time this year. The exact number is not known as harvesting is still taking place at the close of project year 3.
3.1	Develop and support marketing coops/marketing organizations for grain crops	KCBS worked with 29 small storage/collection points established to supply four different flour mills. More than 4500 tons were collected through this system this year.
3.2	Cooperate with media on at least 6 TV presentations encouraging the use of new crop varieties, fertilizers, and other improved agronomic practices.	KCBS, 3 Major Ag Input supply clients and RTK cooperated to participate in 5 different presentations on the RTK TV Ag Show.
3.3	Develop one example contract between farmer and buyer to be used as collateral in obtaining working capital to fund farmers crop production.	MOU agreements were signed for purchasing of crops between grain consumers, Koni-Soni, Sazli, Jazzi and Gjini Tag and crop producers Dardania farm, Agro seme and Triticum Com. Triticum Com was able to receive a loan from Raiffeisen Bank partly because of this agreement.
4.1	5 farmers keeping crop records adequate to verify appropriate plant protection product usage, varieties planted, fertilizer used, seeding rates, tillage practices, etc.	KCBS continued to work with five crop producers Rudina, Dardania, Xhini tag, Triticum com and Agrounioni on proper record keeping. These farmers are seeing better results in plant protection and yield since they started keeping proper records.

	TARGETED RESULTS POULTRY CLUSTER	
1.1	Produce day old chicks by May 31, 2007 from selected farm stocked with breeder hens by February 28..	This result was achieved in September. The primary reason for the delay was a change in plan to use a heavy breed for parent stock instead of the originally planned lighter breed.
1.2	Provide training for a wider use of feed formulation software. 5 integrated poultry feed manufacturers using the software and realizing a 10% feed cost savings by 30 April, 2007	Koni-Soni, Adi, Maluku, Jazi and Fit Dani all have the feed formulation software. Even so, because of the higher feed ingredient costs this year a 10% feed cost savings compared to previous quarters was not achieved.
1.3	Feed trials at a selected feed manufacturer showing a 10% cost savings by April 30, 2007 by using pelleted feed.	breeder parent stock. The preliminary results showed that Jazi was operating the pelleter within industry standards. The final results of the tests are expected to show a cost savings of 10% or more. It will be important to monitor the pellet production over a longer period of time to demonstrate actual savings.
2.1	Install GMPs in at least one feed manufacturer by September 30, 2007	This has been delayed to project year 4
3.1	Show the cost savings of using pelleted feeds by establishing 2 controlled feeding trials at two different farms. Expect savings of at least 10%.	This has been delayed to project year 4
3.2	50% of domestic eggs sold in commercial markets graded by July 31, 2007.	Best estimates are that 22 to 30 % of the eggs sold in commercial markets are being graded.
4.1	Improved record keeping and business plans developed in at least 3 poultry producers and 1 feed manufacture not producing poultry	Accounting software has been developed and installed in 3 poultry/feed clients which will significantly improve business planning.
	TARGETED RESULTS FRUIT AND VEGETABLES CLUSTER	
1.1	Assist at least two farmers' associations or groups of farmers to form cooperatives or marketing companies	Two groups of farmers, one in Rahavec and one in Peje, completed their registrations as new cooperatives
1.2	Build on success of 2006 blueberry collection season by increasing harvested tonnage for 2007 by 25%	Due to a warm winter and an exceptionally hot, dry summer, blueberry yields were down significantly. Fortunately, due to KCBS efforts, berries were collected over a larger area and prices were higher in 2007 than 2006, but the target was not met.
1.3	Assist 4 existing and 3 new fruit tree nurseries to expand production by 30%, and distribute 5,000 fruit trees to farmers	Wells were drilled at four nurseries and drip irrigation systems have been installed at five nurseries. But, delays were experienced in procuring the last of the equipment, which will not arrive until October 2007.
2.1	At least two F&V processors implement GMP programs and are ready for the last steps of HACCP certification.	Two F&V processors were made ready for HACCP. One, Agroprodukt Commerc obtained full certification in August; the other, Pestova, should be certified by end October 2007.
2.2	Innagurate Grading/Sorting/Packing lines and/or Sizing/Drying systems for apples, potatoes, blueberries and/or juniper berries by at least 3 organizations	Equipment/systems have been installed for three organizations and a fourth one will be completed soon
2.3	Assist at least five farmers or entripreneurs to install cold storage facilities, with apple prices expected to be 80% higher.	Construction of four refrigerated storage chambers was completed at UVB Association in Blaga e – Peje, in time for the fall apple harvest, and a new facility for handling, freezing and frozen storage was completed at As Promet in Leposavic

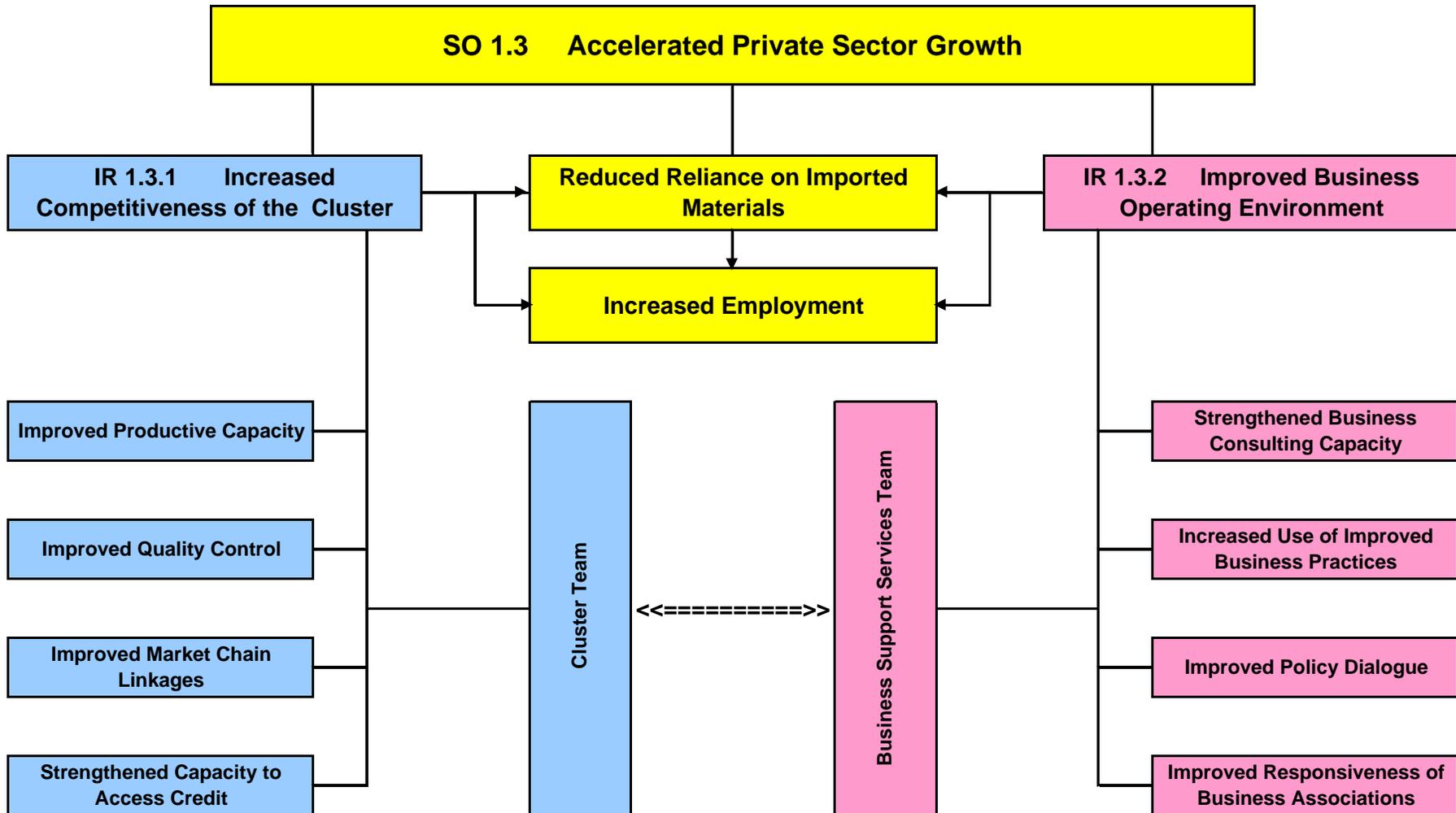
	TARGETED RESULTS FRUIT AND VEGETABLES CLUSTER Continued	
2.4	Develop a Kosovo apple logo and arrange a donation of 6,000 cardboard cartons to prove that Grading/ Sorting/Packing apples will raise income by at least 20%	Cartons were distributed and a local STTA hired to monitor the economic impact. Maximum price increase was 20%.
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.	Two key agribusiness people attended, along with a F&V Specialist, and materials from exhibitors have been distributed to interested parties
3.1	At least two producer groups sell fresh products directly to wholesale traders for the first time.	Following the successful Marketing and Trade Linkages conference in March, several linkages were made between these two groups.
3.2	At least two producer groups sell products to processors for the first time.	Following the successful Marketing and Trade Linkages conference in March, several linkages were made between these two groups.
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.	Staffs at three commercial banks and four MFI received in-depth training in lending to agriculture. All seven institutions started the process of creating new loan products, policies and procedures.
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.	An acceptable record-keeping system was developed, but two F&V clients who have not previously applied for loans have not been found.
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.	Acceptable record-keeping systems and farmer-friendly forms were developed, and a pilot project has assisted five farmers apply for loans for the first time.
	TARGETED RESULTS CONSTRUCTION MATERIALS CLUSTER WOOD PROCESSING	
1.1	Build capacity at both Korenica and Ukaj so that by September 2007 each is producing three containers for shipment to Swedeco per month.	Not achieved for reasons set out in Section 4.1 of this Report - essentially due to the withdrawal of Swedeco from the initiative.
1.2	Create a sub-supplier network for Korenica and Ukaj which involves at least four other Kosovo manufacturers - two by end March and two more by end July.	Parketeria in Ferizaj was set up to supply wearlayers; and Druri sawmill near Xerxes has invested in equipment to supply sawn lumber. However, the cancellation of the Swedeco involvement in EWF made these linkages redundant.
1.3	Develop a pilot program for the production of Briquettes using the need for timber stand improvement as the catalyst.	Postponed until Year Four and dependent on progress made by the MAFRD/KFA regarding reforestation and forest management plans.
1.4	Follow a Road Map - to be developed in Q1/FY 2007 - for the path leading to Forest Certification in at least two Kosovo forests	Road map is being followed albeit at a slower pace which does not conform to the original schedule. Forest Management Plans are being prepared and a National Working Group is being established. Efforts are being made to control illegal logging.

TARGETED RESULTS CONSTRUCTION MATERIALS CLUSTER NON-WOOD BASED PRODUCTS		
1.1	Working with former SOEs, Silcapor, Tulltorja, FAN and the Trasing Group, assist in increasing output from the four plants combined by 20%.	Combined increase in sales in 2007 over 2006 was 61%. Individual company increases ranged from 37% FAN to 93% Tressing.
1.2	Assist the RCAF in implementing a program for recycling demolished construction materials and using the recycled material for new construction	RCAF made overtures to the Municipalities to join in this program but without success. Two KCBS clients, Escavatori and Kag Asphalt, have added recycling to their business activities.
1.3	Assist three manufacturers of polystyrene thermo insulation materials to increase their capacity usage from 30% to 60% and increase sales	Capacity usage increased by at least 30% and imports substituted. Would have been higher had a fire not destroyed one manufacturer's plant.
2.1	Develop more efficient mix designs for members of the Association of Concrete Products Manufacturers, and assist in upgrading of testing laboratory(ies)	An STTA produced new mix designs for the Association members. These were disseminated to a wider audience at the successful KACP seminar "Concrete in Construction" in September.
2.2	Endeavor to ensure procurement practices for new road construction are professionally produced, are transparent, and that laws regarding construction are actually enforced.	RCAF was courageous in protesting improper awards. Media were alerted, but Government has still not modified their procurement practices to enforce the existing laws.
3.1	Correct practice of importers undervaluing imported goods to make them more competitive with locally produced products.	Customs advised that without more data available at customs, and without better monitoring equipment, they are unable to halt these practices.
3.2	Bring potential foreign development investors to Kosovo	KCBS brought several potential investors to Kosovo - Orange Group, German road contractors, Greek quarry operator. However, the uncertain status as well as institutional framework constraints, proved too great an inhibitor to progress.
3.3	Develop PET recycling in Zvecan and Peja/Ferizaj. Increase tonnage exported by 100%	
TARGETED RESULTS IMPROVED BUSINESS OPERATING ENVIRONMENT		
1.1	Will respond to demand as follow ups from the Private Public Dialog	KCBS attended meetings of the OEK Business Club and the MTI Industry Roundtable. KCBS also awarded a grant to AKB to run a pilot project addressing reduction of the informal economy.
2.1	Support all six existing cluster associations, and two new associations - BCC and KACP - to review strategic plans and prepare work plans for the coming year.	All six completed – KDPA's was delayed owing to disagreements within the Board, but a grant was eventually awarded. Plans for two new associations also completed and grants awarded.
2.3	Design and implement a certification program for association executives on best association management practices	This project was suspended early in year three due to budget restraints for STTA intervention.
3.1	Support BCC in designing Kosovo consultancy standards including a Code of Conduct for BSPs.	Code was widely promoted in regional meetings and in meetings with the various stakeholders].
3.2	Support the development of a quality certification program to be owned by BCC	Suspended due to the lack of performance of BCC. Further KCBS support to BCC to develop a quality certification program is made conditional on BCC meeting the grant suspension criteria.

	TARGETED RESULTS IMPROVED BUSINESS OPERATING ENVIRONMENT Continued	
3.3	Host a conference to promote quality standards for consultancy market and consultants' code of conduct	The conference was postponed due to lack of performance of BCC. KCBS will co-host a conference with EAR/BAS on the same subject in the first quarter of year four..
4.1	Disseminate the findings of SWOT analyses on BSPs market. Host at least one presentation for BSPs, KCBS associations and clusters	Presentation given on 18 December
4.2	Train at least 20 accountants in minority areas on Kosovo accounting standards	32 accountants were trained from North Mitrovica, Gracanica and Strpce
5.1	Develop new products for Banks and MFIs such as purchase order finance, pre-shipment finance and leasing.	New products were developed and representatives of the financial institutions were trained in their potential use. Implementation was delayed for reasons expounded in Section 6.5 of this Report.
5.2	Implement initial six months plan of technical assistance an training and extend initial pilot loan(s) under new lending program	Finance Institutions have signed MOUs to introduce these new products; operational details will be worked out in next three months
5.3	Develop collateral instruments and possible guarantee mechanisms with the BPK	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
5.4	Provide targeted assistance and guidance for preparation of second Kosovo Finance Fair	A very successful Finance Fair was held April 11 & 12
5.5	Repeat Activity 5.2 working with other institutions and incorporating "lessons learned" from the first six months pilot program.	Owing to the delay in implementing the first Phase of the initiative, it was decided with USAID's concurrence not to proceed with a second six month program until more results were evident.
6.1	Conduct a Stakeholder Satisfaction Survey of parties including KCBS clients, local association boards, local business service providers, NGOs, Ministries and their Departments.	Completion was delayed due to absent interviewees over holiday period. The report was actually issued on 19 January.

KOSOVO CLUSTER AND BUSINESS SUPPORT PROGRAM

HIERARCHY OF OBJECTIVES



BROCHURES PRODUCED IN YEAR TWO

ANNEX 6

Brochure Topic	TriFold	Multipage	Other	English language	Albanian language	Serbian language
GENERAL						
Kosovo Cluster and Business Support Project 2007		✓		✓	✓	✓
Alliance Of Kosova Agribusinesses	✓				✓	
Womens Business Association - Recycling Brochure	✓				✓	✓
Retailer Fact Sheet			✓	✓	✓	✓
LIVESTOCK						
Standard Procedures for Production of Sharri Soft Cheese	✓				✓	✓
Standard Procedures for Production of Sharri Hard Cheese	✓				✓	✓
Sheep Data Recording		✓			✓	✓
Data Recording in Milk Farms		✓			✓	
High Pasture Production	✓			✓	✓	
Manual for Sampling and Agro-Chemical Testing	✓			✓	✓	✓
Proper way of cultivating Alfalfa	✓				✓	
Improvement and Management of Pasture	✓				✓	
Sheep Milk Quality Improvement		✓			✓	✓
CONSTRUCTION MATERIALS						
Kosovo Association Of Concrete Producers	✓			✓	✓	
Road Construction Association of Kosova - Cooperation Offer	✓				✓	
Project Preparation of Roads Infrastructure	✓				✓	

GLOSSARY OF ACRONYMS

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

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

KACP	Kosovo Association of Concrete Producers
KAMP	Kosovo Association of Milk Producers
KBA	The Kosovo Bankers Association
KCLB	Kosovo Center for Livestock Breeding
KCBS	Kosovo Cluster & Business Support
KDC	Kosovo Development Center
KDPA	Kosovo Dairy Processors Association
KEK	Kosovo Energy Corporation
KEP	Kosovo Enterprise program
KFA	Kosovo Forest Agency
KODAA	Kosovo Agricultural Input Dealer Association
KPS	Kosovo Police Service
KSDP	Kosovo Swiss Dairy Processing and Marketing Promotion Project
KTA	Kosovo Trust Agency
KVFA	Kosovo Veterinary Food Agency
LC	Letter of Credit
LLC	Limited Liability Company
LINK	Kosovo Association of Civil Engineers
MAFRD	Ministry of Agriculture, Forestry and Rural Development
MAP	Mono-ammonium Phosphate
MCC	Milk Collection Center
MESP	Ministry of Environment and Spatial Planning
MEM	Ministry of Energy and Mining
MFI	Micro Finance Institution
MM	Millions
MOU	Memorandum of Understanding
MT	Metric Tonnes
MTI	Ministry of Trade and Industry
MTPT	Ministry of Transportation, Posts and Telecommunications
NGO	Non-Governmental Organization
NIR	Near Infrared Reflectance
NPK	Compound Fertilizer (Nitrogen-Phosphorus-Potassium)
OEK	Chamber of Commerce of Kosovo
PET	Polyethylene terephthalate
POF	Purchase Order Finance
PPD	Private Public Dialog
QA/QC	Quality Assurance/Quality Control
RAS	Rural Advisory Services
RBKO	Raiffeisen Bank of Kosovo
RCAK	Kosovo Association of Road Constructors
RTK	Radio and Television of Kosovo
SAF	Strategic Activities Fund
SCAAK	Society of Certified Accountants and Auditors of Kosovo
SHPUK	Kosovo Poultry Producer And Feed Miller Association
SME	Small and Medium Enterprise

SOE	Socially-owned Enterprise
SOW	Scope of Work
STTA	Short-term Technical Advisor
SWOT	Strengths, Weaknesses, Opportunities and Threats
UNMIK	United Nations Interim Mission in Kosovo
USAID	United States Agency for International Development
USAPEEC	US Poultry and Egg Export Council
USDA	United States Department of Agriculture
WfW	Women for Women Association