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MID-TERM EVALUATION OF THE KOSOVO CLUSTER AND BUSINESS SUPPORT PROJECT

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- B. Status of the New Common Indicators, March 31, 2006
- C. Project Clusters - Sample Client Satisfaction Survey - Interview Guidelines
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EXECUTIVE SUMMARY

PURPOSE: USAID/Kosovo requested SEGURA IP3 Partners LLC to conduct a mid-term evaluation in May and June 2006 of the Kosovo Cluster and Business Support Project (hereinafter the "Project"), implemented by Chemonics International Inc. since late September 2004, in order to provide feedback for any necessary mid-course corrections and to help guide future planning.

PERFORMANCE HIGHLIGHTS: Project implementation at mid-term is generally on-track, with the most important targets being met. However, results have varied among components, with cluster activities generally making good progress, but with general business support activities falling behind some targets, particularly for business associations. The Project is ahead of target on five overall indicators including: total sales among targeted enterprises; increased capital investment among targeted firms (from end 2004 through March 2006); labor productivity among targeted firms; number of registered firms; and number of associations employing volunteer staff. However, the Project is behind target on other indicators: the number of full-time jobs created in targeted clusters (close to meeting target); increased financing among targeted enterprises; exports as a percentage of imports; number of business associations with strategic plans; and percentage of non-donor revenue generated by associations.

CONCLUSIONS

Impact: Sales by client companies have exceeded targets significantly, an important achievement of the Project. There has been less impact in creating jobs, due to relatively modest targets set at Project start, particularly compared to Kosovo-wide needs. Although project design did not emphasize strong export results, any competitiveness project must address the need to increase the export readiness of companies. The Project is making good progress in import substitution. There has been less impact in expanding sales in minority enclaves, despite strong efforts, due to restricted access to other markets in Kosovo.

Efficiency: Overall management has been strong, with supportive administrative, technical and head office supervision. However, frequent turnover of expatriate personnel has complicated implementation, particularly for the Livestock and Fruit & Vegetable Clusters, and for Business Environment activities. Cost effectiveness appears positive when the total annual cost of Euro 4,000,000 is compared to the increased value of client company sales (Euro 10.6m. since Project start-up). Yet, when measured against the relatively low number of both client companies and new jobs created, costs per beneficiary appear higher. An alternative approach at a more acceptable cost is to continue focusing on expanding the number of client companies with the strongest potential for expanding domestic and particularly export sales through production of higher value niche products.

Sustainability: The activities of the Project will only be partly sustainable unless the Project clearly builds sustainability into the project by strengthening the associations relevant to each cluster. However, sustainability depends on key external factors beyond the control of the Project, including the pace of privatization, effective implementation of key laws already passed or yet to be passed, and clarification of the final status of Kosovo.

Relevance: The interventions of the Project are highly relevant to achieving the goals of USAID Strategic Objective No 1.3, However, Project activities alone cannot ensure that Kosovo meets these goals. The Government must still adopt many important pieces of legislation and effectively implement the laws that are already on the books. Above all, business associations and government should both be strengthened to ensure an operating environment that supports business creation, market expansion, and productive investment.

BUSINESS ENVIRONMENT RECOMMENDATIONS

Reduce the total number of cluster associations that the Project should support from the planned 20 to about 6 – 10 and include a target relating to a member satisfaction survey. **Ensure that associations increase the range and quality of services** they provide to member companies, with Project services channeled directly through associations, in order to better integrate cluster companies and associations.

Eliminate actions that have only a public benefits' aspect. Associations have been pushed to meet difficult targets in this area; put more focus on providing member benefits.

Review strategic and revenue generation plans. The Project should not intervene in day-to-day operations of the associations. As there are no clearly demonstrated benefits to using management companies, at the end of the first grant contract year, the associations should be allowed to make a decision on how to proceed.

Show flexibility on targets for sustainability and help well functioning associations, even if they cannot abide by the 60-40-20 maxim. Also, welcome other donors' funds, if this leads to more and higher quality services or long-term sustainability.

Review public-private dialog activities. Present key issues to government directly rather than continue the more comprehensive public-private dialogue. Expatriate and local staff should together try to foster a dialogue about key issues for their clusters and associations.

CLUSTER RECOMMENDATIONS

Livestock Cluster: In dairy production, focus additional help mainly on improving milk quality. Rather than continuing a focus at the level of micro and small dairy farmers, support testing facilities/labs at key processors, who will then source from producers willing and able to meet standards. Continue focusing on new product development by helping to introduce higher value dairy products with strong potential (new cheese products and flavored/fruit yoghurts; poultry broilers (as avian flu threat recedes). Consider cutbacks in activities including: the sheep sub-cluster, beef, small dairy processors under 5,000 liters per day; micro dairy farmers with less than 5 – 10 cows in their herds, under 2 hectares of land, and producing only for home/village consumption, Focus on integrating livestock associations and cluster companies by providing increased member services and coordinating activities with the Project.

Construction Cluster: Focus on the major constraint of limited access to financing and new investment. Continue current work with companies and banks to apply more flexible criteria to assess applications. Assist in and help speed up privatizations. Continue to diversify cluster clients beyond road construction / asphalt firms. Assist more companies to produce higher value construction materials such as porous concrete blocks and wood parquet flooring, both now with excellent export prospects due to strong marketing efforts. Encourage the Road Construction Association, currently among the most well managed and effective associations, to pursue policy advocacy more actively. As recently decided, focus less on sub-clusters with lower potential,

and those assisted by other donors, e.g., decorative stone, supported increasingly by European Assistance for Reconstruction.

Fruit and Vegetable Cluster: Continue to increase the number of client companies assisted by recruiting medium and larger companies with high potential in the sector. Target firms in high-value processed niche products for import substitution and exports. Keep focusing on post-harvest handling, and marketing, rather than focusing on production as in the past. Develop closer contacts and cooperation with the Ministry of Agriculture and related Government agencies. As agreed, postpone previous work plan activity to assist a Kosovo-wide Association, until later in the project if appropriate.

GENERAL CROSS -CUTTING RECOMMENDATIONS

Integrate cluster and associations more effectively. This is critical for improving efficiency, effectiveness and sustainability.

Focus on high potential, larger enterprises. Reduce assistance to small enterprises/farms without substantial growth potential.

Increase the project's reach to include more enterprises with growth potential. This can help make the overall project more cost effective. The Project can identify additional enterprises by including more steps in the value chain or by redefining clusters to be broader and more inclusive. Also, identify new clients among companies that are being privatized.

Hire a new association adviser with substantial experience from successful association programs in the Balkans or the Commonwealth of Independent States.

Start planning future strategy now by identifying new clusters to support. As there are few obvious clusters and intervention areas, the sooner this process starts the better.

SPECIFIC QUESTIONS AND RECOMMENDATIONS

Should there be any programmatic shifts due to Kosovo's potential change of status? If accomplished in a smooth and stable manner, there may be an overall change for the better in the business environment. However, unless it is accompanied by significant government reforms in programs and policies, the change of status may have only a marginal impact.

Is KCBS working in clusters with the greatest potential for growth? There are few additional clusters in Kosovo with promising growth prospects, but some rebalancing is needed: Cut back support for meat (beef, poultry and lamb), for small/medium dairy processors and for small dairy farms. Continue focusing on high value processed food and further focus on the construction cluster. Conduct diagnostic studies to identify new clusters, such as niche tourism (adventure, backpacking, skiing); wine production (assuming USAID waivers); automotive recycling/scrap metal exports; and information technology as a cross-cutting cluster that can serve a range of other sectors.

How is the matching grant support for associations working? 90 percent of Strategic Activities Fund resources are used for livestock and associations, and the Project should distribute them more evenly. The matching grants are not working well in all associations, as some of the associations have less income than assumed in their plans, and their strategic plans are too ambitious.

How effective is the approach to the private-public policy dialogue component? The government seems to be an ineffective partner in developing a better business environment. Any policy intervention should target and focus on issues of substantial importance to either clusters or associations, rather than a general public private dialogue.

Is it likely to be too costly to bring more long-term staff? There is likely to be no substantial difference in the cost of long- and short- term staff. The key issue is to distribute the short-term assistance more evenly over the clusters to target key market opportunities.

What has been learned from other USAID projects elsewhere? A key lesson is that the current project is appropriate, given the level of economic development. One caveat is that policy level interventions are difficult in post conflict economies, so the Project should reduce support for general policy making in favor of practical, direct enterprise development.

How can the Project's performance monitoring system be improved? Conduct Client Satisfaction Surveys using independent contractors; measure the value of exports by cluster, with targets set annually; report Kosovo-wide indicators by cluster (currently limited to jobs, sales, financing); and include female employment data.

MID-TERM EVALUATION REPORT FOR THE KOSOVO CLUSTER & BUSINESS SUPPORT PROJECT

I INTRODUCTION

The Kosovo Cluster and Business Support project (hereinafter the “Project”) has been under implementation since late September 2004, or for just over 1½ years. The contractor for the Project is Chemonics International Inc. In May 2006, USAID/Kosovo requested SEGURA IP3 Partners LLC to conduct a mid-term evaluation of the Project, which was conducted during May and June 2006.

The purpose of this mid-term evaluation is to provide USAID/Kosovo with an objective external assessment of the appropriateness and effectiveness of the Project. USAID has tasked the evaluation team with assessing the efficiency, impact, sustainability, and relevance of the Project. The results of this evaluation are intended to provide feedback to USAID/Kosovo and the Project for any necessary mid-course corrections, and to help guide future planning for USAID/Kosovo.

We have structured this evaluation of the Project in the following five sections

- (i) Context, issues and evaluation methodology
- (ii) Performance at mid-term
- (iii) Improving the business environment: findings, conclusions, recommendations
- (iv) Analysis and conclusions – clusters
- (v) Summary and recommendations

members. If the associations cannot do that, they do not provide any value. Towards the end of the Project, if associations cannot become completely self-sustainable, but provide highly valued services to the members and build private sector development, in general, and have the promise of becoming self-sustainable given some more time, the project should actively seek the support of donors to continue the work of the associations.

Finally, the Project states that it will cut off associations that cannot follow their plans and become self-sustainable. However, for the cluster related associations, there are few, if any, alternative associations to support. As the project is constructed, ideally, the cluster-based associations should take over many of the activities of the Project, when the Project ends. Therefore, the Project must work constructively with these associations rather than just cutting them off.

IV.1.3 Recommendations

- **USAID Targets.** Revise the current targets and include a target relating to a member satisfaction survey to be undertaken by a third party. Reduce the total number of cluster associations that the Project should support from the planned 20 to six to ten. If the Project decides to support additional associations, these should have a relatively small affluent membership to maximize the potential for them becoming self-sustainable while still providing relevant services. This is an important point, since the Project can only support new associations for a shorter period, i.e. the remaining project period.
- **Integration between cluster companies and cluster related associations.** The most effective way to address the lack of integration is to ensure that associations increase the range and quality of services they provide to member companies. The Project should ensure that all services that it provides should be channeled directly through Associations, that association staff be trained to take over providing these services, and the members see the assistance as coming from associations. Within the Project, remove restrictions on cluster staff interaction with associations and improve communication and coordination on all related activities among the staff of the two Project components.
- **Focus of associations.** Focus on actions with clear and concrete benefits to the membership.
- **The Project's management approach to the cluster related associations.**
 - Strategic and revenue generation plans. The Project should initiate a review of the strategic and revenue generation plans to ensure that these reflect a focus on the benefits for members and are realistic and implementable.
 - Involvement of the Project in day-to-day operations. Set a clear line between the project and the associations. The project should not intervene in day-to-day operations of the associations. The associations must have freedom of management.

At the same time, if there are key management issues, where the Project believes that the associations could improve, the Project should naturally engage in a dialogue with the associations, but this should not result in direct orders as to how an association should manage.

- Use of Management Companies. There seem no clearly demonstrated benefits to using management companies. At the end of the first grant contract year, the associations should assess the costs and benefits of using a management company vs. using their own staff and be allowed to make a decision how to proceed. The project should assist the associations develop an overview of the benefits and financial costs.
- **Self-sustainability.** Self-sustainability and revenue maximization are appropriately the project's goals and should continue to be. However, the Project should be flexible with the path towards sustainability and help well functioning associations, even if they cannot abide by the 60-40-20 maxim. In addition, the Project should welcome other donors' funds, if this leads to more and higher quality services for the members or long-term sustainability.

USAID and the Project have informed us that the project will replace the Senior Competitiveness & Association Advisor, who recently left, with an advisor whose key responsibility will be to advise and conduct policy advocacy with the government, while the local staff will take over the association management tasks. In view of the associations issues discussed above, we recommend that that the Project hire an expatriate adviser with proven experience in developing associations in the Balkans or the CIS either instead, or if budget allows, in addition to the adviser that the Project plans to hire. However, while making this clear recommendation, we do realize that the project may find other ways of supporting the associations more effectively. If the Project decides for another approach, we believe that the association's component will require closer and continuous supervision from the Chief of Party.

IV.2 NON-CLUSTER RELATED ASSOCIATIONS

These include the association Center for Association Development (under the Chamber of Commerce), and BCC (the Association of Business Consultants). These activities are well implemented with good cooperation between the Project and the associations in question.

IV.3 PUBLIC PRIVATE DIALOGUE AND INTERVENTIONS TO IMPROVE THE BUSINESS ENVIRONMENT

IV.3.1 Findings

- **In general, the public private dialogue was well received.** One of the most beneficial outcomes was that donors, consultants, local advocacy groups and persons know each better and can now discuss issues directly.
- **The constraints study, to some extent, the basis of the Private Public dialogue was done well.**
- **The project does not seem to have much impact on the business environment through direct negotiations,** even if the local staff of project has good connections to government.

IV.3.2 Conclusions

- **The public private dialogue is not an effective path to promulgate further change in government policy.** At any rate, it is not certain that the Provisional Institutions of Self-Government can implement substantial change. The Provisional Institutions of Self-Government should initiate any further broad comprehensive public-private dialogue.
- **The expatriate staff does not participate enough in discussing changes in the business environment with the government.**
- **The Provisional Institutions of Self-Government have very limited ability to implement decisions,** and for this reason, even substantial efforts with the self-government are likely to result in quite limited improvements in the business environment.

IV.3.3 Recommendations

- **The project should focus on presenting key issues for their clients to government directly** rather than continue the more comprehensive public-private dialogue.
- **The expatriate and local staff should together try to foster a dialogue with the government about key issues for their clusters and associations.**

V IMPROVING THE ECONOMIC PERFORMANCE OF CLUSTERS: FINDINGS, CONCLUSIONS, RECOMMENDATIONS

The evaluation team based its review of cluster performance on a thorough review of project reporting documents, on field interviews with 23 client companies drawn from all three project clusters in the major regions of Kosovo, including minority enclaves, and on interviews with the project international and local cluster staff and available short-term technical assistance.

The evaluation team conducted field interviews with each client company using a questionnaire for a Client Satisfaction Survey to ensure common, practical data collection, which the team recommends that the Project also adopt over the next two years to more carefully monitor how well the project is responding to client needs.

For all three clusters combined, performance highlights covering the period from the first quarterly report of March 31, 2005 (first two quarters of the baseline year 2004/05) to the most recent quarterly report through March 31, 2006 (first two quarters of 2005/06) include:

- An increase in the value of the sales of Euro 10,615,581.
- An increase in employment of 145 new jobs
- A decrease in capital investment of Euro 279,035
- An increase in the value of financing of Euro 805,275

V.1 Findings by Cluster

V.1.1 Livestock Cluster

Implementation of activities in this cluster is generally on track with good results. The Livestock cluster has:

- **The largest number of active client companies**, with 30 at March 31, 2006
- **The strongest growth in new clients**, from 18 at March 31, 2005 to 30 in March 31, 2006
- **The highest sales** (Euro 9.2m at March 31, 2006), and the second best improvement, after the Fruit and Vegetables Cluster)
- **The second largest number of new full time equivalent jobs created** with 77, (492, up from 415).
- **Sub-cluster achievements (in descending order of success) include the following:**
 - Dairy: Production and processing are both on track and generally doing well throughout the value chain.
 - Poultry: Also on track, with local egg production and consumption reviving (although imports have been restricted); some recovery initial consumer cutbacks due to the avian flu scare; and broiler production now starting
 - Crops: Doing decently, with new varieties now starting
 - Sheep: Not on track. Issues include old breeds, relatively low quality wool, inadequate quality of meat produced, low local consumption of lamb, which appears difficult to increase, and certification of lamb exports according to European Union norms stalled in the Ministry of Agriculture.

- Associations in the Livestock sector (Kosovo Association of Milk Producers, Kosovo Dairy Producers' Association) do not yet provide many effective services to members, as indicated in field interviews with most client companies.

Table 1: Livestock Cluster Performance
March 31, 2005 - Mar. 31, 2006

As of	No. of active Client Companies	Sales (Euro '000)	Full-time Employment	Financing (Euro '000)	Investment (Euro '000)
Mar. 31, 2005	18	7,569	415	536	1,638
Mar. 31, 2006	30	9,232	492	516	88
Change	+ 12	+ 1,663	+ 77	(20)	(1,550)

Source: Project Database, Performance-Based Management System

V.1.2 Construction Cluster

Implementation is also on track generally, but with mixed results due in part to external constraints related to limited government support for new and improved infrastructure. This cluster has:

- **The second largest number of client companies**, with 18 as of March 31, 2006, up from 13 in March 31, 2005.
- **The lowest increase in sales** (Euro 203,000 over the period), due to low budget funding for road construction in Kosovo in 2004 and 2005.
- **The lowest level of financing** (Euro 900,000 lower over the period) and investment (Euro 2.5m) although recent privatizations are providing increased investment.
- **One of the more effective associations** (Road Construction Association of Kosovo) with strongest membership base in cost contributions from relatively larger and more profitable member companies.

Table 2: Construction Cluster Performance
March 31, 2005 - March 31, 2006

As of	No. of active Client Companies	Sales (Euro '000)	Full-time Employment	Financing (Euro '000)	Investment (Euro '000)
Mar. 31, 2005	13	851	438	970	2,799
Mar. 31, 2006	18	1,054	585	72	289
Change	+5	+ 203	+ 147	(898)	- (2,510)

Source: Project Database, Performance-Based Management System

V.1.3 Fruit and Vegetable Cluster

Implementation of many activities is delayed with generally weak results. The cluster has:

- **The lowest number and growth of client companies** (11, up from 7 over the period)
- **The lowest number and increase of jobs** (60, up from 22)
- **The highest increase in sales**, (Euro 1.7m to March 31, 2006), due to the high value export sales)
- **Positive financing, but declining investments**
- **Activities on track are limited to forward contracts** (although no harvesting yet) and blueberry variety test plots, packing and grading assistance, and orchard production equipment.
- **Work plan activities behind schedule**, include market price tracking, new varieties, Eurepgap assistance (HAACP being done instead), improved packaging, assistance in cold chains and new processing lines, and promoting branding.
- **Products dropped from assistance include tomatoes, onions.**
- **No active associations**

Table 3: Fruit and Vegetable Cluster Performance
March 31, 2005 - Mar. 31, 2006

As of	No. of active Client Companies	Sales (Euro '000)	Full-time Employment	Financing (Euro 000)	Investment (Euro '000)
Mar. 31, 2005	7	229	22	0	92
Mar. 31, 2006	11	1,956	60	15	34
Change	+ 4	+ 1,727	+ 38	+ 15	(58)

Source: Project Database, Performance-Based Management System

V.2 CONCLUSIONS BY CLUSTER

- **Clusters overall have generated relatively strong sales**, with an increase of nearly Euro 3.6m over the period, the most important achievement of the project
- **Clusters as a whole have generated relatively few jobs**, with an increase of just 262 from Mar. 31 2005 to Mar. 31. 2006, indicating that more client companies with high potential for increased domestic and export sales, and job creation, must be assisted.
- **Overall, both financing and investment in all three clusters face problems**, with limited credit access and low investment due to concerns over future political and economic scenarios.
- **The Livestock cluster is the strongest performer in sales value and second in total number of jobs**, indicating that this sector should be an area of future focus in all sub-clusters except sheep.

- **The Construction cluster is strongest in job creation, but highly variable on sales,** indicating that diversification is needed within the sector to avoid the negative impact of public sector budget cuts for road improvements (70% of construction clients depend on public sector contracts). Problematic financing and investment remain priority constraints. Privatization, although slow and uneven, offers opportunities for increased investment mechanisms, including joint ventures.
- **The Fruit and Vegetables cluster is strong in sales increases (although largely due to potato sales of a single major client company) but lowest in number of jobs.** Results of activities have been limited due in part to high Project cluster staff turnover (2 short-term and 2 long-term international advisors in 1 ½ years) and an initially narrow focus on production rather than on achieving market-driven sales through a focus on post-harvest, quality and marketing.

V.3 RECOMMENDATIONS BY CLUSTER

Implement the actions below, many of which the Project has already started.

V.3.1 Livestock cluster

- **In dairy production, focus additional help mainly on improving milk quality.** However, rather than continuing a focus at the level of micro and small dairy farmers, support testing facilities/labs at key processors, who will then source from producers willing and able to meet standards. Focus on enforcement of dairy standards as government adoption of standards nears, if possible.
- **Focus on new product development by helping to introduce higher value dairy products with strong potential**
 - New cheese products and flavored/fruit yoghurts.
 - Poultry broilers (as avian flu threat recedes).
 - Sheep cheese (if sheep not dropped).
- **Consider cutbacks in activities including:**
 - The sheep sub-cluster, as the sheep herd in Kosovo has decreased since the 1990s by over 80%, local consumption has dropped, exports are likely to be only marginal and the industry generally has not proven to be competitive. However, make a decision following results of current initiatives to export sheep to Bosnia based on results.
 - Beef, drop it from work plan for 2007 as it is generally not price competitive compared to imports particularly from Latin America.
 - Smallest dairy processors, under 5,000 liters per day, will increasingly be less competitive, especially as large dairies consolidate into a few big dairies in the next 5 years.
 - Micro dairy farmers with less than 5 – 10 in herds, under 2 hectares, and producing only for home/village consumption, that are not likely to take initiatives to develop as entrepreneurs.

- **Focus on integrating livestock associations and cluster companies** by providing increased member services and coordinating activities with the Project.

V.3.2 Construction cluster

- **Focus on the major sector constraint, limited access to financing and new investment**, by continuing current activities to work with companies and banks in applying more flexible criteria in assessing applications; assist in and help speed up privatizations.
- **Diversify cluster clients beyond road construction / asphalt firms**, which will continue to be constrained by uneven public sector budget allocations
- **Assist more companies in higher value construction materials** such as porous concrete blocks and wood parquet flooring, both now with strong export prospects due to strong marketing efforts.
- **Encourage the Road Construction Association, currently among the most well managed and effective associations, to pursue policy advocacy more actively** with the Government, where potential exists for near-term results, e.g., adoption of standards now stalled in Government ministries and improved procurement transparency. The Project is exploring establishing a contact point in the office of the PM to address enterprise concerns faster and more effectively.
- **Consider focusing less on sub-clusters with lower potential, and those assisted by other donors**, e.g., decorative stone, increasingly supported by European Assistance for Reconstruction.

V.3.3 Fruit and Vegetable cluster

- **Increase the number of client companies assisted** currently at just 11, up from 7 in 2005. Focus on recruiting medium and larger companies with high potential in the sector.
- **Target firms in high-value processed niche products for import substitution and exports**, e.g., frozen French fried potatoes, dried mushrooms, and wild berries, already identified the Project, and related high value processed foods with good potential.
- **Meet priority needs of clients, e.g., in post-harvest handling, including grading, sorting, packing, cold chain, and in marketing**, rather than focusing on production as in the past
- **Develop closer contacts and cooperation with the Ministry of Agriculture and related Government agencies.**

- **Limit trade fair participation to the most relevant trade fairs** (regional, and functional, e.g. FruitLogistica) rather than larger general shows (Anuga, Germany; Sial, France; NY Fancy Food Show).
- **Postpone previous work plan activity to assist a Kosovo-wide Association, until later in the project, if appropriate**, which the Project's cluster team has indicated it plans to do.

VI SUMMARY & RECOMMENDATIONS

Most of the Project client companies, donor organizations and other parties interviewed had an overall positive impression of the project, a perception shared by the evaluation team. However, there are several key areas where fine-tuning activities with tactical adjustments appears necessary. We have suggested many activity-specific adjustments in the sections above. These and related findings, conclusions and recommendations for the various components are summarized below in the following general recommendations and in analyzing the four main cross-cutting categories of impact, efficiency, sustainability and relevance of the Project:

VI.1 GENERAL RECOMMENDATIONS

We make the following five important recommendations:

1. Integrate cluster and associations more effectively. This is key to efficiency, effectiveness and sustainability.
2. **Focus on high potential, large enterprises**, and reduce assistance to small enterprises/farms without substantial growth potential.
3. **Increase reach of project to more enterprises with growth potential to make the overall project and its outcomes more cost effective.** The Project can identify additional enterprises by including more steps in the value chain or by redefining the clusters to be broader and more inclusive. Moreover, the project can identify new potential clients among the companies that are being privatized.
4. **Hire a new association adviser with substantial experience from successful association programs in the Balkans or the Commonwealth of Independent States**
5. **Start planning now for the future strategy by identifying new clusters and intervention areas.** There seem to be few obvious clusters and intervention areas, so the sooner this process starts the better it is.

VI.2. IMPACT, EFFICIENCY, SUSTAINABILITY & RELEVANCE

VI.2.1 Impact

- **Revenue:** Client company sales have exceeded targets significantly, and are the most important achievement of the Project
- **Job creation:** There has been less impact in creating jobs, due to relatively modest targets set at project start, particularly compared to Kosovo-wide needs, due in part to the relatively small number of active clients, particularly those in high-potential, high-value niche products. There has also been relatively limited impact in increasing female employment.

- **Exports /export readiness preparation:** Although the project design did not emphasize obtaining strong export results, any competitiveness project must address the need increase the export readiness of companies. The Project has achieved positive overall results in exports, but most to date have been overwhelmingly in exports of raw consumer potatoes to the region (Euro 1,500,000 out of total exports of Euro 1,645,000 through March 31, 2005). There have only been relatively marginal exports of construction materials, mainly porous blocks, and in horticulture, exports of dried mushrooms. Still, production and marketing assistance has been provided by the project that may soon result in significantly higher exports particularly in the wood sub-cluster, where there is strong potential for exports of up to Euro 2,000,000 p.a. in parquet flooring to the US /Canada (although with inputs of hardwood mainly imported from Romania and Bulgaria).
- **Import substitution:** Good potential exists for certain processed foods, e.g., frozen fries, cheeses, particularly if foreign direct investment in fast food outlets is attracted; also in agricultural inputs, e.g., plastic sheets for greenhouses, now imported.
- **Minority area impact:** There has been less impact in expanding sales in minority enclaves due to their restricted access to other markets in Kosovo. This is particularly the case for consumer goods clients, where packaging of cheeses, yoghurt, etc. indicates the origin of the product in minority areas. Origin is less a constraint for producers of asphalt and other building materials. In fruits and vegetables, the impact may be limited as assistance in minority areas is mainly just for wild berries, generating mainly seasonal employment, although with potentially good export prospects.
- **Public-private dialog:** Although the initial impact of activities in late 2005 was encouraging, in terms of raising public and private consciousness of key business environment initiatives that are required in Kosovo, questions remain as to priority issues to focus on and the best approach to policy advocacy in future.

VI.2.2 Efficiency

- **Management**
 - Overall management has been excellent, with strong administrative and technical supervision provided and strong head office support.
 - However, a significant factor that has disrupted project implementation in several activities and clusters has been the high turnover of expatriate personnel:
 - The initial *Chief of Party* was replaced after the first three months
 - The position of *Fruit and Vegetable Cluster Advisor* has been filled by two short-term expatriate staff, and two long-term staff in just 1 ½ years.
 - The *Livestock Cluster Adviser* was recently replaced in midterm.
 - The *Senior Competitiveness & Association Advisor* left in mid-term, and his replacement has yet to arrive.

As such, Project management, both in the field and at home office, appears to have scope for improvement in personnel selection issues.

- The Project management should take advantage of the current opportunity to adopt appropriate adjustments to project strategy and activity implementation in the second half of the project, now that major staff transitions are in the process of being completed,
- **Cost efficiency**
 - Are the results being obtained by the Project being produced at an acceptable cost? When project costs of about Euro 4m per annum are compared to increased value of sales of client companies (Euro 10.6m. since project start-up, or Euro 3.6m. from March 31, 2005 to March 31, 2006, the benefits appear positive. Yet, when we measure costs against other indicators, such as the relatively low number of client companies (59 to March 31, 2006) and the number of new full time equivalent jobs created (262), costs per beneficiary appear higher.
 - An alternative approach to accomplishing the same objectives at a more acceptable cost would be to focus closely in the second half of the project on further expanding the number of client companies with the strongest potential for expanding domestic and particularly export sales through production of higher value niche products. This would generate higher sales, incomes and jobs and help reduce costs per beneficiary. Rather than considering these as opportunistic sales, or as favoring large companies, this approach, if implemented on a sustainable basis, will help generate a much more outward-oriented, competitive, perspective among all Kosovars. This is critically needed for an economy of limited scale and resources.

VI.2.3 Sustainability

- The activities of the Project will only be partly sustainable, unless The Project clearly builds sustainability into the project. Even at the micro level, the Project advisers agree that it must be remind farmers about good milking practices every few months in order for benefits in productivity to continue. In the processing and manufacturing clusters, good practices may be easier to sustain, but are by no means certain. To better build in sustainability, the Project must strengthen the associations associated with each cluster so that they can take over the project quality focused and lobbying activities, when USAID funding stops.

However, sustainability depends on key external factors beyond the control of the project. As acknowledged in the USAID strategy, these include the completion of privatization, effective implementation of key laws yet to be passed, and clarification of the final status of Kosovo.

VI.2.4 Relevance

- **The interventions of the Project are highly relevant to achieving the goals of USAID Strategic Objective No 1.3,** Accelerated Private Sector Growth, including the Intermediate Results of increased competitiveness of the agricultural sector, improved capacity of private enterprise, and improved business operating conditions. However, the Project activities alone cannot ensure that Kosovo meets these goals.

- **To significantly improve the business and investment environment, additional efforts in cooperation with the government, and by the government, are necessary.** In particular, significant additional assistance is required to attract investment capital, both domestic and foreign, on an efficient scale. The Government must still adopt many important pieces of legislation and effectively implement the laws that are already on the books. Above all, business associations and government both must be significantly strengthened to ensure an operating environment that adequately supports business creation, market expansion, and productive investment.

VI.3 SPECIFIC RECOMMENDATIONS

Question	Answer
<p>Will there be new opportunities for the private sector with this change? Should there be any programmatic shifts with the potential change of status?</p>	<p>The potential change of status for Kosovo, if accomplished in a smooth and stable manner, may result in a substantial overall change for the better in the business environment. But, unless it is accompanied by significant government reforms in programs and policies, the change of status may have only a marginal impact.</p> <ul style="list-style-type: none"> • Programmatic shifts. A change in status accompanied by improved political and economic stability may stimulate investor interest in Kosovo. If so, the Project should broaden support for business environment improvements to help attract investors, in collaboration/coordination with the Foreign Investment Agency in the Ministry of Trade and Investment currently supported by the European Agency for Reconstruction. • Opportunities for private sector. A change in status resulting in increased stability will likely stimulate economic activity. Assuming this scenario, this is now a propitious time for USAID to conduct a private sector review of new strategies, clusters and activities on which to focus future assistance.
<p>Is KCBS working in the clusters/sectors with the greatest potential for growth?</p>	<ul style="list-style-type: none"> • There are few additional clusters in Kosovo with promising growth prospects. In general, the Project is addressing some of the most important ones. We conclude that some rebalancing is required, specifically: <ul style="list-style-type: none"> - Cut back on support for meat (beef, poultry and lamb). - Cut back on support to small/medium

Question	Answer
	<p>dairy processors and dairies. Focus released resources on larger units.</p> <ul style="list-style-type: none"> - Cut back support to small dairy farms. - Focus on high value processed food. - Stress further building materials and construction cluster. - Set up feasibility project to assist new clusters, such as <u>niche</u> tourism (adventure, backpacking, skiing); table grape and wine production (assuming USAID waivers to permit assistance) which has received only limited EU assistance in recent years; automotive recycling/ scrap metal exports; and information and communications technology as a cross-cutting cluster that can serve a range of other sectors.
<p>How is the matching grant support for associations working? What about sub-contracting arrangements with business service providers?</p>	<ul style="list-style-type: none"> • 90 percent of SAF funds are used for livestock and associations. Most likely, the SAF funds could be used better if distributed more evenly. • The matching grants are not working well in all associations, as some of the associations have less income than assumed in their plans, and their strategic plans are too ambitious. Generally, associations with large memberships with limited individual resources do not provide significant benefits to their members and can therefore not collect much in terms of fees. • The sub contracting arrangements for business service providers work well and the Project should increase the use of them.
<p>Is there an appropriate balance between enterprise, association, and policy-level support? How effective is the approach to the private-public policy dialogue component?</p>	<ul style="list-style-type: none"> • Policy support. The government seems to be an ineffective partner in developing a better business environment. Accordingly, any policy intervention should clearly target and focus on issues of substantial importance to either clusters or associations. Apparently, generalized policy components like the public private dialogue are not cost effective. • Enterprise and association support. The balance seems appropriate, but the

Question	Answer
	Project must integrate the enterprise and cluster approaches better to make them a cohesive approach.
Are the numbers, quality, and relative cost of long-term and short-term technical staff generally appropriate?	<ul style="list-style-type: none"> • It is likely to be too costly to bring more long-termers, given the relatively late phase of the project. Given the structure of benefits and payment, there is likely to be no substantial difference in the cost of long-termers and short-termers. Moreover, five expatriates are already working on the project, and to create a new position, the project must clearly identify a specific need and specific scope of work to deploy another long-term advisor. <p>As seen by the evaluations team, the key issue is to distribute the short-term assistance more evenly over the clusters to target key market opportunities.</p>
Is there potential for greater KCBS collaboration with other USAID projects?	<ul style="list-style-type: none"> • The Project works well with other USAID projects, particularly BearingPoint to the extent that this is relevant.
What has been learned from other USAID competitiveness/enterprise development projects in other countries? Are any of these lessons applicable to Kosovo?	<ul style="list-style-type: none"> • A key lesson is that the current project is appropriate given the level of economic development. Only caveat is that policy level interventions are very difficult in post conflict economies, so, possibly the Project should reduce the support for general policy making in favor of practical, direct enterprise development.
What improvements should be made in the KCBS performance monitoring system?	<ul style="list-style-type: none"> • Conduct Client Satisfaction Surveys semi-annually using independent contractors. • Add an indicator to measure the value of exports by cluster, with targets set annually. • Consider breaking out and reporting Kosovo-wide indicators by cluster (currently limited to jobs, sales, financing). • Include female employment data, now only in database, in Quarterly Reporting.

Attachment A

Summary of the Performance of the Kosovo Cluster and Business Support Project - Dec. 2004 – March 2006

SO# IR#	SO Name	Unit measure	2004 Actual	2005 Actual	2006 Target	2006 to date (Q2)
1.3	Accelerated Private Sector Growth					
1	Value of company profit taxes collected	Euros	42,840,000	39,228,497	40,500,000	-
2 (AR)	Exports as a percentage of imports	Percent	4.90%	5.59%	8.00%	4.78%
1.3.1	Increased Competitiveness of Targeted Clusters					
1	Total sales among targeted enterprises	Euro	35,755,626	19%	10%	68%
2 (AR)	Jobs created within targeted clusters	Number	0	295	600	262
3	Labor productivity among targeted enterprises	Number	0	-11%	10%	60%
1.3.1.1	Improved Productive Capacity of Private Enterprises					
1	Increased capital investment among targeted enterprises	Number	0	2,341,908	3,000,000	977,245
1.3.1.2	Improved Quality Control					
1	Number and type of standards approved by target associations	Number	0	0	TBD	-
1.3.1.3	Strengthened Capacity to Access Credit					
1	Increased financing among targeted enterprises	Euro	0	2,081,375	6,000,000	851,300
1.3.2	Improved Business Operating Environment					
1 (AR)	Number of companies registered - two quarters	Number	40,703	48,497	47,000	52,913
1.3.2.1	Strengthened Business Consulting Services					
1	Number of businesses using business consulting services	Number	0	N/A	TBD	-

SO# IR#	SO Name	Unit measure	2004 Actual	2005 Actual	2006 Target	2006 to date (Q2)
1.3.2.2 Improved Capacity for Policy Dialog						
1	Number of Private-Public Task Group recommendations implemented	2004	0	N/A	TBD	-
1.3.2.3 Business Associations Responsive to Client Needs						
1	Number of associations with approved strategic plans	Number	0	7	10	-
2	Percent of non-donor revenues generated by the associations	Percent	0	4>50%	7>70%	2>50%
3	Number of associations employing non-volunteer staff	Number	0	7	5	9

Attachment B

Status of the New Common Indicators, March, 31, 2006

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

The actual number of USAID–assisted enterprises for Q2 – 2006 is 59 and in addition there are 9 farms; so the total number of the active clients of the project is 68.

Indicator: Number of entrepreneurs receiving services supported by USAID

The actual number of entrepreneurs for 2006 is the same with the number of active Project clients.

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

The total number of these enterprises is 31 in the second quarter 2006 based on the number of companies attended SCAAK’s accounting training through service provider Piramida in minority areas.

Indicator: Number of people trained

- Number of participants in USAID-assisted presentations was 55.
- Number of participants in USAID-assisted seminars was 145.
- Number of participants in USAID-assisted trainings was 290.
- Number of participants in USAID-assisted training workshops was 433.
- Number of participants in USAID-assisted both seminars and workshops were 12.

Number of people attending other activities through USAID assistance:

- Number of people attending USAID-assisted conferences was 117.
- Number of people attending USAID-assisted roundtables was 17.
- Number of people participating in USAID-assisted study visits was 11.
- Number of people attending USAID-assisted demo presentations was 172.

Total number of participants in these activities was 1,252.

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

The number of full time jobs of 262 is related to the IR.1.3.1 (2) Jobs created within targeted clusters.

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

- Number of importing transactions

- From US firms 8
- From other foreign firms 215

- Number of exporting transactions
 - To US firms 0
 - To other foreign firms 22

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

- Value of importing transactions
 - From US firms 210,000
 - From other foreign firms 2,438,762

- Value of exporting transactions
 - To US firms 0
 - To other foreign firms 1,645,160

Attachment C

Project Clusters – Sample Client Satisfaction Survey - Interview Guidelines

We would be grateful if you would provide the following general information about assistance your company has received through the Kosovo Cluster & Business Support (KCBS) Project funded by USAID. All individual responses will be kept strictly confidential. Your responses will help us to evaluate the impact of the services, and to improve them in the future.

I. Contact Information:

Company : _____
Address : _____
Telephone: _____ Fax: _____
E-Mail : _____
Contact person: _____ Title: _____ Tel: _____

II. Services Received:

What services has your firm received through the KCBS project in the following areas, and how satisfied were you with them:

	<u>Market Information</u>	<u>Training</u>	<u>Technical Assistance</u>	<u>Human Resources</u>	<u>Quality/Standards</u>	<u>Other</u>
Type	_____	_____	_____	_____	_____	_____
Highly Satisfied?	_____	_____	_____	_____	_____	_____
Partly Satisfied?	_____	_____	_____	_____	_____	_____
Unsatisfied?	_____	_____	_____	_____	_____	_____

Have you received services through projects of other donors?:

EU: _____ GTZ: _____ SWISS : _____ Other: _____

Are you a member of any Business Association? Which? _____

Have you received any services from them? _____

Are you satisfied with their services? _____

III. Company Background Information:

a. Main products/services of your company: _____

c. Domestic and export markets, as a percentage of total sales :

Kosovo	Serbia/ Montenegro	Macedonia	Albania	European Union	Other
_____ %	_____ %	_____ %	_____ %	_____ %	_____ %

d. Company size: This data is intended to evaluate the scale of your firm's operations.

	<u>2004</u>	<u>2005</u>
-Employment (number of employees)	Total _____	_____
	Male _____	_____
	Female _____	_____
-Gross sales/revenue	Euros _____	_____
-Export sales	Euros _____	_____

e. Private/public ownership: _____% privately-owned
_____% publicly-owned

We would appreciate it if you would kindly fax this background information to our office in Pristina: Fax: +381 38 244 278.

Thank you for your kind assistance in providing us with information that will help us improve our services to your company.

Attachment D

Interview List

First Name	Last Name	Organization	Title	Address	Tel.	Fax	Cel	Email
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