

Annex 3 Kosovo Case Country Study

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List of Abbreviations

ARDP	Agricultural Rural Development Plan
CMU	Component Management Unit
DNP	Danish Neighbourhood Programme
EFSE	European Fund for Southeast Europe
FINCA	Foundation for International Community Assistance
FDI	Foreign Direct Investment
GoK	Government of Kosovo
IPARD	Pre-accession Assistance for Rural Development
KfW	Kreditanstalt für Wiederaufbau
NOA	New Opportunities for Agriculture Programme
MFA	Ministry of Foreign Affairs
MFI	Micro Finance Institution
MAFRD	Ministry of Agriculture, Forestry and Rural Development
MEST	Ministry of Education, Science and Technology
SDC	Swiss Development Corporation
SME	Small and Medium-Sized Enterprise
SNV	Netherlands Development Organisation

1 Background

Context Analysis

Kosovo traditionally had a relatively strong and well-functioning agricultural and food processing sector, which was able to capture a significant part of the domestic market, as well as exporting substantial volumes. The economic and political crises in the 1990s and the war in 1999 reduced agricultural and food-processing production to a fraction of the previous level. However, there are signs that the sector is slowly emerging from more than a decade of crisis and stagnation. In particular, the horticultural sector has shown promising signs of nascent recovery, partly aided by development agencies such as USAID and Swiss Development Corporation (SDC). Nevertheless, both production and productivity levels remain below potential. For example, taking into consideration that the average annual fruit consumption in Kosovo is 20 kg per person, Kosovo's total market demand for fruit is estimated at 50,000 tons but the total local production currently stands at 27,473 tons (see Agriculture and Food Processing Industry in Kosovo, 2008, Investment, Ministry of Trade and Industry, Promotion Agency of Kosovo p.23).

In terms of Vocational Education and Training (VET) and employability, on the supply side, support to the Government of Kosovo's (GoK) efforts to reduce unemployment focus on improving the employability of graduates from vocational schools. Compared to re-training of the unemployed, it is more cost-effective to reduce the risk of graduates entering into unemployment (23,346 students graduate each year in Kosovo, 11,796 of whom are from vocational schools, Statistical Office of Kosovo, Education Statistics – 2009-10, p.80).

Consequently, the Danish Neighbourhood Programme (DNP) invests in the mainstream educational system to provide graduates with more practical skills and competencies needed to exploit existing and future employment opportunities. Vocational schools are seen as an option mainly for those who cannot access the gymnasium (grammar school), partly because vocational schools have limited resources for anything other than theoretical learning. In addition, teachers are generally not well-qualified to undertake practical training, even if the necessary equipment and facilities were available. Graduates leaving the vocational schools, therefore, have limited practical skills, contributing to high unemployment levels. The DNP aims to improve their competencies and thus their employment prospects.

A key constraint for both existing and start-up agribusinesses is access to affordable financial services. Commercial banks tend to shy away from lending to agribusinesses due to the perceived risks (e.g. reduced enforceability of collateral, long-term investments, uncertain markets, etc.). Some Micro Finance Institutions (MFIs) do have agribusinesses clients but reach is constrained by a lack of liquidity. The relatively high interest rates charged by MFIs and the limited size and maturity of their loans further deter substantial take-up by agribusinesses. Commercial banks do have reasonable liquidity to lower interest rates but are reluctant to enter the market due to the perceived risks and capacity constraints. The DNP addresses these issues by supporting the financial sector (MFIs and commercial banks) in providing capital for on-lending and capacity development support, both instruments targeted at increased rural outreach.

Nature of DNP intervention(s):

- Title: 'Employment Promotion through Business and Skills Development'.
- Period: July 2008-December 2012.
- Development objective: Promoting sustainable employment generation through the improvement of the agribusiness environment and increased employment opportunities for vocational school graduates.
- Immediate objectives: Three immediate objectives have been formulated:
 - i) A dynamic horticultural sector is supported which contributes to increased commercial income and employment and in rural areas.
 - ii) Increased employment rates of youth in general and girls and ethnic minorities in particular graduating from upper secondary agricultural education.
 - iii) Increased access to financial services of micro and small and medium-sized enterprises, especially in the agribusiness sector.
- Scope: The programme has three components:
 - i) Promoting labour intensive growth for agribusinesses: the objective is to restore the productive potential of agribusinesses in Kosovo by promoting value chains, in particular horticultural and related agribusinesses, as this sector has significant potential for sustainable, labour intensive growth.
 - ii) Improving employability of vocational school graduates: the objective is to increase the employment rates of young people in upper secondary schools in general and girls and ethnic minorities in particular.
 - iii) Improving existing and new agribusinesses' access to financial services: supports financial institutions, including commercial banks and MFIs, with loans for on-lending and capacity development support. The financial institutions are expected to be either active in the agribusiness sector or have a firm commitment to expand into the sector; the capacity development support assists expansion of their rural outreach.
- Implementing modality: a co-financing agreement and delegated partnership with SDC for the horticulture value chains (which is implemented by InterCooperation); a co-financing agreement and delegated partnership with the European Fund for Southeast Europe (EFSE), which handles the loan funds and the capacity development assistance; and a Component Management Unit (CMU) within the Ministry of Education, Science and Technology (MEST) for the VET Component.
- Key stakeholders: Ministry of Finance (EFSE Component), Ministry of Agriculture, Forestry, and Rural Development (MAFRD – Horticulture Component), MEST (VET Component), Pristina – Faculty of Agriculture, Association of Kosovo Agribusiness, VET schools and farmers.
- Budget/inputs: a total budget of DKK 80 million: i) horticulture value chains (DKK 29.8 million); ii) vocational educational training (DKK 28.5 million); iii) access to financial services

(EFSE) (DKK 13.5 million); iv) contingencies (DKK 6.3 million); and other (DKK 1.9 million).

- Geographical coverage: national and 12 VET schools (subsequently reduced to four).

- Expected outputs:

The Horticulture Component is expected to deliver four outputs: i) improved production, processing and marketing of horticultural products consistent with market needs; ii) promotion of affordable business development and extension services for all value chain actors; iii) assistance to the government in promoting an overall enabling environment for the horticultural agribusinesses; and iv) piloting of a young entrepreneurs' support scheme.

The VET Component is expected to deliver six outputs: i) support to agricultural departments in 8-10 vocational schools to conduct practical training and provide relevant training equipment; ii) upper secondary vocational schools supported with teaching materials; iii) developed teacher qualifications consistent with the curriculum (esp. concerning agricultural subjects); iv) improved linkages between schools and local labour markets; v) strengthened decentralised school governance; and vi) capacity development at MEST.

The EFSE Component is expected to deliver five outputs: i) increased availability of loanable funds of banks for agribusiness and other rural activities; ii) increased availability of long-term funds and equity for the transformation of MFIs into deposit-taking institutions and for on-lending to agribusinesses and other rural activities; iii) increased capacity of MFIs to expand the scope and scale of their financial services through transformation into deposit-taking institutions; iv) increased capacity of banks to provide financial services to agribusiness and other rural activities; and v) increased capacity of MFIs to provide a full range of financial services to agribusinesses and related rural businesses.

Key relevant documents

There are a numerous key strategy/policy documents covering the three programme components, namely: 'Kosovo Development Plan' (not yet published); 'Kosovo Employment Promotion Programme' and 'Kosovo Investment Promotion Links' (Kosovo Agency for Promotion of Investments); 'Kosovo Poverty Assessment' (World Bank); 'Kosovo Doing Business Index' (World Bank); 'Kosovo Statistics' (Statistical Office of Kosovo); 'Regional Economic Outlook' (IMF); 'Agriculture and Rural Development Plan (ARDP) 2009-2013' (MAFRD); 'CEFTA Regional Agreement' (Statistical Office of Kosovo); 'Input Price Index in Agriculture, 2010' (Statistical Office of Kosovo); 'Output Price Index and Prices in Agriculture, 2010' (Statistical Office of Kosovo); 'Information on Labour Market, December 2010' (Ministry of Labour and Social Welfare); 'Strategy for Development of Pre University education in Kosovo 2007-2013' (MEST); Law on Pre University Education in Kosovo (MEST); 'Law on Education in Municipalities in Kosovo' (MEST); 'Kosovo Curriculum Framework, 2010' (MEST); 'Kosovo Education Statistics, Public Pre-University Education, 2008-09' (MEST); 'Applying the Copenhagen Declaration to Kosovo, 2005' (MEST); 'National Standards for Entrepreneurship, Education and Training' (MEST); and the 'Horticultural Strategy, 2009-13' (MAFRD).

External factors

It should be noted that the global financial and economic crises (as well as the travails in establishing a government in Kosovo and agreeing a national budget in early 2011) have impacted on the country and thus also on the implementation of the programme. Overall, the balance of opinion and analysis is that financial crisis has had a relatively limited impact on Kosovo, largely due to the country's limited access to the global stock markets. Nevertheless, for example, the level of Foreign Direct Investment (FDI) and remittances has declined, mainly as a result of the global crisis, combined with a high degree of political instability. Kosovo needs to work on reducing the barriers and red tape (see the latest Doing Business surveys by the World Bank, 2011). Moreover, the issue of high unemployment generally and youth unemployment particularly, are affected by the economic recession. The unemployment rate is increasing, largely due to high number of graduates (ca. 23,000) entering market each year, adding to the already high number of unemployed (see Education Statistics) because of the limited number of new jobs being generated. The Population Census carried out in April 2011 will provide more accurate information but this will only be available in 2012.

For example, in the current economic climate, it is likely that fewer young people are finding employment following their educational/training period; the levels of FDI have declined and companies are cautious about expansion, with a concomitant effect on employment opportunities. On the other hand, it is possible that certain external effects might be beneficial, in that financial products designed to assist farmers and agribusinesses, including EFSE, may be enjoying greater demand than prior to the crisis due to the general constraint in lending by financial institutions. Finally, the horticultural activities may also be enjoying greater success due to the global rise in food prices. Therefore, it is hard to conclude in a decisive manner about the consequences of the external factors on individual components, let alone for the programme as a whole.

2 Relevance

(Extent to which the intervention objectives are consistent with the beneficiaries' requirements, needs, priorities and partners' and donors' policies).

Are the portfolio and its activities well aligned with the policies of the partner countries?

Horticulture: Yes, the component and its activities are entirely aligned with the Kosovar policies, such as the ARDP (2009-13), the Kosovo Development Plan and the Horticultural Strategy, which was revised in 2010 with the assistance of the programme (see preceding discussion for a full list of key strategic documents for all three components of the programme). All discussions with donors and state officials, including the MAFRD, reinforced the conclusion that this component is well aligned with national policies.

VET: Yes, component and its activities are entirely aligned with the Kosovar policies. MEST is responsible for VET policy, including the 56 vocational schools and the Ministry of Labour and Social Welfare also has a role in relation to eight vocational educational centres. Discussions with local stakeholders reinforced the view that the VET component is entirely in line with the Government of Kosovo's (GoK) educational and vocational educational policies. The component falls within the framework of both the 'Law on Vocational Education and Training' (Law 02/L-42, 2006) and the 'Kosovo Development Plan'. Recently, the GoK has initiated a plan of economic development priorities that is to be transformed into a 'Kosovo Development Plan' in the future. The 'Kosovo Development Plan' emphasises equal rights and access to vocational education and training for all citizens. The VET Component is also consistent with the 'Education Strategic Plan 2011-16' and the 'Strategy for Pre-University Education in Kosovo 2007-2010'. The latter emphasises the importance of VET and the need for close collaboration between educational institutions and the labour market /enterprises, the importance of establishing facilities for practical training, etc. Discussions with MEST, Municipal Education and School representatives reinforce the conclusion regarding the component being well-aligned.

EFSE: Yes, EFSE and its activities are well aligned with the policies of Kosovo. Access to finance for the agricultural sector is considered to be high risk by both commercial banks and MFIs; as a consequence, it is underdeveloped. Discussions with financial stakeholders suggest that following an appreciable increase in the general portfolio at risk, lending to the agribusiness/rural sector has been reduced in recent years in Kosovo. Due to the perceived higher risk in the agricultural sector, the loan volumes remain low and interest rates high. The GoK is discussing the possibility of subsidising interest rates and/or increasing grants to support the sector.

Do the portfolio and its activities fit into the larger socio-economic and political context, including the development efforts of the government and other development partners?

Horticulture: Yes, the component and its activities fit into the larger socio-economic and political context. Discussions with the MAFRD representatives point to the fact that the GoK is raising the policy emphasis in relation to agricultural developments generally, including horticulture and the associated value chains. More generally, the GoK is emphasising the potential for import

substitution, as well as the importance of generating greater exports, especially to the EU. The component is, therefore, also consistent with what the GoK and development partners (such as SDC and USAID) are seeking to achieve.

VET: Yes, the component and its activities fit into the larger socio-economic and political context of the country. Kosovo has an estimated unemployment rate of 45% and a concomitantly low employment rate (29%). About 63% of the unemployed have been searching for a job for more than two years and 53% have been searching for more than four years. Official data suggest that 45% of the population is living below the national poverty line and an estimated 17% are extremely poor (see Danish Ministry of Foreign Affairs (MFA) Review Report, March 2011). Moreover, more than 50% of the population is under the age of 25; ca. 30,000 young people enter the labour market annually; the youth unemployment rate is ca. 45% (see Statistical Office of Kosovo; it should be noted that the new Population Census is planned to conclude in April 2011 and is expected to provide more accurate and up-to-date population information, including on labour market matters in 2012). This means that Kosovo has one of the highest, possibly the highest, level of youth unemployment in Europe. This offers potential as well as challenges for GoK. Therefore, the VET Component fits into the wider socio-economic and political context of Kosovo.

EFSE: Yes, the EFSE Component and its activities fit into the larger socio-economic and political context, including the development efforts of the GoK and other development partners. All state bodies that participated in the fieldwork recognised the necessity to support the agricultural sector through the development of more financial products which can be accessed by farmers and agribusinesses, especially those located in the more remote, rural areas. This is an important precondition for the socio-economic development of the country and is supported both by GoK and its development partners.

Are the portfolio and its activities coherent with the overall Strategy of the Danish Neighbourhood Programme?

Horticulture: Yes, the component and its activities are entirely coherent with the overall Strategy of the DNP, which recognises importance of the agribusiness sector. The horticultural sector and the associated value chains are themes which Denmark and thus the DNP can add value in countries such as Kosovo.

VET: Yes, the goal of the DNP is to support agricultural and other businesses which require an appropriately qualified labour force. Although youth can be considered as a great potential workforce if new jobs open-up, the very high levels of youth unemployment in Kosovo represent a potential destabilising factor in terms of the future development of the country.

EFSE: Yes, the support to EFSE is aligned to DNP Strategy, with its strong focus on development of the agri-businesses sector, quality standards, export orientation, etc. The development of the agricultural sector, not least the agribusinesses at the higher levels of the value chains, is constrained by difficulties in raising finance for investment. The component aims to increase access to financial services for agribusiness and other businesses in the rural sector; as such, this component of the programme is in line with the DNP.

Are the portfolio and its activities perceived to be relevant by the intended beneficiaries?

Horticulture: Yes, the component and its activities are perceived to be highly relevant by the MAFRD, as well as all the other stakeholders who participated in the fieldwork, not least the farmers, cold storage operators, food processors and exporters. The discussions with other donors indicate that the horticultural sector remains a priority for their development efforts, although there is a need for high level donor coordination to avoid potential overlaps and other negative effects.

VET: Yes, the component and its activities are perceived to be highly relevant by MEST, as well as others such as the municipalities, schools, teachers and students themselves. All the feedback received indicates that the vocational educational school system is in urgent need of support. Since state resources and capacities are limited, the contribution of others such as the DNP, are perceived to be both relevant and valuable by the stakeholders at national and local level.

EFSE: Yes, the component and its activities are perceived to be relevant by the commercial banks, MFIs, their respective representative bodies (Association of Banks and Association of Microfinance Institutions in Kosovo); the farmers and agribusinesses that may benefit from access to finance are not aware of EFSE or its activities since they only interact directly with their bank/MFI. The common perception is that greater access to finance is being generated as a result of initiatives such as EFSE. However, there is significant scope for further support to the agricultural sector if it is to raise its productivity, quality, standards, export orientation, etc.

3 Effectiveness

(Extent to which intervention's objectives and outputs are expected to be achieved).

Have the supported activities had the intended effects/are they likely to achieve the intended effect?

Horticulture: Yes, the horticultural activities are likely to achieve the intended objective of assisting to restore part of the productive potential of the agribusiness (horticultural) sector in Kosovo to create: “... a dynamic horticultural sector which contributes to increased commercial income and employment in rural areas”. Part of the reason for this is that the component activities build upon what SDC and its implementing partner, Intercooperation, have been doing in Kosovo since 2001. This applies to the main outputs anticipated, namely i) improve production, processing and marketing of horticultural products consistent with market needs; ii) promote affordable business development and extension services for all value chain actors; iii) assist the GoK in promoting an overall enabling environment for the horticultural agribusinesses (this appears to have been primarily focused on the revised ‘Horticultural Strategy (2009-13)’ as well as the ‘Integrated Production and Fire Blight’. This broad conclusion is supported both by the Springfield Review (2009), the Danish MFA Review (2011), as well as the Impact Assessment (Horticulture Promotion Kosovo in Kosovo – 2011), albeit with caveats such as data constraints. The fourth output (namely, the young entrepreneurs’ support scheme) has not yet been implemented due to delays in implementing the VET Component, however, preparations are underway.

VET: Yes, the component is broadly likely to achieve the intended objective to “increase employment of youth in general, and youth from ethnic minorities and females in particular, graduating from upper secondary agricultural and food processing education” and comprises six outputs: i) support agricultural departments in 8-10 vocational schools (subsequently reduced to four schools) to conduct practical training and provide relevant training equipment; ii) vocational schools supported with teaching materials; iii) develop teacher qualifications consistent with the curriculum (esp. concerning agricultural subjects); iv) improve linkages between schools and local labour markets; v) strengthen decentralised school governance; vi) capacity development at MEST. Although the VET is likely to achieve the intended objectives and outputs, this is unlikely to be to the extent originally anticipated in the programme document. This is mainly due to issues such as the fact that only four schools are participating rather than the originally anticipated 8-10 and the major and persistent delays due to procurement problems. However, if the timeline of the VET components is extended by 12 months (as anticipated by the CMU, based on discussions with Danish MFA and the MFA Review Team), it may be possible to achieve the intended effects.

EFSE: Yes, overall the component is likely to achieve the intended effects. It aims to support commercial banks and MFIs with loans for on-lending and capacity development support for financial institutions that are either active in the agribusiness sector or have a firm commitment to expand into the sector; the capacity development element is designed to expand their rural outreach. The expected outputs include increasing the capacity of banks to provide financial services to agribusiness and other rural activities and increasing capacity of MFIs to provide a full

range of financial services to agribusinesses and related rural businesses. In the absence of relevant data it is not possible to be definitive; EFSE reporting is not specific to the MFA contribution and only allows for a broad “rural” category to be considered, so its activities may or may not involve lending activity to *agribusiness* and *other rural activities*, as per the programme document intention. Overall, what can be said is that it is likely to achieve the intended effects since more lending is being directed at the rural sector. However, it is not possible to assess the extent to which such funding is reaching the programme’s intended beneficiaries (agribusinesses and related rural businesses).

Has the number of growth-oriented Small and Medium-Sized Enterprises (SMEs) increased as envisaged within the targeted industries and regions?

Horticulture: N/A, the component uses a value chain approach which targets all levels including producers, processors, exporters, supermarkets, SMEs, etc. The target of this component is agro-processing SMEs with the aim of creating economic growth but specific regions are not targeted. All the same time, some SMEs which the programme is engaging with are expanding in terms of income and employment, which is resulting in better quality produce and increased export.

VET: N/A, the component did not target SMEs/industries/regions. However, the courses and the teaching are designed to be more in tune with the needs of the labour market (i.e. demand-driven and practical in nature). This aim is likely to be achieved and will assist growth-oriented SMEs/targeted industries, albeit indirectly.

EFSE: N/A, the aim of the component is not specifically to target SMEs/industries/regions. Since the EFSE funds are ‘pooled’ by both commercial banks and MFIs, it is not possible to assess the extent to which they are being targeted at enterprises. It is only possible to assess if funds are being directed to rural Vs urban areas of the country.

Have the most promising results in terms of socio-economic development been attained?

Horticulture: Yes, promising results in terms of socio-economic development have been attained. This is partly because SDC/Intercooperation has been actively working in the horticultural sector in Kosovo for a decade. Best practices and experience not least that acquired by the Intercooperation experts, have been accumulated and used to the benefit of the implementation of this component of the programme. A strong emphasis on working at all levels of the horticultural value chains is resulting in positive socio-economic developments. The component promotes knowledge sharing between the different actors in the horticultural sector (including between Intercooperation and Riinvest since early 2011); the inter-professional and other interest groups are supported and market intelligence is being enhanced. All these developments assist the development of the horticultural agribusiness sector.

VET: Yes, promising results in terms of socio-economic development have been attained. The four pilot vocational schools are in the process of being transformed as a result of the component activities. The physical environment is being upgraded, the curriculum is being modernised, the equipment is being upgraded, the laboratories are being equipped and motivation on the part of both students and teachers is increasing, based on the information collected during the field-work (a monitoring and tracing system in the manner anticipated in the programme document

does not yet exist but is being developed). This is likely to result in positive socio-economic developments which have the potential of being replicated elsewhere in Kosovo; according to discussions with the VET Department, MEST is interested in mainstreaming as much of the component activities as it can, given the public resources available. Other developments of a promising nature include the establishment of Centres of Student Services, however, implementation has been significantly delayed and this is still at an embryonic stage. Teachers are paid a supplement to participate in these Centres of Student Services and provide students with advice. This service will need to be developed in the remaining implementation period but offers considerable potential in Kosovo.

EFSE: Yes, in general, EFSE is helping to increase access to finance in the rural areas of Kosovo, which in turn is likely to lead to positive socio-economic developments in those parts of the country. This development is dependent on the outreach of the financial institution; it tends to be the MFIs that extend loans to rural areas. However, as mentioned above, the 'pooling' of funds and lack of specific data/information on the Danish MFA contribution to EFSE activities makes it impossible to be more specific than this.

4 Efficiency

(How economically resources/ inputs (funds, expertise, time, etc.) are converted to results).

Was the approach(es) as well as the more specific intervention logic(s) appropriate and justified?

Horticulture: Yes, the approach (basically focusing on the development of horticultural value chains), as well as the more specific intervention logic is appropriate and justified. The horticulture component is not a new development in Kosovo; rather, it is built upon the activities which SDC and its implementing partner, Intercooperation, have been developing in the last decade. As such, the approach and intervention logic are appropriate and justified; they basically represent an evolution of what SDC has been doing hitherto. It is also in line with the GoK policy priorities, as well as the development aims of the donor community in Kosovo.

VET: Yes, the approach and the specific intervention logic is appropriate and justified. The analysis has previously highlighted the high levels of general and youth unemployment, as well as the GoK's policy emphasis on the vocational education sector. The VET component's logic is, therefore, valid. It is justified in that the reduced number of schools has been addressed in a comprehensive manner and the satisfaction of the beneficiaries interviewed, both teachers and students, is high comparing the conditions, equipment, training and courses available before and after the MFA intervention.

However, the programme document initially targeted 8-10 vocational schools (all 56 VE schools have an agricultural profile, even if they are mixed in nature), but only three are specialised agricultural schools in the whole of Kosovo. In the end, the resources were targeted at four schools. This, together with MEST's preference for a concentration of resources of fewer schools, meant that the approach and intervention logic had to be changed substantially; nevertheless, it remains appropriate and justified. Indeed, it is quite possible, given the significant procurement delays experienced, that the original intention of targeting 8-10 schools might have been unworkable. As things currently stand, it might just be possible to implement the planned activities if the component timeline is extended by 12 months, as is planned by the Danish MFA, subject to Programme Steering Committee approval. If additional DNP resources were available, MEST has indicated that it would wish to extend the component to other vocational schools in the system.

EFSE: Yes, the EFSE approach and intervention logic are appropriate and justified. EFSE is an investment mechanism established in 2005 which is considered to be both innovative and effective by other financial instruments of a similar nature. Therefore, EFSE is very well positioned to assist in meeting the financing the needs of agribusinesses and related rural businesses, as well as low income private households through the provision of sub-loans. However, it is not possible to assess how the Danish MFA funds have been used and whether these have really been directed at agribusinesses and related rural businesses active in the agricultural sector (as opposed to rural areas in general).

Has the actual implementation deviated from the strategies and plans stated in the project documents?

Horticulture: Yes, the actual implementation has deviated from the strategies and plans stated in the project document. The most notable issue is the decision to establish the Facilitating Entity, as a supplement to the component. This can be viewed as a major deviation from the original project design, albeit one consistent with the nature of the support; it is also an issue which was discussed and agreed with the Danish MFA. The programme aims and indicators remained unaffected.

The rationale for establishing the Facilitating Entity arises from the Springfield Review's (2009) critical assessment of the project design, which was considered to be too production and farmer-oriented, and with too limited outreach potential. An important further consideration was the desire to anchor the programme activities in a Kosovar institution with a view to enhancing national ownership. The Springfield Review did not specify the exact legal status of this facilitator, but emphasised that it should be an independent, local institutions able to attract funds from public investors; it should work in a business-like manner with private sector partners to address value chains constraints at all levels so that value chains become truly competitive; it should become a hub for rural and agribusiness development in Kosovo. The Danish MFA Review Report (2011) stresses also that the rationale of the Facilitating Entity is "*not fully clear*" and points to the risk of possible "*overlapping of activities*" and even "*rivalry*" between Intercooperation and the Facilitating Entity, while at the same time being broadly positive about the initiative. Furthermore, the young entrepreneurs' support scheme has not yet started; however, it is noted that this is primarily because of the delays arising from the VET Component.

VET: Yes, the actual implementation of the VET Component has deviated significantly from the strategies and plans stated in the project documents. First of all, upon the request of the GoK, it was agreed to reduce the number of target schools from the planned 8-10 to four (located in Ferizaj, Gjilan, Vushtrri and Pejë); three of which are agricultural vocational schools and one is mixed. This can be seen as a sign of responsiveness to a GoK request, albeit one representing a departure from the original strategies and plans. This allowed more funds to be used for rehabilitation of the facilities of the schools but the result is that the anticipated outputs, such as the number of teachers trained and the number of students it reached, decreased. However, the main deviation in implementation is connected with the procurement process, which has impacted the VET Component implementation, as well as the overall programme, such as the young entrepreneurs' support scheme of the Horticultural Component, which has been systematically delayed. It should be noted that many activities are proceeding well: reconstruction efforts are underway, laboratories are being equipped, the Centres for Student Services are becoming operational and furniture is in the process of being delivered. However, the fact remains that the very significant delays due to procurement difficulties have affected the overall programme and component implementation. Without a 12 month extension in the timetable, full implementation may be compromised. An agreement with the Public Procurement Agency has been reached by the Danish MFA, however, at the time of the fieldwork, it was not possible to assess whether it has generated a well-functioning procurement process or if the lost time is being made-up.

EFSE: The actual implementation of the EFSE Component has not deviated from the strategies and plans stated in the project documents. The component largely involves EFSE pursuing a pre-established development strategy and reporting on the basis that was already determined by its management and board, prior to signing the Danish MFA cooperation agreement.

Have the applied modalities (partnerships, use of consultants etc.) been cost-effective?

Horticulture: Yes, the applied modality (delegated partnership and cost sharing) has been cost-effective in the case of the horticultural component. The advantage for the component is that it was able to reap the benefits of SDC/Intercooperation activities, expertise, know-how, institutional infrastructure and networks. The key potential disadvantages may be that SDC/Intercooperation may perhaps not be so experienced in relation to some of the expected outputs of the component, such as improving the business enabling environment (Output 3), combined with insufficient follow-up by MAFRD.

VET: No, the applied modality (CMU – comprising two international and four national members) cannot be considered a cost-effective solution based on the information available. As stated by the Danish MFA Review Team, the CMU within MEST for the VET component is an atypical “hybrid” between a fully autonomous Project Implementation Unit and a fully integrated Advisory Unit within a ministry (MFA Review, 2011, p.16). A number of issues may have reduced the effectiveness of the CMU: i) it is not located within the MEST VET Department but rather in a physically removed MEST Regional Centre (five minutes’ walk from MEST); ii) the CMU decision to pay 50% of the salaries of a procurement officer and a finance officer, both of whom work for MEST, may have complicated implementation; iii) the CMU as modality has not been able to solve the long-standing procurement issues. Whilst recognising that public procurement in Kosovo is generally not easy, the hybrid modality does not appear to have improved the process. Back in 2009, the Auditor General’s report for the programme activities in 2008-9 had already highlighted the major procurement problems and made recommendations for solving them (see Audit Report on the Financial Statements of the Danida Programme for 31 December 2008 and 2009). The CMU modality and discussions at the Steering Committee level have proved unable to solve these problems. At the time of the fieldwork, it is not yet clear that the compromise process brokered by the MFA (involving the Public Procurement Agency) will work in time to ensure full and effective implementation of the VET Component, even if the deadline is extended by 12 months.

EFSE: Yes the delegated partnership involving use of the EFSE mechanism appears to be cost-effective. EFSE has the infrastructure, know-how and expertise in place to be able to mobilise the funds in relevant relatively short period of time. Not only was this cost-effective, but most importantly, it has ready access to the key financial market players, both commercial banks and MFIs. At the same time, although EFSE funds are finding their way to the rural areas of Kosovo, it is not clear whether the funds are getting directly to the intended target groups, such as farmers and agribusinesses, although this is likely.

Have an appropriate number of the beneficiaries been reached, considering the scope/magnitude of support?

Horticulture: No, overall an appropriate number of beneficiaries has not been reached, considering the scope and magnitude of support. The main evidence for this comes from the Springfield Review (2009), the HPK Impact Survey (2010) and the Impact Assessment (2011). The studies stress that a systematic data collection/monitoring system is lacking, something which should not be the case for a programme that has been running since 2001. The Springfield Review (2009) concludes that the employment generated could be higher (horticultural value chains do not necessarily lend themselves to high levels of employment generation) and that outreach could have been higher: the total number of farmers reached was relatively low (ranging from 3% to 25%) except in the case of apples and total outreach in “rural” Kosovo is also low (1-2% of commercial farming households). Overall, based on the evidence available, a higher number of beneficiaries might have been reached. There are indications that the situation may have improved significantly since then; however, the data to confirm this is not yet available.

VET: No, the number of targeted schools has been reduced from 8-10 to four, as per the MEST request. So although the funds are being used in a more concentrated manner, which can generally be considered to be beneficial, fewer beneficiaries (schools, teachers and students) are being reached than originally anticipated. Furthermore, the procurement problems have reduced the capacity of the VET Component to reach as many beneficiaries as anticipated, even in the context of the four targeted vocational education schools. It is possible that the proposed extension will result in the catching up of the intended beneficiaries.

EFSE: It is not possible to conclude that an appropriate number of the beneficiaries have been reached, considering the scope/magnitude of support. The use of EFSE streamlines the delivery process and makes additional funds (sub-loans) available to the participating financial institutions (MFIs and commercial banks). However, these funds are consequently ‘pooled’ and used by credit officers in a manner which does not distinguish targeted results, such as being directed at agribusinesses and related rural businesses. Therefore, it is not possible to obtain information on how large a share of the funds is actually reaching farmers and agribusinesses from the existing banking/MFI systems. What is known from discussions with commercial banks and MFIs is that both have recently scaled back their lending programmes to agricultural activities as a considered response to the fact that their ‘portfolio at risk’ has increased and agricultural lending is seen to be the riskiest for lending of all. In order to manage the current levels of perceived risk, access to finance in this sector is being restricted.

Has duplication of activities been avoided?

Horticulture: Yes, overall the component has been able to avoid duplication of activities; there is also informal donor coordination in relation to various development themes, including agricultural/rural development. However, an area where duplication exists and may actually be increasing is the proliferation of agricultural grants in Kosovo. Among others, the following are active in providing grants of various sorts for agriculture/agribusiness: Danish MFA/DNP, MAFRD, USAID, EC and the World Bank (jointly with MFA from 2012). MAFRD seeks to coordinate

and streamline the process, and argues that there is no duplication and that more funds are needed. However, from discussions in the field it is suggested that a certain degree of duplication and/or overlapping is taking place, possibly resulting in deadweight effects. In the time since the research was carried out, MAFRD has initiated the first formal meeting of donor coordination in Agriculture and Rural Development, with a second meeting planned during 2011.

VET: Yes, there is no evidence of duplication of activities in the VET Component.

EFSE: Yes, there is no evidence of duplication of activities in the EFSE Component.

Have synergies between the different activities been exploited?

Horticulture: Few synergies between the horticulture and other components/the different activities have been exploited partly there has been little contact with the other two programme components, except for some cross-participation in the HPK and MEST Steering Committees. However, there is now greater awareness of the need for synergies between components since the recent visit of the Danish MFA Review Team (e.g. participation in the Programme Steering Committees, co-operation on the Youth Entrepreneurship Grant scheme from 2011 onwards); but the overall impression is of this being too little, too late. The MAFRD also points to insufficient synergy between horticulture component activities and other Departments within the Ministry, such as the Advisory/Extension Services.

VET: No synergies between the VET Component and other components/the different activities have been exploited. The most obvious example of such potential synergies relates to the implementation of the Youth Entrepreneurship Grant scheme, however, this has been delayed, due to the VET procurement delays.

EFSE: No synergies between the EFSE Component and other components/the different activities have explicitly been exploited so far, but since the review in January 2011, the EFSE representative in Kosovo is invited to the HPK and VET Steering Committees.

Have lessons learned from related activities been taken into consideration in the design of new activities?

Horticulture: Yes, the component builds upon the previous phases of SDC/Intercooperation support in Kosovo, which date back to 2001. In this sense, the design of this component of the Programme has benefited from the lessons learned.

VET: Yes, the component builds upon the previous phases of significant EU support to VET in Kosovo (KOSVET). In this sense, the design of this Programme Component has benefited from the lessons learned.

EFSE: Yes, the MFA stresses that the experience from the 2005-08 Danish funded microcredit programme in Kosovo was taken into consideration in the design of this programme. However, EFSE notes in discussions with the evaluation team that the fund has been in operation since December 2005 and DNP funds primarily enlarge the pool of finance available for lending to rural Kosovo without a notable departure from its pre-existing activities and approaches.

What implications for efficiency has the set-up of the programme had?

Horticulture: The set-up of the programme/component does have implications for efficiency. Firstly, the fact that the programme works with SDC/Intercooperation is positive in that the component builds upon knowledge, experience and expertise which dates back to 2001. Selecting SDC for the delegated partnership and Intercooperation as the implementing agents means that there is continuity, for example in the use of offices, staff and continuity of previous activities/emphasis. Whilst recognising the dialogue between MFA and SDC leading to the introduction of the Facilitating Entity, it was not part of the Danish MFA Programme Document (see Danish MFA Review Report, 2011) though it is part of SDC's HPK 'ProDoc Phase V 2010-12' and has the potential to impact negatively on the implementation of the horticultural component. Discussions with MAFRD suggest that requests for closer cooperation/synergy between the component and the Department for Advisory/Extension Services have not been followed-up. Moreover, meetings with MAFRD, as well as with other development partners, suggest that a decision by Danish MFA to support horticulture activities through SDC also in the future is not necessarily supportive to the main priorities of the MAFRD, which are to strengthen the ministry's internal coordination and capacity development for effective implementation of the ARDP and to become eligible for EU Pre-accession Assistance for Rural Development (IPARD) funding.

VET: The set-up of the component does have implications for efficiency. As previously discussed (see 'modalities' above) the CMU may not have been effective because it is a 'hybrid' between a PIU and an integrated Advisory Unit within a ministry (see Danish MFA Review Report, 2011, p.16) which has not been able to overcome the consistent procurement difficulties. Other issues impair effectiveness, such as the fact that it is not physically located within the MEST VET Department (though discussions with MEST VET Department suggest that the main implementation problem is procurement, rather than lack of close proximity to the CMU); and its payment of 50% salaries for two MEST staff. Most importantly, the assumption that national procurement law and procedures could be used and that the CMU could manage this process has resulted in major procurement problems which affected the effective implementation of the component. According to the Danish MFA, a very careful assessment of this was made prior to programme start; however, the approach pursued has displayed weakness. Finally, there has been poor monitoring of the programme outputs (see also Danish MFA Review Report, 2011) and a key monitoring tool, namely the preparation of an effective tracing system, has not been implemented effectively at the time of writing.

EFSE: Yes, the set-up of the programme/component does have implications for efficiency. The component was designed in such a manner that EFSE uses the DNP funds and reports on them in the same manner as all its other funds. The pooling of DNP funds means that it is impossible to distinguish exactly how the DNP contribution is used or its impact. The agreements with the commercial banks (e.g. ProCredit) are such that these financial institutions do not distinguish how the DNP funds are used (the loan officers are not aware of the fact that DNP funds are being used), so it is not evident that farmers/agribusinesses/agriculture are benefiting. Since the commercial banks do not appear to have liquidity problems (based on discussions with Pro-

Credit), it is not easy to discern a development impact from the use of DNP funds. The DNP/EFSE funds are also pooled by MFIs (e.g. the Foundation for International Community Assistance - FINCA) in the same manner as commercial banks, but their development approach means that there is likely to have been a greater focus on agricultural lending/development. However, the FINCA reporting is on all its loans (not just that of the DNP) directed at rural Kosovo. Such lending may have been used for many different purposes, only part of which may have been directed at farmers, agribusinesses and/or related businesses.

5 Sustainability

(The continuation of benefits from a development intervention after completion).

What are indications that benefits and improvements resulting from the programme are expected to be of longer term duration?

Horticulture: There are indications that the benefits and improvements resulting from the component are expected to be of longer term duration: beneficiaries in the value chain appear to be increasingly independent and building upon the initial supported investments (e.g. greenhouses, incubators, collection centres, etc.); contracts are also being signed with local storage operators, food processors and supermarkets. This is leading to an increase in profitability, employment and incomes, a process which is accentuated by the global rises in the price of agricultural produce (though this trend could also reverse). This process is also resulting in a degree of import substitution and/or export; some international firms are willing to buy Kosovo products; such practices should contribute to higher quality standards over time and other positive knock-on effects for the Kosovo horticultural value chain. On the other hand, field-level discussions suggest that there may be a degree of over-dependence for export activities on a few firms such as Kelmendi GmbH. A “representative” of the firm acknowledges that Kelmendi GmbH could potentially source fruit and vegetables more cheaply and reliably from competitor countries such as Bulgaria. Should the firm take-up this option, it would have consequences for the producers involved.

The Facilitating Entity is an important element of achieving sustainability as far as the horticultural component is concerned (this is a recommendation arising from the Springfield Review, 2009 of the horticultural activities). The think-tank “Riinvest” was selected to undertake a so-called Participative Market Chain Approach involving: i) a survey of all horticultural value chains; ii) identification of market opportunities; iii) implementation of a process to capitalise on the identified market opportunities. SDC support for the Facilitating Entity is initially until 2012 and may be extended by a further three years if it shows promising results (SDC, Information Note on the Establishment of a new “Facilitating Entity”, undated). It is possible that the Facilitating Entity will be successful, be cost-effective and deliver long-term benefits for the horticulture sector, but careful specification of tasks, services and cooperation with SDC/Intercooperation will be essential to ensure that its value to the horticulture sector is durable.

VET: It is too soon to affirm that the benefits will be of longer term duration as far as this component is concerned. In terms of the refurbished facilities, equipped laboratories and Student Service Centres, these are likely to have a longer term value if finalised and managed well. The very significant procurement delays across-the-board, combined with the on-going uncertainties about the wider decentralisation process in Kosovo, including on financial aspects, mean that it is premature to make a judgement on this matter. Furthermore, since an effective VET tracing system is yet to be established, it is far from clear what the benefits may be for the students graduating from the four vocational schools, let alone whether these benefits and improvements will be of a long-term nature. That said, discussions with local authority/school staff (and students) do

suggest that they recognise the value of the programme activities and that they plan to play their part in ensuring that the results are durable.

EFSE: Yes, there are indications that the benefits and improvements resulting from the EFSE are expected to be of long-term duration. EFSE was created and structured in 2005, well before the partnership with DNP was established, and the programme contributes only 2.5% of its funds. While overall EFSE initiative appears to be innovative and sustainable, it is impossible to assess the long-term impact of EFSE funds on farmers and agricultural enterprises since it is not clear how much has been directed to them. It should be noted, however, that in 2009 EFSE commissioned a “Development Impact Study” to analyse the development impact of agricultural lending of EFSE’s partner institutions on end-borrowers. The study focuses on farmers, agro-processors and agro-traders, as well as EFSE’s role in promoting agricultural lending among its partner institutions through a survey of 480 end-borrowers from six EFSE partner institutions (banks and MFIs). The main findings of the survey, which covered in Albania, Kosovo and Moldova, were as follows:

- Access to agricultural credit has improved in the three countries: 45% of end-borrowers observed that access to credit has improved since January 2006.
- Access to agricultural credit triggered investments: 90% of end-borrowers confirmed that they could not have invested without the credit.
- Access to agricultural credit has had a significant impact on enterprise profits: 60-70% of end-borrowers perceived that their profit has increased thanks to the investment.
- Access to agricultural credit has increased the end-borrowers’ well-being: over one third of the respondents claimed that their capacity to pay for their children’s education and health services has improved, together with the quality and quantity of food consumption.

Overall, the study concludes that EFSE has had a positive impact on the rural and agricultural orientation of its partner institutions and that the absence of EFSE would probably have meant less credit for agriculture for MFIs, especially since MFIs in the region often cannot mobilize savings. This may also be the case in Kosovo. However, local discussions suggest that, in recent years, the flow of finance to agriculture has been negatively affected by the de financial institutions’ need to better manage risk.

Are there possible wider effects from the programmes?

Horticulture: Yes, there are possible wider effects from this component. For example, the ongoing Riinvest research on the horticultural value chains (using the Participative Market Chain Approach) is intended to lead to value added and possible new opportunities in relation to further improvement in the relevant value chains in Kosovo. The activation of new and additional value chains is likely to lead to possible wider effects, arising from the programme activities. However, it not yet clear that Riinvest, a well-known economic research institute, is the right institution to build the Facilitating Entity on. The Entity is basically meant to represent the horticultural sector in the future but it is unclear whether Riinvest has the necessary know-how, credibility, trust and general linkage to the horticultural sector at present. In this context, it is worth

quoting from the Danish MFA Review Report (2011): *“The review team finds that the idea of establishing the Facilitating Entity as a sustainable continuation of the HPK project is reasonable and in accordance with the recommendation of the Springfield Review. However, the rationale for establishing this Entity two years before the end of the HPK is not fully clear to the review team. The team noted that the establishment of the Entity has created some confusion in relation to Intercooperation, and the risk is that some overlapping activities and rivalry between the two initiatives could occur. It is therefore important that the two initiatives work close together up to the end of 2012.”*

It is possible that the selection of Riinvest as the Facilitating Entity was the best of the options available in terms of local institutions with the potential to perform the anticipated role in relation to the horticultural section. However, the fact remains that the possible wider effects of this component are to a large extent connected with the success and sustainability of the Facilitating Entity.

VET: Yes, there are possible wider effects from this component. Despite the delays and connected difficulties, discussions with the Municipal Education Director in Vushtrrii indicate that they are seeking to replicate the experience of the vocational school in other schools within their geographical boundary. According to MEST VET Department, the curricula and teaching materials being developed will be used in other vocational schools. The facilities being established in the four schools are already being used for the benefit of other local schools. There is potential for dual use of facilities for income generation (e.g. equipment, laboratories, greenhouses and orchards) and adult evening classes. Finally, the MEST VET Department stresses that there is great potential to replicate the process in the other 52 vocational schools in Kosovo.

EFSE: Yes, there possible wider effects from the EFSE component. EFSE is widely seen as being an innovative and effective tool which increases the pool of funds available for development in numerous countries, including Kosovo. There is, therefore, significant scope for replication of this particular financial mechanism for the benefit of developing/transition economies. On the technical assistance side, effort been invested in capacity building for MFIs such as KRK and KosInvest (see Review Report, 2011), which is also likely to result in positive wider effects. For example, the MFA technical assistance has contributed to the drafting of a new MFI law in Kosovo.

Are there prospects for the executing organisations to continue after the programme has ended?

Horticulture: Yes, there are prospects that the executing organisation (Intercooperation was sub-contracted by SDC) will continue after the programme has ended. Discussions with SDC suggest that it will continue its development activities in Kosovo for the foreseeable future. Discussions with Intercooperation, the executing agency for this component, suggests that they are also likely to continue operating in Kosovo, though part of the staff will soon be contracted to a separate project (USAID, New Opportunities for Agriculture (NOA), Programme worth USD 16 million). This could have negative implications for the final phase of the DNP programme implementation if the highly experienced Intercooperation staff is transferred to the NOA project, as well as potential problems in filling vacancies created by staff turnover. On the other hand, the

contracting of key staff from Intercooperation to the USAID project also provides an opportunity for transfer and continuation of valuable experiences and good practice from the component to the NOA Programme. Turning to the second main institution, it is still unclear whether the Facilitating Entity (Riinvest) will continue its activities when SDC/component funding comes to an end. Support to Riinvest as a ‘facilitation entity’ for horticulture sector activities is not in the plans of the MAFRD or other development partners. Moreover, as previously discussed, there are concerns about Riinvest’s capacity to perform the role assigned to it. It has taken on a mixture of young and experienced staff, two of whom have horticultural sector experience. However, it is still unclear whether Riinvest can reposition itself to deliver the support, skills and income generating services required by the horticultural sector. Moreover, its funding from SDC/Danish MFA is initially only until 2012, with the possibility of a further three years’ worth of financial support. If everything goes according to plan, this suggests that the Facilitation Entity may have a good chance to establish itself and perform its anticipated role (especially if SDC funding is indeed extended and it builds the requisite technical skills and income generating services).

VET: No, there are no prospects for the executing organisation (CMU) to continue after the programme has ended. All CMU staff are employed by the project and activities will terminate at project end.

EFSE: Yes, there are prospects for the executing organisation (EFSE) to continue after the programme has ended. Basically EFSE existed before the Danish MFA programme was formed and the DNP funds constitute a small part of its overall portfolio (2.5%). EFSE has not changed its remit in any appreciable way as a result of the DNP component and it already appears to be financially sustainable.

Have exit strategies been built into the project designs?

Horticulture: Yes, the programme design discusses the sustainability/exit strategy, albeit in vague terms. All the evidence is that progress is being made with the value chain activities. SDC emphasises the role of the Facilitating Entity as the institution to continue to serve the horticultural sector (services, hub, etc.). However, this was not part of the original Danish MFA programme document and it is still not certain whether Riinvest will be able to rise to the horticultural service and sustainability challenges.

VET: No exist strategies are evident in the project design but the four colleges existed before the programme activities started and will continue once they end. This also applies to the MEST VET Department, which is the other main beneficiary of the component. MEST stresses its appreciation for the refurbishment, laboratories and equipment which, in their estimation, have proven to be very beneficial to both teachers and students in terms of practical skill development and orientation to labour market needs. MEST is seeking to ensure that the teaching materials are replicated in other schools and that state funds are allocated to ensure that the know-how gained through the component is transferred to the other schools in the country.

EFSE: Yes, an exit strategy was built into the EFSE Component design. The programme document foresaw that the investments in ‘C shares’ would eventually become the property of the country and that the Danish MFA could choose to: i) continue being a shareholder; ii) transfer

the shares to EFSE as equity; or iii) transfer ownership to another C-share investor, such as SDC. The exit strategy recommended by the Danish MFA Review Team (2011) is that DNP continues to hold the shares for at least a further four years.

6 Impact

(Long-term effects produced by a development intervention, directly or indirectly, intended or unintended).

What are the indications, that the programme and its interventions will have the intended employment and income effect?

Horticulture: Yes, there are some indications (Springfield Review, 2009; Impact Assessment, 2011) that component interventions will have the intended employment and income in general terms, though the data also suggest that more could have been achieved. The Springfield Review found the following:

- Total “outreach” in rural Kosovo is low; 1-2% of semi-commercial farming households.
- Room for scaling up within existing value chains is low, except for the larger value chains such as tomato and pepper.
- Employment creation is low with a total of 289 Full Time Equivalent. Horticultural promotion does not generally lead to substantial job creation unless the component manages to “reach a substantially higher outreach.”
- Substantial additional income per farmer reached (average of Euro 6,610 per farmer per season).
- Better impact monitoring would contribute to more impact being captured.

SDC/Intercooperation has taken the results and recommendations of the Springfield Review seriously and it is likely that the outcomes have become more positive since the review was carried out in 2009. For example, the ‘HPK Impact Survey 2010’ indicates that direct project beneficiaries have a higher income than non-project beneficiaries, 65% of the direct beneficiaries are implementing improved practices, exports are increasing, etc. (Annual Report, 2010) all of which impact positively on incomes and employment. The Danish MFA Review Report (2011) concludes: *“There are signs of a positive economic growth in the horticulture sector offering new opportunities for young people. Available information suggests that the domestic production is catering for an increasing share of the market for vegetables and fruits, and, although still limited, the export is increasing. However, the horticulture industry still has a long way to go in terms of quality and volume of production”*. Moreover, SDC notes that good progress has been made in the time since the Springfield Review was completed, some evidence for which can be found in the ‘Impact Assessment’ (Horticulture Promotion Kosovo in Kosovo – 2011).

VET: It is too early to judge whether the programme interventions will have the intended effect on students. There is no baseline analysis for the four schools; there is a lack of official statistics (though this might be improved with the new Population Census data which will be available in 2012); a post hoc tracing system being implemented, albeit one which is still at the early stage of development and appears to be primarily a response to the recommendations of the Danish MFA Review Team (2011). Methodological problems exist with this embryonic tracing system:

only some of the students have been approached, self-employment and employment are combined in one category, there is no indication of the type of education/employment/economic sector, etc. graduates go on to, etc. Overall, it is currently not possible to assess if the interventions are leading to the intended outcomes, as far as students' life chances are concerned, including employment, further education and income prospects.

EFSE: It is not possible to assess whether the programme interventions are leading to the intended impacts: the main objective of EFSE support was to improve access to financial services generally. More specifically, the support was expected to substantially contribute to the sustainable expansion of the rural and agricultural portfolio of banks and MFIs, including a sustainable increase in agricultural credit training and lending capacity. However, the data do not allow judgement to be made about agriculture, although an EFSE survey (2009) of Albania, Kosovo and Moldova does indicate that rural lending in general has increased (see 'sustainability' discussion above). However, there are indications that a 'sustainable expansion of the rural and agricultural portfolio of banks and MFIs, including a sustainable increase in agricultural credit training and lending capacity' is unlikely to be achieved. The portfolio at risk increased from ca. 2% (December 2008) to 8% (September 2010) in the case of MFIs. Discussions with one of the partner MFIs (FINCA) suggest that this figure has since risen further, forcing them to manage their exposure by reducing lending to agriculture, which continues to be considered the riskiest financial product. It is unlikely that this risk reduction strategy is restricted to FINCA.

7 Concluding Remarks

A number of issues are worth highlighting based on the preceding discussion:

Horticultural Value Chain Component

This component appears to have progressed broadly as anticipated. After all, the Horticulture Component basically built upon what SDC/Intercooperation have been doing in Kosovo since 2001. However, it is worth highlighting three issues:

The Facilitating Entity: this was not part of the Danish MFA programme document but was agreed following the recommendations of the Springfield Review in consultation with the Danish MFA (see ‘Horticultural Promotion in Kosovo, Project Document for Phase V (2010-12’). Whilst positive about this development, reservations are also expressed about the Facilitating Entity in the Danish MFA Review Report (2011), such as a lack of clarity of what this institution is supposed to achieve and possible competition and overlapping with Intercooperation. This constitutes a component risk for several reasons: i) Riinvest is known as a market research/economics institute, not a body that can naturally take on the role anticipated by SDC for the Facilitating Entity; ii) the staff involved appear to be capable of performing the value chain analysis as well as horticultural expertise, however, it is far from clear that they command the necessary skills, know-how, credibility, trust, networks, etc. for the sectoral coordinating and cooperating role that is foreseen for the Facilitating Entity to perform an ongoing role in Kosovo; iii) these may evolve over time, especially if experts with the appropriate knowledge and experience are recruited by Riinvest, however, there is the risk that such an institution will not take-off and thus not be sustainable by project end (SDC has made allowance for a possible three years extension if the institution progresses as anticipated); iv) connected to this development, several Intercooperation staff currently implementing the Horticulture component will shortly be transferred to the USAID NOA project. This too, represents a risk since highly experienced staff may no longer be available to implement this component or potential implementation disruption may arise due to staff turnover. Finally, the only way that the Facilitating Entity can become sustainable is if it develops services which farmers, traders, exporters, etc. need and are willing to pay for. Although there is evidence of a willingness on the part of farmers to pay for advisory services (in 2011 320 farmers co-financed 50% of the advisory services provided based on discussions with SDC staff), the Facilitating Entity has yet to fully articulate the palette of income generating services to be provided and the vision for acting as the ‘hub’ for the horticultural sector.

Business enabling environment: it is not clear the extent to which this output has been pursued, other than taking the lead in the process of assisting the MAFRD to revise the Horticultural Strategy (2009-13) and other initiatives connected with the fire blight plants protocol and Integrated Production, the latter being a system for fresh produce that concentrates on reducing the use of strong pesticides and other inputs by improving crop monitoring and management by producers. Intercooperation is geared toward ‘in-the-field’ operations, which is what is required for most component activities, but it is not clear the extent to which it has experience, know-how to maximise the policy, strategy, legal role necessary for implementing the business enabling envi-

ronment part of the component. At the same, this component requires active involvement by MAFRD for the activities to be developed and implemented effectively. The indications during the fieldwork are that pro-activity, commitment and follow-up has not always existed.

Young Entrepreneurship Grant: although this was a budget line in the horticulture component, this has been systematically under-spent. The main reason appears to be because the VET Component did not advanced as rapidly as foreseen by the programme document, with knock-on effects for other components. It is anticipated that the Young Entrepreneurship Grant will start in 2011.

VET Component

The Danish MFA Review Report (2011, p.10-11) provides a clear overview of the state of play on this component: it is so far behind schedule that the PSC has to make a decision about whether or not to extend the timescale by 12 months. The Review Report recommends abiding by procurement rules and selecting Public Procurement Agency as the facilitator for documents (2011, p.10). This appears to be the only realistic means by which the component can deliver the anticipated activities, even if the full expected outputs and outcomes can no longer be realised. Three issues are worth noting:

Procurement: discussions with other donors confirm the widely held perception and experience that the Kosovo structures are not sufficiently advanced for this in early 2011. This was also apparent in 2007, when the DNP interventions were designed. According to the Danish MFA, the procurement issue was assessed by a public financial management specialist and it was decided to continue, with a view to respecting the Paris Declaration, by building-in safeguards via CMU involvement in the procurement process. This was a courageous decision to use and build-up the capacity of the Kosovar systems. However, the donors in Kosovo are of the opinion that the Paris Declaration should not necessarily be followed to its natural conclusion unless appropriate preconditions exist. The VET Component appears to have been caught in a half way house where neither the CMU nor MEST were ever in a position of full responsibility for all the procurement procedures. The resulting complications affected the relationship between the CMU and MEST, and delayed implementation of the component and its activities across the board. Impact and sustainability will be compromised without the proposed project extension. Should this extension be given, however, it is still unclear whether the new procurement procedure negotiated between MFA, MEST and CMU will work as anticipated. The MFA has chosen to use the Public Procurement Agency (i.e. a national structure), so as build-up capacity in the Kosovo system.

CMU: the Danish MFA Review Report (2011) notes that the chosen implementation mode (CMU) is a 'hybrid' which does not conform to the normal Danida approaches. During the programme appraisal, a CMU approach was assessed to be the most appropriate modality in the circumstances, however, a number of issues about this implementation modality are worth noting: i) the national head was recruited from the MEST VET Department but while it is important to utilise VET experts, this practice is discouraged as it can create tensions with the beneficiary institution; ii) payment of two MEST staff at 50% of their salaries to provide financial and procure-

ment services for the CMU may have contributed to difficulties experienced, especially as tensions rose over the delays; iii) finally there is no obvious reason why the CMU should be located at a physically removed location from the MEST VET Department. In terms of building the capacities of the VET Department, this appears to be a lost opportunity. Not only was the CMU located in a separate building (MEST Pristina Regional Office) but when MEST relocated to its new head quarters, the chance to co-locate with the VET Department was also missed. MEST maintains that the main problem experienced is the procurement issue; however, a CMU cannot be expected to function fully as intended if it is physically removed (separate building) from the target beneficiary (VET Department).

Tracing system: the programme document stresses the importance of establishing a tracing system, so as to enable MEST to assess the impact of the activities at the level of the schools and thus be in a position to develop evidence-based policies. However, it is only following the Danish MFA Review Report (2011) that structured efforts appear to have been made to introduce effective monitoring information (see p.3) in terms of outputs and activities but there still needs to be a focus on issues such as: *“...fall in the level of registered unemployment in rural areas, reduced import dependence on agro-products and increase in the number of graduates from vocational schools who find employment in the agri-business sector.”* Discussions indicate that effort is now going into the issue, but this can only be considered to be an embryonic form of tracing: the data are incomplete and can be misleading, such as combining employment and self-employment into a ‘(self)employment’ category. More needs to be done in relation to monitoring generally and tracing in particular: it is essential for MEST/Danish MFA to assess whether the component is having the intended effect in terms of the outcomes as far as the VET students are concerned. The objective of increasing the employment rates of youth in upper secondary schools in general and girls and ethnic minorities in particular currently cannot be assessed at present. There appears to be scope for the Labour Market Database which has been programmed to be converted into a tracing system.

EFSE Component

This component is being implemented as anticipated. However, a few of issues are worth highlighting in relation to the intended objective, which is to assist with rural and agricultural development loans:

Reporting: neither EFSE nor the participating commercial banks and MFIs distinguish agricultural from other ‘rural’ loans. The rural loans may or may not have anything to do whatsoever with agribusinesses and related rural businesses; the loan officers cannot and do not distinguish EFSE funds from their mainstream funds. Furthermore, EFSE does not trace or report on the MFA element of finance. Although this is admittedly small (2.5% of the fund) and it is not a part of the agreement with EFSE (MFA agreed to use the standard EFSE reporting), it is not possible to assess whether the objectives of the component are being met or not.

Commercial banks (based on meeting with ProCredit Bank): the agreement between EFSE and ProCredit does not specify about how the Danish MFA/EFSE funds are to be used. Therefore, the credit officers may use the pooled funds in any way that they wish. In the worst case scenario, it is possible that the Danish MFA/EFSE funds might not have been used at all for rural devel-

opment (though this is unlikely), let alone agribusinesses and related rural businesses. A development impact is hard to discern since ProCredit maintains that it does not have any liquidity problems (since it is a deposit taking institution) and that it is not possible to distinguish EFSE resources from any other funds. It is, therefore, not easy to detect a development reason for the agreement with ProCredit Bank.

MFIs (based on meeting with FINCA): The same argument applies to the MFIs as for commercial banks. The main difference is that MFIs are much more likely to channel the EFSE funds into the rural/agricultural sector. This is primarily because of the MFIs' social remit and their greater presence in the rural/remote areas of the country. In the case of FINCA, the EFSE funds coincide with their piloting of their agricultural loans; however, this cannot be attributed to either the EFSE or the MFA part of the funds. The FINCA piloting work did lead to a mainstreaming of agricultural loans, which is a positive outcome. However, the onset of the financial crisis resulted in a much more conservative attitude to lending in Kosovo, which applies especially to agricultural loans. Such loans were reduced in scale and volume since these are generally considered to be the riskiest form of loan by financial institutions, regardless of whether they are MFIs or commercial banks. The lending policy remains very conservative in early 2011, indicating that the development intentions of this component have not been achieved as anticipated in the programme document.

Synergies between Components

The programme document anticipated a degree of synergistic activity between the three components. However, the intention of the MFA programme document has not been realised; there were no component coordination meetings or similar developments which might have generated synergies, though some recent improvements can be detected. Each component implementing agent (respectively SDC/Intercooperation, CMU and EFSE) extracted from the programme document that which was directly relevant to itself; they were not greatly aware of the activities of the other components, let alone recognise the need for component synergies until the Danish MFA Review Mission in early 2011 and the subsequent circulation of the Review Report and its recommendations. Therefore, until the review took place, there was relatively little synergistic action. That said, in some cases, the anticipated synergies simply could not have been reaped because of the delays in implementation. For example, the Young Entrepreneurship Grants scheme was systematically delayed by the horticultural component because the VET Component activities were simply not advancing sufficiently quickly.

All three components are much more aware of this issue and looking to respond in 2011. The lack of a on the ground presence, for example of Danish representation in Kosovo, means that the MFA is dependent on delegated partnerships, in this case SDC and EFSE, to implement the components effectively. However, it would be unrealistic to expect all three partners to coordinate themselves with a view to creating synergies between three components that were knitted together by the Danish MFA without a strong and consistent steer by the DNP team. This weakness notwithstanding, some joint activities did take place prior to the review in 2011 and potential synergies are expected to be reaped where relevant post the Review Report. Ultimately, the power

to secure greater cooperation and synergy rests with the Danish MFA, if combined with a quality control focus on this issue.

Donor discussions

Since numerous donors are active in Kosovo, a roundtable discussion was organised which included the following participants: USAID, Austrian Development Agency, SDC, Netherlands Development Organisation (SNV) Balkans, EC and Kreditanstalt für Wiederaufbau (KfW). The participants indicated that they are likely to continue to be active in Kosovo in the medium term. They consider that the three main DNP programme components are in need of continuing support for the foreseeable future:

- Finance for agriculture: this remains constrained and there is a need to stimulate its development, for example, through loan instruments and credit guarantees schemes. The draft MFI law will require donor support to assist MFIs to transit to more effective and sustainable financial institutions.
- Agriculture: the increasing competitiveness and Kosovo's aspirations in relation to the EU mean that it must strengthen its agricultural sector. It is generally assumed that there is a great deal of scope to increase exports, as well as stimulate import substitution. Assistance to maximise value chains is likely to continue to be important for the foreseeable future. There is a notable amount of grant activity in the country; MAFRD is coordinating this process with varying degrees of success.
- VET: only a few of the 56 schools are being supported but the very high level of youth unemployment (ca. 45%) requires for a continuing focus on this issue. There is a need for modern courses (at least six more standards need to be developed in the Agricultural vocational schools according to MEST), practical equipment, teacher training, establishment of the Student Service Centres and focus on the labour market aspects. MEST is looking for additional support from the DNP (and possibly others) to replicate programme activities in the other 52 vocational schools. Although these may not specialise in agriculture, they all have an agricultural dimension to their activities.

8 Fieldwork Itinerary

Monday 14 March 2011

- 09:00-10:00 Meeting with Component Representatives, Dr. Guido Beltrani and Mr. Kushtrim Mehmetaj, SDC
- 10:00-11:00 Comp. I representatives and Intercooperation and RIINVEST Institute as their partners: overview, data and evaluation discussion, Dr. Guido Beltrani, Kushtrim Mehmetaj, Mr. Heini Conrad, Project Coordinator, Intercooperation-HPK and Ms. Edona Kurtolli, Horticulture Team Leader, Riinvest
- 11:30-13:30 Meeting Component II MEST-Danida VET Component, Ms. Fikrije Zymberi, Programme Manager, Mr. Lars Ranfelt, International Advisor for Finance and Management, Mr. Kurt Nielsen, International Advisor for Education and Mr. Milazim Makolli, National Advisor for Agriculture)
- Lunch
- 14:00-16:00 Meeting Component III Representatives, Ms. Njomëza Shehu, Programme Manager, Finance in Motion
- 16:30 – 17:00 Evaluation team discussion

Tuesday 15 March 2011

- 09:00-16:00 Field trip with Component I to Mamusha – Visit Tomato-Vegetable Centres: Value chain assessment and visit – Sales, Preparation for Processing, Agriculture Associations etc., Mr. Stuart Pettigrew, Ms. Caroline Schlaufer, Mr. Faton Nagavci, Intercooperation
- Lunch
- Round table discussions with enterprises benefiting, associations, coops, Mr. Stuart Pettigrew, Ms. Nora Efendija Gola, Intercooperation
- 16:00. 16:45 Debriefing with Intercooperation, Mr. Heini Conrad, Mr. Stuart Pettigrew, Ms. Caroline Schlaufer, Mr. Faton Nagavci et al.

Wednesday 16 March 2011

- 09:00-12:30 Visit to Vushtrri VET School supported by Danida-MEST fund, Ms. Fikrije Zymberi, Mr. Kurt Nielsen, Mr. Milazim Makolli, National Advisor for Agriculture
- Lunch
- 13:00-14:00 Meeting with ProCredit, Ms Nora Arifi, Deputy Head of Small Business Dept Mr Kastriot Kepuska, Agro Manager and Ms. Njomëza Shehu, EFSE

14:00-16:30 Meeting with Sheep Farmer, client of ProCredit

17:30-18:30 Ms. Ella Beavers, FINCA CEO in Kosovo, Ms. Njomëza Shehu, EFSE

Thursday 17 March 2011

09:00-11:00 Round Table with Ministries (invited Ministry of Agriculture, Forestry and Rural Development, Ministry of Finance, Ministry of Trade and Industry, Ministry of European Integration, Ministry of Education, Science and Technology, Statistical Office of Kosovo): Hysni Thaqi, Shqipe Dema, MAFRD

Lunch

13:00-14:30 Roundtable with Ms. Diturie Hoxha, Association of Banks and Ms. Violeta Arifi-Krasniqi, Association of Microfinance Institutions in Kosovo

15:30 – 16:00 De-brief (informal after Roundtable) with Component Representatives II, Ms. Fikrije Zymberi, Mr. Lars Ranfelt, Mr. Kurt Nielsen and Mr. Milazim Makolli

Friday 18 March 2011

09:00 – 10:30 Roundtable with donors active in agriculture, VET and finance hosted by SDC. Participants: Ms. Besa Ilazi and Ms. Dardane Peja, USAID representatives; Mr. Christian Geosits and Mr. Arsim Aziri, ADA representatives; Mr. Guido Beltrani and Mr. Kushtrim Mehmentaj, Swiss Development Cooperation representatives; Mr. Hanna di Meeredink, SNV Balkans; Mr. Artan Osmani, ECLO representative, Ms. Bahrije Dibra, KfW representative, Mr. Fabricio Contelito, CIMEAM-IAMB

10:30-11:00 De-brief with Component Representatives I, Dr. Guido Beltrani, SDC

11:00-12:00 Evaluation team meeting, reporting, data reference and wrap-up