



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID/KOSOVO'S ACTIVITIES FOR ECONOMIC GROWTH

AUDIT REPORT NO. 9-000-12-004-P  
AUGUST 21, 2012

WASHINGTON, D.C.



*Office of Inspector General*

August 21, 2012

**MEMORANDUM**

**TO:** USAID/Kosovo, Mission Director, Maureen Shauket

**FROM:** IG/A/PA, Director, Steven Ramonas /s/

**SUBJECT:** Audit of USAID/Kosovo's Activities for Economic Growth  
(Report No. 9-000-12-004-P)

This memorandum transmits our final report on the subject audit. In finalizing the audit report, we considered your comments on the draft report and have included them in Appendix II of this report.

The final report contains 13 recommendations to help strengthen the effectiveness of USAID/Kosovo's economic growth activities. On the basis of your response to the draft report, we determined that final action has been taken on Recommendation 9 and management decisions have been reached on the remaining recommendations. Please provide the Audit Performance and Compliance Division of USAID's Office of the Chief Financial Officer with evidence of final action to close the 12 open recommendations.

Thank you for the cooperation and courtesy extended to the audit staff during this audit.

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**Abbreviations**

The following abbreviations appear in this report:

|       |  |
|-------|--|
| ADS   | Automated Directives System                        |
| BEEP  | Business Enabling Environment Program              |
| B2B   | business-to-business                               |
| COR   | contracting officer’s representative               |
| DEMI  | Democratic and Effective Municipalities Initiative |
| FTE   | full-time equivalent                               |
| FY    | fiscal year  |
| HACCP | Hazard Analysis and Critical Control Points        |
| IIF   | innovation and incentive fund                      |
| MOU   | memorandum of understanding                        |
| NOA   | New Opportunities for Agriculture                  |
| OIG   | Office of Inspector General                        |
| PMP   | performance management plan                        |
| SME   | small and medium enterprises                       |
| USG   | U.S. Government                                    |

# SUMMARY OF RESULTS

The Republic of Kosovo has made significant progress in transitioning to a market-based economy since declaring its independence in 2008. However, the southeastern European nation continues to face serious economic challenges. Foreign investment is limited, due in part to perceptions of official and informal corruption and the country's continued struggle for recognition. Years of positive growth rates in gross domestic product have done little to reduce the country's 45 percent unemployment rate. Kosovo's 1.8 million citizens are among the poorest in Europe, and they rely heavily on international assistance and remittances from the Kosovar diaspora.

Agriculture remains important for the country's largely rural population. This sector, which has recovered slowly since the conflict of the late 1990s, is inefficient because farms are small, technology is limited, and productivity is low. According to a 2007 World Bank assessment, domestic agriculture met only 25 to 35 percent of local demand for food. Therefore, food imports are high, leading to an agricultural trade imbalance of \$637 million in 2008.

USAID/Kosovo strives to encourage Kosovo's efforts to develop a viable economy and an inclusive democracy on the path to European integration. The mission designed four projects under its Economic Growth program and dedicated \$54.5 million to achieving its goal of increasing private sector growth and investment. The Office of Inspector General (OIG) audited two of these projects:

- *Business Enabling Environment Program (BEEP)*. In July 2010, USAID awarded a 3-year, \$16.1 million task order to Chemonics International Inc. to implement BEEP. The project has four main objectives: (1) improve rules and regulations, (2) lower trade barriers, (3) improve the efficiency of the financial sector, and (4) introduce the use of electronic tenders or payments for local procurements. Project implementation is expected to run from July 2010 to July 2013.
- *New Opportunities for Agriculture (NOA)*. USAID awarded a 4-year, \$15.9 million task order to Tetra Tech ARD in January 2011 to carry out NOA. The project is designed to increase Kosovo's agricultural outputs, exports, and rural incomes through activities that (1) link products and farmers to markets, (2) diversify and increase agricultural products, (3) improve food quality and safety, (4) make credit more affordable and accessible, and (5) improve coordination within the agricultural sector. Implementation is expected to run to February 2015.

OIG's Performance Audits Division conducted this audit as part of its fiscal year (FY) 2012 audit plan to determine whether USAID/Kosovo's economic growth activities under the two projects were achieving their goal of increasing private sector growth and investment.

BEEP and NOA activities have made some progress. BEEP accomplished the following objectives:

- *Improved rules and regulations*. The project obtained the Kosovar Government's commitment to improve its World Bank's Doing Business ranking from 117 to top 40 status by 2014. BEEP also eliminated hundreds of unnecessary, obsolete, or illegal administrative instructions.

- *Lowered trade barriers.* The project reduced the number of documents needed for trade and eliminated redundant customs registration for traders. BEEP also helped establish a trade policy working group in accordance with international standards and best practices.
- *Encouraged the financial sector to be more efficient.* The project obtained a memorandum of understanding (MOU) between USAID/Kosovo and the Central Bank of Kosovo to upgrade the national credit registry.

NOA promoted increased investment in the country's fledgling food production industry, supporting producers and processors. The project stimulated investment in agricultural technology and infrastructure designed to help producers improve the health of their plants and to increase yields. NOA encouraged food processors to invest in the equipment needed to meet and obtain certification of compliance with international health and safety standards. It also helped establish linkages between producers and processors that should enable higher-quality products to be sold for higher prices. For example:

- A farmer who used new gherkin seeds and updated farming practices reported seeing better quality plants and multiple harvests per season. He said he plans to pursue linkages with processors so that he can sell his goods for a higher price.
- NOA introduced asparagus and saffron, two crops new to Kosovo. These high-value plants have generated much interest among beneficiaries and could create a significant number of new jobs and, once established, export opportunities.



**Asparagus grows in a greenhouse (left) before it is transplanted in fields. On the right are saffron plants that NOA introduced to Kosovo. (Photos by OIG, April 2012)**

- Apple farmers reported that trees provided by the project should produce yields of 45 to 65 tons per hectare when mature. The trees are shorter than the varieties traditionally grown in Kosovo, making them easier to harvest. NOA has helped some of the farmers invest in antihail systems to protect their orchards from inclement weather and damage from animals.
- NOA introduced grape farmers to the use of a modified trellis system. The system was designed to support the vines to grow horizontally so that the fruit receives additional sunlight, improving the color and health of the plant while decreasing the incidence of disease.

- One food processor successfully obtained certification of compliance with the Hazard Analysis and Critical Control Points,<sup>1</sup> or HACCP, management system. According to NOA's staff, this internationally recognized standard for food safety will be required for food processors in Kosovo by September 2013.

Despite these achievements, not all BEEP and NOA activities were on track to meet their objectives. Because BEEP did not implement activities to increase municipalities' use of electronic tenders for procurements, it has not made any progress toward this goal. In NOA's case, because the project did not make much progress toward increasing exports, USAID/Kosovo, with input from NOA staff members, decided to change the project's focus to import substitution<sup>2</sup> to help Kosovo strengthen the domestic market for locally produced goods. Additionally, NOA could not determine whether it made any progress toward increasing rural incomes, partly because Tetra Tech ARD never designed an indicator to measure an increase.

Outside factors also influenced the progress of the two selected projects. BEEP could not control the timing and achievement of some of its desired results, such as the passage of laws, the adoption of regulations, and Kosovo's changing political environment. For NOA, which began in January 2011, farmers already had planned what they would plant by the time staff members were ready to begin working on the project's first growing season.

This report outlines weaknesses identified in BEEP's and NOA's implementation.

- USAID/Kosovo did not set a mission-wide policy on whether to encourage municipalities to generate more revenue through fees, taxes, and permits or to abolish excessive ones to be more appealing to businesses (page 6).
- BEEP did not implement activities to introduce the use of electronic tenders for procurement (page 7).
- NOA did not formalize its decision to shift the project's focus to import substitution instead of developing products for export (page 8).
- Partners implemented limited activities that addressed gender and social inclusion (page 9).
- Project performance management plans were weak (page 10).
- Reported results were unreliable and required additional validation (page 14).

To address these problems and to strengthen the effectiveness of USAID/Kosovo's economic growth activities, this report includes 13 recommendations. We recommend that USAID/Kosovo:

1. Develop a mission policy on the generation of municipal own source revenue and implement this policy in its work with municipalities in programs in the Economic Growth and Democracy and Governance Offices (page 6).

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<sup>1</sup> HACCP is a management system in which food safety is addressed by analyzing and controlling biological, chemical, and physical hazards from raw material production, procurement, and handling to manufacturing, distribution, and consumption of the finished product.

<sup>2</sup> Import substitution is an economic strategy in which a country or organization tries to reduce imports by producing the goods or products locally.

2. Reevaluate the feasibility of implementing activities under the More Transparent Tenders component of the Business Enabling Environment Program. If a decision is made to not implement these activities, we recommend that USAID/Kosovo modify Chemonics International Inc.'s task order by removing this component from the scope of work and reducing the ceiling price by \$800,000, the amount of funds dedicated to this component (page 7).
3. Modify the statement of work for the New Opportunities in Agriculture project to reflect the decision to refocus the goal of the project to supporting import substitution (page 9).
4. Work with Tetra Tech ARD to revise, as appropriate, the target for the performance indicator for the *Total value of exports as a result of USG [U.S. Government] assistance* to better reflect the decision to focus the New Opportunities for Agriculture project on supporting import substitution (page 9).
5. Work with Tetra Tech ARD to develop and implement a plan that encourages the targeting of project interventions that focus on increasing gender and minority inclusion under the New Opportunities for Agriculture project (page 10).
6. Work with Tetra Tech ARD to develop procedures to strengthen the New Opportunities for Agriculture monitoring and evaluation system so that it adequately measures the results of gender and minority inclusion in its activities (page 10).
7. Work with Chemonics International Inc. to establish a performance indicator and corresponding target to measure the progress of its activities designed to lower trade barriers under the Business Enabling Environment Program (page 12).
8. Work with Tetra Tech ARD to establish a performance indicator and corresponding target to measure the change in rural incomes as a result of activities under the New Opportunities for Agriculture project. If a proxy indicator is deemed appropriate, we recommend that USAID/Kosovo work with Tetra Tech ARD to adequately document the assumptions supporting the choice of indicator and the methodology for its collection in the New Opportunities for Agriculture project performance management plan (page 12).
9. Work with Chemonics International Inc. to determine a realistic, yet achievable, target for the performance indicator *Number of requests by businesses and citizens for their own credit reports* under the Business Enabling Environment Program (page 13).
10. Work with Tetra Tech ARD to streamline the performance management plan for the New Opportunities for Agriculture project by determining those performance indicators that best fit the criteria defined in Automated Directives System (ADS) 203.3.4.2 and eliminating those performance indicators that demonstrate little usefulness for project management (page 14).
11. Develop and implement procedures to verify that the performance results reported by its implementing partners are reasonably accurate, complete, reliable, and adequately supported (page 16).
12. Work with Chemonics International Inc. and Tetra Tech ARD to develop and implement procedures to verify that the data collection and analysis methodologies used to report

results of its activities under the Business Enabling Environment Program and New Opportunities for Agriculture project are consistent with those outlined in the projects' performance management plans (page 17).

13. Work with Tetra Tech ARD to revise, as necessary, the methodologies used for the collection and analysis of data so that reported results under the New Opportunities for Agriculture project are reliable and comparable across reporting periods (page 17).

Detailed findings follow. The audit's scope and methodology are described in Appendix I, and USAID/Kosovo's comments appear in Appendix II of the final report. Our evaluation of management comments is on page 18 of the report.



# AUDIT FINDINGS

## **USAID/Kosovo Did Not Set Mission-Wide Policy on Municipal Revenues**

ADS 201.3.3.3 discusses USAID's results framework and missions' development objectives. Development objectives may be mutually reinforcing and should not reflect solely functional objectives. In fact, development objectives focused on specific sectors should build synergies with other development objectives. To this end, integrated technical approaches, principles, and resources from various sectors and sources can be used to achieve a common objective by developing a unified programmatic approach.

USAID/Kosovo provides assistance to spur economic development in Kosovo's municipalities through projects managed by its Economic Growth and Democracy and Governance Offices. Despite their shared goal, the offices have not been able to agree on a policy for municipal own source revenues, which are funds a municipality raises by issuing licenses, fees, and permits. Between 2008 and 2010, this category accounted for 16 to 21 percent of total municipal revenues.

As an Economic Growth project focused on improving the business environment, BEEP encouraged municipalities to become more appealing to businesses by abolishing unnecessary taxes, fees, and permits. However, officials from the Democracy and Governance Office were concerned that these reforms could clash with their Democratic and Effective Municipalities Initiative (DEMI), which lists increasing municipal revenues among its primary goals.

USAID/Kosovo's technical offices worked independent of each other and therefore did not anticipate or identify potential programmatic conflicts between BEEP and DEMI in either the planning or initial stages of implementation.

Without agreeing on a mission-wide policy on municipal own source revenues, USAID/Kosovo risks sending mixed messages to its implementing partners and beneficiaries. Municipal coordinators working for BEEP acknowledged that they sometimes encounter difficulties because the two projects have different goals. In a larger concern, the discord within USAID/Kosovo may weaken its reputation as a technical expert. The mission must adopt a policy on municipal revenues. Therefore, we make the following recommendation.

***Recommendation 1.*** *We recommend that USAID/Kosovo develop a mission policy on the generation of municipal own source revenue and implement this policy in its work with municipalities in programs in the Economic Growth and Democracy and Governance Offices.*

## **Project Did Not Implement Activities to Introduce the Use of Electronic Tenders for Procurement**

According to ADS 202.3.6.1, the contracting officer's representative (COR) must confirm that implementing partners perform in accordance with the terms of their contracts or other agreements. Responsibilities for monitoring contractor performance may include, among other actions, recommending modifications. As stated in 202.3.6.3, "Making Necessary Adjustments," USAID missions, offices, and development objective teams must adjust their tactics when conditions warrant. This may include developing an entirely new project (or activity) and instrument, or simply modifying and changing existing projects or activities.

The task order for BEEP outlined four main objectives of assistance: (1) improve rules and regulations, (2) lower trade barriers, (3) help develop a more efficient financial sector, and (4) increase tender transparency by introducing the use of electronic tenders. However, at the end of audit fieldwork, BEEP had not yet begun to carry out any activities toward achieving the fourth objective. This objective was designed to reduce procurement irregularities, a principal source of corruption. By introducing electronic tenders, the mission hoped to reduce the amount of corruption related to the procurement of local goods and services. Funding for this objective amounted to \$800,000 or 5 percent of BEEP's total budget of \$16 million.

Officials for USAID/Kosovo and Chemonics International Inc. said they did not implement these activities because they hoped to avoid duplicating the efforts of a World Bank project with a similar objective. In fact, they postponed the work on the objective until after the World Bank had finalized its plans. USAID/Kosovo currently is considering whether to restructure this objective or replace it with another.

Until the mission decides whether to proceed with this objective, the delay reduces the amount of time Chemonics International Inc. has to implement activities designed to increase tender transparency. If the activity is not performed, procurement irregularities that the project was meant to address may continue. Furthermore, the money budgeted for this goal could have been put to better use by funding other activities.

BEEP is set to end in July 2013. For the project's final year of implementation, USAID/Kosovo must decide what action to take for this objective. Therefore, we make the following recommendation.

***Recommendation 2.*** *We recommend that USAID/Kosovo reevaluate the feasibility of implementing activities under the More Transparent Tenders component of the Business Enabling Environment Program. If a decision is made to not implement these activities, we recommend that USAID/Kosovo modify Chemonics International Inc.'s task order by removing this component from the scope of work and reducing the ceiling price by \$800,000, the amount of funds dedicated to this component.*

## **Agriculture Project Did Not Formalize Decision to Shift Focus**

ADS 200.3.5.6 encourages USAID missions to “improve coordination and collaboration with development partners, test promising new approaches, build on what works, and eliminate what does not during the implementation of the Program Cycle.” Additionally, ADS 203.3.4.5 requires missions to set ambitious, but realistic targets for performance indicators. Missions also should be accountable for achieving these targets.

In October 2009 the consulting firm Booz Allen Hamilton conducted an analysis for USAID/Kosovo of the constraints and opportunities for growth of Kosovo’s agribusiness sector. The resulting report, *Kosovo Agricultural Opportunities Strategy*, served as the basis for NOA. The report recommended that Kosovo pursue a diversified crop mix with strong export potential. NOA opted to support several of the recommended crops and focus on key points in a crop’s value chain to improve the production and exportation of agricultural products.

In setting the goal of increasing Kosovo’s agricultural exports, NOA staff created a corresponding performance indicator measuring the *Total value of exports as a result of USG assistance*. By the time NOA ends in February 2015, it expects to attribute at least \$9.7 million in exports to its activities.

Early in the project’s implementation, NOA assessed and prepared a report on new market opportunities for five crops in eight regional markets. According to the report, there were few near-term opportunities for export and Kosovo’s low production volume, limited storage capacity, and lack of postharvest technology were serious impediments to expanding external markets for the five selected crops. The report noted that at least 5 more years of investment and development would be needed to overcome these impediments.

During the audit fieldwork, local food processors said they had limited opportunities to export their products. Beneficiary producers said their goods were destined for local markets and supermarkets, not for export markets. Furthermore, by the end of FY 2011, NOA reported no export sales in its results.

After approximately 8 months of implementation, USAID/Kosovo officials and NOA staff decided to shift the project’s primary focus from developing products for export markets to import substitution. NOA’s FY 2011 annual report and revised performance management plan (PMP) both announced this change. According to the annual report, NOA plans to keep pursuing certain export opportunities; however, import substitution seems a reasonable goal for many of the project’s targeted value chains.

Despite realigning the project’s focus, USAID/Kosovo and NOA staff members said that because the project’s scope of work was sufficiently broad, this change did not merit a modification to the statement of work.

NOA’s staff revised the target for the *total value of exports as a result of USG assistance* in October 2011. Despite reportedly using value chain analyses, regional market assessments, and interviews with producers, processors, and collection points, the updated target does not accurately reflect the project’s activities.

By shifting NOA's priorities away from export development to import substitution, USAID/Kosovo officials and project staff effectively changed the purpose and goal of the project. The statement of work is no longer in line with the current activities. Also, the shift to import substitution may slow the rates of private sector growth and investment that the mission wanted to achieve. Furthermore, the target for *Total value of exports as a result of USG assistance* is overly ambitious and unlikely to be achieved. Therefore, we make the following recommendations.

**Recommendation 3.** *We recommend that USAID/Kosovo modify the statement of work for the New Opportunities in Agriculture project to reflect the decision to refocus the goal of the project to supporting import substitution.*

**Recommendation 4.** *We recommend that USAID/Kosovo work with Tetra Tech ARD to revise, as appropriate, the target for the performance indicator for the Total value of exports as a result of USG assistance to better reflect the decision to focus the New Opportunities for Agriculture project on supporting import substitution.*

## **Partners Implemented Limited Activities That Addressed Gender and Social Inclusion**

The task orders for both BEEP and NOA instruct the implementing partners to address gender and social inclusion issues through their activities.

According to the BEEP task order, the project would “work with minority and women’s business associations and national and local governments to strengthen the entrepreneurial opportunities for women and minorities, both at the national and municipal/local level.” According to NOA’s task order, that project must take gender and social inclusion issues into consideration in the operations and outcomes so that it will promote inclusive economic growth. NOA’s monitoring system must measure the effects of the project’s activities on women and minorities. Furthermore, databases must disaggregate data relating to these areas when appropriate. ADS 203.3.3.5.c supports this requirement by stating that all USAID’s people-level performance indicators must be disaggregated by sex.

USAID/Kosovo officials and Tetra Tech ARD staff members acknowledged that NOA did not focus on implementing activities to increase opportunities for women and minorities. Instead, NOA emphasized implementing activities that would return the greatest results.

USAID/Kosovo officials and NOA staff members admitted that agriculture is a challenging sector for women. Cultural norms in Kosovo assume that women find it to be largely unattractive work. According to NOA staff members, women are thought to be more interested in postharvest activities, such as the sorting, grading, and packaging of goods to be sold instead of working the land.

NOA’s PMP included ten people-level performance indicators whose results were to be disaggregated by sex and/or minority group. However, NOA rarely included this information in its reported results. The project’s FY 2011 annual report disaggregated the result for only one indicator—*Number of individuals trained in agriculture productivity through USG assistance*—by sex. No results were disaggregated by sex or minority group in the subsequent quarterly reports. USAID officials agreed that gender especially was not addressed adequately in NOA’s progress reporting.

Since the vast majority of NOA's beneficiaries are men, there are few results that could effectively be disaggregated by sex. In the narrative sections of the performance reports, NOA included limited information about members of the minority groups with which the project is working.

The audit determined that BEEP staff believed that too much focus on a specific group when defining laws and legal frameworks could be seen as discriminatory. Therefore, they were reluctant to implement activities that catered specifically to gender or to a certain minority group.

Encouraging gender equality and minority participation in the agriculture and business sectors are priorities for USAID/Kosovo's management. However, with few activities geared toward them, little progress can be made. With little reliable information available, USAID/Kosovo cannot determine its influence on gender and minority inclusion in these sectors. Therefore, we make the following recommendations.

***Recommendation 5.*** *We recommend that USAID/Kosovo work with Tetra Tech ARD to develop and implement a plan that encourages the targeting of project interventions that focus on increasing gender and minority inclusion under the New Opportunities for Agriculture project.*

***Recommendation 6.*** *We recommend that USAID/Kosovo work with Tetra Tech ARD to develop procedures to strengthen the New Opportunities for Agriculture monitoring and evaluation system so that it adequately measures the results of gender and minority inclusion in its activities.*

## **Performance Management Plans Were Weak**

ADS 203.3.3 discusses the importance of performance management—the systematic process of monitoring program achievements. By encompassing “the tools used for assessing, learning, and sharing,” performance management represents USAID’s “commitment to managing development objectives for results in order to achieve the best possible development outcomes.” USAID missions are, according to this guidance, responsible for measuring progress toward the milestones identified for achieving foreign assistance objectives. ADS 203.3.3.4 requires that development objective teams prepare PMPs to assist with the performance management process.

ADS 203.3.3.4 further requires that as part of the process, development objective teams should establish performance indicators. As explained in ADS 200.6, these are used to measure progress by comparing actual results with expected results.

Good performance indicators share several characteristics. According to ADS 203.3.4.2, they should be practical, useful for management, direct, attributable to USAID’s efforts, and adequate. All performance indicators require resources and effort to collect, analyze, report, and use. So PMPs should contain as many indicators as are necessary and cost-effective for results management and reporting purposes.

According to ADS 203.3.4.5, performance baselines and targets should be set for each indicator in a PMP. Targets should be ambitious, but realistic, and achievable within stated time frames

and given USAID inputs. Furthermore, ADS 203.3.3.2 states that the performance management process should be streamlined so that only the most useful information is collected and reported.

According to ADS 203.3.4.7, during project implementation, performance indicators may need to be changed or dropped because changes in priorities or other decisions that affect the scope of a project may require the use of indicators that are different from those originally selected. They also may need to be adjusted if they prove to be unsuitable; for example, the effort and cost needed to collect them become excessive.

Despite these directives, we identified several weaknesses in both BEEP's and NOA's PMPs.

**PMPs Lacked Indicators for Two Objectives.** The task orders for BEEP and NOA outlined each project's main objectives. One of BEEP's was to strengthen Kosovo's international trade capabilities by lowering trade barriers and building the capacity of trade officials and private sector groups to make use of international trade practices and conventions. One of NOA's objectives was to increase the incomes of people living in rural areas. However, neither project's PMP contained indicators to measure the progress toward achieving these desired results.

In the case of BEEP, the project did not include an indicator that directly tracked the progress of its trade objective. Instead, the project used trade data embedded in the World Bank Doing Business survey and BEEP's *Determination of economic impact* indicator to gauge the project's progress. However, the trade data used were not individually tracked, nor did they fully capture the project's efforts towards lowering trade barriers.

The NOA task order required the PMP to include a performance indicator measuring the increase in rural incomes as a result of project activities. However, the staff did not attempt to track this information.

ADS 203.3.4.2.d states that if a direct indicator cannot be used for cost or other reasons, a proxy indicator may be substituted to measure the desired result. In this case, the assumptions supporting the selection of the proxy indicator should be documented in the PMP and confirmed on a regular basis. Although NOA did not formally establish a proxy indicator to serve as an alternative measure of changing incomes in rural areas, NOA staff suggested that an estimate of this change could be made from the data collected for the indicator measuring the level of sales by project beneficiaries.

When submitting their initial PMPs for approval, Chemonics International Inc. and Tetra Tech ARD officials did not propose performance indicators that measured the two important objectives described above. BEEP staff members said they believed that the other performance indicators would adequately capture the project's progress in lowering trade barriers. NOA's staff acknowledged the difficulty in collecting sound data regarding the income levels of rural inhabitants; furthermore, NOA did not establish a baseline from which a change in incomes could be measured.

Without performance indicators designed to measure these desired results, USAID/Kosovo and its partners cannot determine whether any progress has been made in reaching these important project objectives. Therefore, we make the following recommendations.

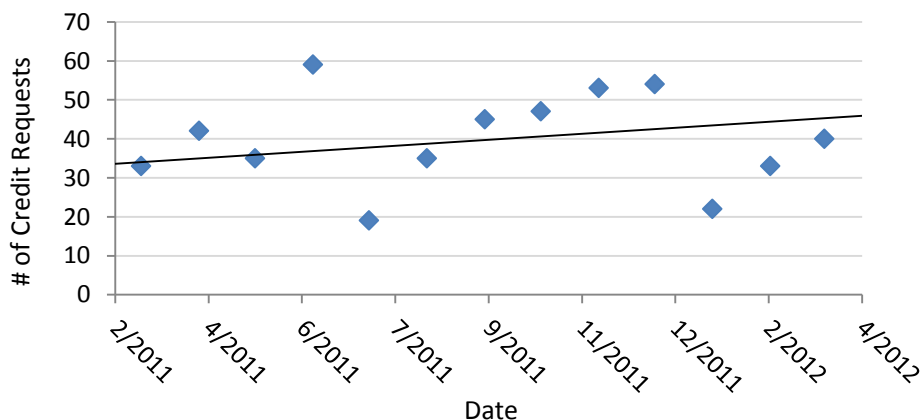
**Recommendation 7.** We recommend that USAID/Kosovo work with Chemonics International Inc. to establish a performance indicator and corresponding target to measure the progress of its activities designed to lower trade barriers under the Business Enabling Environment Program.

**Recommendation 8.** We recommend that USAID/Kosovo work with Tetra Tech ARD to establish a performance indicator and corresponding target to measure the change in rural incomes as a result of activities under the New Opportunities for Agriculture project. If a proxy indicator is deemed appropriate, we recommend that USAID/Kosovo work with Tetra Tech ARD to adequately document the assumptions supporting the choice of indicator and the methodology for its collection in the New Opportunities for Agriculture project performance management plan.

**BEEP’s Credit Performance Indicator Did Not Have a Target.** BEEP’s staff did not set a target for its *Number of requests by businesses and citizens for their own credit reports* performance indicator. Staff members said that when the project began, the Central Bank of Kosovo did not maintain historical information on the number of credit reports requested. Therefore, BEEP could not set a meaningful target for this indicator.

After BEEP started, the Central Bank of Kosovo began to track the number of credit reports requested. Between July 2010 and April 2012, as shown in Figure 1 below, the number of credit reports requested increased, and an average of 36 credit reports were being requested per month.

**Figure 1. Number of Credit Reports Requested per Month Between July 2010 and April 2012**



**Source: Central Bank of Kosovo**

Without a target for this performance indicator, BEEP’s staff will not have a specific, desired level of performance for the number of credit reports requested for the final year of the project’s implementation. The availability of the data from the Central Bank of Kosovo should allow USAID/Kosovo and BEEP to set a realistic target for this indicator. Therefore, we make the following recommendation.

**Recommendation 9.** We recommend that USAID/Kosovo work with Chemonics International Inc. to determine a realistic, yet achievable, target for the performance indicator Number of requests by businesses and citizens for their own credit reports under the Business Enabling Environment Program.

**NOA Indicators Overlapped, Were Impractical, and Could Not Be Attributed to the Project.** NOA’s monitoring and evaluation staff tracked a set of 32 performance indicators to measure the project’s progress. However, as discussed later in this report, NOA’s reported results have been largely incomplete, inaccurate, and inconsistent.

USAID/Kosovo officials and NOA’s staff said the PMP is onerous. Moreover, some of the performance indicators are impractical. According to the PMP, it is difficult to measure and judge *Number of farmers, processors, and others who have adopted new technologies or management practices as a result of USG assistance*. Proper data collection for this indicator requires significant resources because monitoring and evaluation staff must verify that new technologies and management practices:

- Have been applied consistently by farmers for an entire planting season.
- Have been applied consistently by collectors and processors for at least 20 production cycles from start to finish.
- Have been declared as “adopted” by the customer.

NOA tracks similar indicators with *Number of new technologies and/or management practices introduced as a result of USG assistance* and *Number of individuals trained in agriculture productivity as a result of USG assistance*. These indicators require fewer resources because there is no need to verify the long-term, consistent use of the new technology or management practice, or to obtain an official declaration from the beneficiary that the process has been adopted. As a result, tracking the results obtained from these indicators would be as timely and useful for management (if not more) than tracking the number of people who adopted new technologies and management practices.



The root system of a lettuce plant, left, develops in a germination tray before it’s transplanted in a field. “Fertigation” machines, like the one on the right, deliver fertilizer to plants through an irrigation system. (Photos by OIG, April 2012)



In addition, NOA's staff doubted the project's ability to influence the result of some of its indicators. For instance, the project tracks two indicators that are very similar: *Number of policy reforms/regulations/administrative procedures drafted and presented for public/stakeholder consultation as a result of USG assistance* and *Number of policy reforms/regulations/administrative procedures drafted and presented for public/stakeholder consultation and submitted for approval as a result of USG assistance*. However, NOA did not implement activities designed to encourage these types of reforms. According to one staff member, NOA's management was considering removing the indicators because they did not directly address the project's activities.

NOA field staff members responsible for monitoring and evaluation were not in place when Tetra Tech ARD developed the initial PMP. Therefore, they could not contribute to the plan's design. A revised PMP, approved by USAID/Kosovo in October 2011, did not significantly change the plan or reduce the number of indicators to be tracked. Furthermore, officials from USAID/Kosovo did not question the ability of NOA's staff to track and report on so many indicators.

NOA's monitoring and evaluation staff spent significant time and resources collecting and analyzing data for indicators that may not be practical or attributable to USAID's efforts. Furthermore, as discussed later in this report, the verification of NOA's results uncovered numerous errors in reporting. A more streamlined PMP would allow monitoring and evaluation resources to be directed at managing fewer performance indicators and strengthening the completeness, accuracy, and reliability of reported results. Therefore, we make the following recommendation.

***Recommendation 10.*** *We recommend that USAID/Kosovo work with Tetra Tech ARD to streamline the performance management plan for the New Opportunities for Agriculture project by determining those performance indicators that best fit the criteria defined in ADS 203.3.4.2 and eliminating those performance indicators that demonstrate little usefulness for project management.*

## **Reported Results Were Unreliable and Required Additional Validation**

According to ADS 203.3.5, USAID missions should balance the quality of reported data and the cost that it takes to collect them. In doing so, missions should ensure that data are of sufficiently high quality to support the appropriate level of management decisions and as complete and consistent as management needs and resources permit. High-quality data should meet the standards outlined in ADS 203.3.5.1. They include:

- *Integrity.* Data should have established mechanisms in place for collection, analysis, and reporting.
- *Precision.* Data should present a fair picture of performance and enable management decision-making at the appropriate levels.
- *Reliability.* Data should reflect stable, consistent data collection processes and analysis methods over time.

Despite these directives, the audit team found weaknesses in BEEP's and NOA's reported results.

**BEEP Did Not Report Results for One Performance Indicator Accurately.** One of BEEP's primary performance indicators tracks *Economic impact of reforms adopted and implemented as a result of project assistance*. According to the project's PMP:

Annual economic impact is project generated or supported changes in government legal and/or regulatory acts and/or processes that result in reductions of time and/or financial cost to businesses. Impact is an annualized figure included in total in the report for the year in which the change occurs to the extent it can be reasonably ascertained as valid. Only those changes validated by 75 percent of a representative sample of key informants as having a positive impact are measured in terms of number of procedures reduced, time saved, costs reduced, and total savings.

BEEP staff members reported inaccurate, incomplete information for this indicator. One economic impact was counted twice in the reported results. A second one was not recorded in the main database.

In addition to these errors, the staff could not document the validity of each economic impact, a key requirement outlined in the PMP. In one case, staff in the project's main office unilaterally increased the savings realized in one municipality for its *Economic impact of the new regulation on transport services with tow trucks* without proper validation. The local municipal coordinator reported no economic savings for this reform, while BEEP recorded \$404,000 in savings, an amount that the municipal coordinator never validated.

Staff members did not consistently confirm the amount reported for the overall economic impact resulting from reforms that BEEP introduced. Furthermore, the project's municipal coordinators did not receive sufficient training on the requirements for validating savings that stemmed from BEEP reforms. As a result, municipal coordinators did not conduct the required validation procedures properly, nor did they maintain adequate supporting documentation of the validation process.

**NOA's Reported Results Did Not Meet Data Quality Standards.** NOA's staff used largely incomplete, inaccurate, and inconsistent data for activity results in performance reports. In some instances, data could not be validated because of a lack of supporting documentation. The extent of the errors in reporting calls into question the integrity, precision, and reliability of the project's reported results. Appendix III contains all of those results, as well as those the team verified.

*Integrity.* Although NOA's staff established a data collection and analysis methodology for each indicator in its PMP, the approved methodology was not always used to calculate reported results. For instance, for *Number of delivery contracts issued for targeted crops*, staff members reported verbal contracts when only written contracts should have been recorded. Also, a multiplier was used to capture indirect sales that would be included in *Value of sales resulting from linkages created between farmers, processors, and traders as a result of USG assistance*; the approved methodology counted only direct sales.

*Precision.* USAID/Kosovo and NOA staff members who signed attendance sheets for training courses were regularly included in the results for *Number of individuals trained in agricultural*

*productivity through USG assistance.* Furthermore, beneficiaries attending multisession training courses were counted as unique participants for each session.

Because of these practices, NOA reported an inflated result for this indicator. Additionally, the staff reported incomplete results for some indicators. For example, *Total value of sales as a result of USG assistance* did not adequately capture all of the sales attributed to NOA during FY 2011.

*Reliability.* NOA's staff altered the methodologies used to calculate the results for some indicators without making any adjustments to the approved methodologies in the PMP or updating the results already reported. When calculating *Value of sales resulting from linkages created between farmers, processors, and traders as a result of USG assistance* for the second quarter of FY 2012, the staff included additional calculations that were not considered in previous reporting periods. The results for this quarter include the value-added tax and price markup paid by the final consumer of the goods.

In another example, they limited the result for *Values of sales/purchases from smallholders for products as a result of USG assistance* for the second quarter of FY 2012 to sales from producers. In previous reporting periods, this result included sales from processors to supermarkets.

NOA officials set ambitious targets for the early phases of implementation. Therefore, the staff wanted to show results from the project's activities by the end of FY 2011—after only 8 months of implementation. However, in some cases, these results had not yet been achieved. More importantly, no one from either USAID/Kosovo or Tetra Tech ARD verified the results in the progress reports to identify errors.

NOA's management has already taken positive steps to address the weaknesses identified in its monitoring and evaluation system. Since the project's inception, the monitoring and evaluation staff has used Excel spreadsheets to record the results for NOA's numerous indicators. A sophisticated database is currently under development, and it should help reduce reporting errors and improve overall reporting on the project's accomplishments.

USAID/Kosovo relies on its implementing partners' reported results to inform decisions about its economic growth program. However, with inaccurate, incomplete, and inconsistent data, the regular progress reports for BEEP and NOA do not accurately reflect the accomplishments achieved through project interventions. Incorrect and inconsistent data collection and analysis pose difficulties in comparing results for all reporting periods to measure the change resulting from project activities. Without procedures to verify the accuracy of reported results, USAID/Kosovo risks making programming decisions based on weak data.

Therefore, we make the following recommendations.

***Recommendation 11.*** *We recommend that USAID/Kosovo develop and implement procedures to verify that the performance results reported by its implementing partners are reasonably accurate, complete, reliable, and adequately supported.*

**Recommendation 12.** *We recommend that USAID/Kosovo work with Chemonics International Inc. and Tetra Tech ARD to develop and implement procedures to verify that the data collection and analysis methodologies used to report results of its activities under the Business Enabling Environment Program and New Opportunities for Agriculture project are consistent with those outlined in the projects' performance management plans.*

**Recommendation 13.** *We recommend that USAID/Kosovo work with Tetra Tech ARD to revise, as necessary, the methodologies used for the collection and analysis of data so that reported results under the New Opportunities for Agriculture project are reliable and comparable across reporting periods.*

# EVALUATION OF MANAGEMENT COMMENTS

USAID/Kosovo agreed with all the recommendations in the draft report. On the basis of information provided by the mission's response to the draft report, we determined that final action has been taken on Recommendation 9 and management decisions have been reached on the remaining recommendations.

**Recommendation 1.** USAID/Kosovo has created a working group that will draft a mission policy on the generation of municipal own source revenue and will meet periodically to ensure coordination on municipality issues. The mission expects to finalize the policy by December 31, 2012. Accordingly, a management decision has been reached.

**Recommendation 2.** USAID/Kosovo is preparing the required documentation to modify the contract with Chemonics International Inc. to replace the More Transparent Tenders component with a component on land use reform. Once this is done, the mission will revise the contract accordingly. USAID/Kosovo expects to finalize the contract modification by the end of October 2012. Therefore, a management decision has been reached.

**Recommendation 3.** USAID/Kosovo is currently drafting a modification of the task order. The scope of work will reflect import substitution as one of the project's objectives. This change will more accurately capture the work being done now. The mission expects to finalize the contract modification by the end of October 2012. Accordingly, a management decision has been reached.

**Recommendation 4.** USAID/Kosovo will revise NOA's PMP to include a performance indicator and target(s) for import substitution, and those revisions will be documented in the revised PMP. The mission expects to finalize the revision by the end of October 2012. Accordingly, a management decision has been reached.

**Recommendation 5.** USAID/Kosovo is working with Tetra Tech ARD to address gender and minority inclusion. Tetra Tech ARD will hire a gender specialist to consult on planning, implementation, and monitoring of project interventions. Additionally, the mission will continue to work with Tetra Tech ARD to address other mechanisms to target gender and minority inclusion. The mission expects to finalize the plan by the end of October 2012. Accordingly, a management decision has been reached.

**Recommendation 6.** USAID/Kosovo will develop procedures to strengthen NOA's monitoring and evaluation. These changes will be documented in a revised PMP. The mission expects to finalize the revision by the end of October 2012. Accordingly, a management decision has been reached.

**Recommendation 7.** USAID/Kosovo will work with Chemonics International Inc. to disaggregate trade indicators from the World Bank's Doing Business Trading Across Borders indicator. Additionally, the mission will add two performance indicators: (1) *the number of customs harmonization procedures implemented in accordance with internationally accepted standards as a result of BEEP assistance* and (2) *the number of legal, regulatory, or institutional*

*actions taken to improve implementation or compliance with international trade and investment agreements because of BEEP.* The mission expects to finalize the revision by the end of October 2012. Accordingly, a management decision has been reached.

**Recommendation 8.** USAID/Kosovo is working with Tetra Tech ARD to establish a performance indicator and corresponding target to measure the change in rural incomes as a result of NOA activities. If a proxy indicator is identified, the rationale for the decision and the assumptions and methodology will be explained in the revised PMP. The mission expects to finalize the revision by the end of October 2012. Accordingly, a management decision has been reached.

**Recommendation 9.** USAID/Kosovo established a target of 960 credit report requests for the performance indicator: *Number of requests by businesses and citizens for their own credit reports.* We determined that final action has been taken on this recommendation.

**Recommendation 10.** USAID/Kosovo is working with Tetra Tech ARD to start streamlining the PMP for NOA. The COR will review the revised PMP prior to its implementation and will also review its progress periodically. The mission expects to finalize the revision by the end of October 2012. Accordingly, a management decision has been reached.

**Recommendation 11.** USAID/Kosovo agreed to review the data quality assessments for BEEP and NOA, and analyze their data verification procedures. In addition the mission will assess how the Economic Growth Office monitors the partners' procedures, identifying gaps and best practices in the process. CORs for the projects will then complete new DQAs 3 months after these changes have been implemented to verify that they are compliant. The mission expects to finalize the changes by the end of February 2013. Accordingly, a management decision has been reached.

**Recommendation 12.** USAID/Kosovo will work with Chemonics International Inc. and Tetra Tech ARD to review their internal data collection and analysis. To assist, the mission may hold a workshop with both implementing partners to share best practices, encourage mentoring between partners, and ensure consistency across the economic growth portfolio. The mission expects to finalize the procedures by the end of October 2012. Accordingly, a management decision has been reached.

**Recommendation 13.** USAID/Kosovo will work with Tetra Tech ARD to revise, as necessary, the methodologies used for the collection and analysis of data. The mission will review past DQAs to improve internal data collection and analysis. The mission will also conduct a follow-up DQA to assess any changes to the new methodologies. The mission expects to finalize the review by the end of October 2012. Accordingly, a management decision has been reached.

# SCOPE AND METHODOLOGY

## Scope

OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions in accordance with our audit objectives. We believe that the evidence obtained provides that reasonable basis.

The objective of the audit was to determine whether selected USAID/Kosovo's economic growth activities were achieving their goal of increasing private sector growth and investment. In planning the audit, the audit team reviewed USAID/Kosovo's economic growth portfolio for increasing private sector growth and investment. The current portfolio has four projects, worth a total of \$54.5 million. The audit team reviewed two, BEEP and NOA, which represent almost 60 percent of the funding.

USAID awarded a \$16.1 million time-and-materials task order to Chemonics International Inc. under the Support for Economic Growth and Institutional Reform Global Business, Trade, and Investment II indefinite quantity contract to implement BEEP. The 3-year project, expected to run from July 2010 to July 2013, is designed to improve Kosovo's business enabling environment. As of February 2012, cumulative obligations and disbursements under BEEP totaled \$12.9 million and \$6.6 million, respectively.

NOA is implemented through a \$15.9 million cost-plus-fixed-fee task order issued to Tetra Tech ARD through the RAISE PLUS indefinite quantity contract. The 4-year project, expected to run from January 2011 to February 2015, aims to increase Kosovo's agricultural outputs, exports, and rural incomes. As of February 2012, cumulative obligations and disbursements under NOA totaled \$7.4 million and \$3.3 million, respectively.

OIG conducted audit fieldwork in Kosovo from April 17 to May 18, 2012. We conducted our fieldwork at USAID/Kosovo and implementing partner offices in Pristine and at beneficiary sites in and around the cities of Fushe Kosove, Gjakove, Gjilan, Klina, Mamushe, Mitrovice, Mramor, Peje, Prizren, Rahovec, Suhareke, and Vushtrri. Our fieldwork covered the period from July 28, 2010, to May 18, 2012.

In planning and performing the audit, we assessed management activities and controls established by USAID/Kosovo and its implementing partners. This included reviewing task orders and modifications, annual work plans, performance management plans, performance reports, data quality assessments, monitoring reports, and portfolio reviews. We also reviewed USAID/Kosovo's FY 2011 annual self-assessment of management controls for its economic growth office. In addition, for both of the selected projects, we assessed the implementing partners' activities to address any problems related to trafficking in persons and gender inclusion.

## Methodology

To answer the audit objective, we obtained an understanding of what USAID/Kosovo intended to accomplish through its economic growth program, particularly BEEP and NOA. We interviewed officials from USAID/Kosovo, including the technical officers responsible for overseeing the management of the selected projects. We interviewed the implementing partners' personnel responsible for carrying out the selected projects and for reporting the results of activities. Also, we met with officials from the Central Bank of Kosovo, Ministry of Agriculture, Forestry, and Rural Development, Ministry of Trade and Industry, and the Prime Minister's Office of Legal Support and Services. We conducted site visits with a judgmental selection of project beneficiaries. We reviewed key project documents to obtain an understanding of the design, principal activities, monitoring and evaluation procedures, and progress achieved for BEEP and NOA. On the basis of the collective results from these activities, we determined the progress of USAID/Kosovo's selected economic growth activities toward the progress of the program's goals.

We assessed USAID/Kosovo's management of its economic growth program by reviewing applicable policies and strategic plans, annual work plans, quarterly and annual progress reports, and other key project documents produced by USAID/Kosovo and its implementing partners. We compared the expected results with the reported results. We performed site visits to observe and discuss the progress and impact of project activities. We judgmentally selected sites that represented the various components of the projects.

We determined the accuracy of the results that the implementing partners reported by comparing the results with the supporting documentation maintained in the partners' main and field offices. Furthermore, the team reviewed the World Bank Doing Business database for BEEP's reported results. In completing our verification fieldwork, we established a materiality threshold of 5 percent. Therefore, if the results of our validation showed a difference of 5 percent or less between the reported and verified result, we considered the reported results to be reasonably accurate.



# MANAGEMENT COMMENTS



## MEMORANDUM

TO: IG/A/PA, Director, Steven Ramonas

FROM: USAID/Kosovo Mission Director, Maureen A. Shauket

SUBJECT: Management Comments to Audit of USAID/Kosovo's Activities for Economic Growth (Report No. 9-000-12-00X-P)

DATE: August 06, 2012

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Thank you for the opportunity to provide USAID/Kosovo's written comments to the subject report. USAID/Kosovo agrees with all 13 recommendations. Below is USAID/Kosovo's position on each recommendation, the planned actions and the target dates for addressing the recommendations. Action on the first recommendation will be completed by December 31, 2012; action on recommendation 11 will be completed by February 28, 2013; action on the remaining recommendations will be completed by October 31, 2012.

### USAID/Kosovo Position on Each Recommendation

**Recommendation 1: Develop a mission policy on the generation of municipal own source revenue and implement this policy in its work with municipalities in programs in the Economic Growth and Democracy and Governance Offices.**

USAID/Kosovo Response: USAID/Kosovo agrees with this recommendation. The Mission has already created a Municipality Working Group, convened by the Economic Growth Office, including members from DGO, Program Office and the Financial Management Office. The Municipality Working Group will be involved in the drafting of the mission policy and will also continue to meet periodically to ensure coordination on municipality issues. We expect the mission policy to be finalized by December 31, 2012.

**Recommendation 2: Reevaluate the feasibility of implementing activities under the "More Transparent Tenders" component of the Business Enabling Environment Program. If a decision is made to not implement these activities, we recommend that USAID/Kosovo modify Chemonics International's task order by removing this component**

**from the scope of work and reducing the ceiling price by \$800,000, the amount of funds dedicated to this component.**

USAID/Kosovo Response: USAID/Kosovo agrees with this recommendation. EGO is currently drafting a modification of the task order that will address this recommendation. The component, More Transparent Tenders, remained on hold during the projects' first two years, pending the resolution on a variety of donors' intentions. A significant amount of buy-in from the Government of Kosovo and other donors is required for this activity to be effective.

While e-procurement remained on hold, BEEP assisted the Ministry of Environment and Spatial Planning (MESP) develop a transformational Law on Construction to address long-standing defects in the Kosovo construction legal framework. Following the adoption of the law, work remains to be done on implementing the Law on Construction, drafting a Law on Spatial Planning and developing the Construction Code. MESP requires additional resources to implement these activities. EGO is preparing the required documentation to modify the contract with Chemonics International to replace the More Transparent Tenders component with a component on Land Use Reform. Once that documentation is finalized, we will know the amount by which the contract ceiling is to be revised. We expect the contract modification to be finalized by the end of October 2012.

**Recommendation 3: Modify the statement of work for the New Opportunities in Agriculture project to reflect the decision to refocus the goal of the project on supporting import substitution.**

USAID/Kosovo Response: USAID/Kosovo agrees with this recommendation. EGO is currently drafting a modification of the task order that will address this recommendation. The scope of work will reflect import substitution as one of the goals of the project. This change will more accurately capture work that is currently on-going; there is no change in activities of the project in this request. We expect the contract modification to be finalized by the end of October 2012.

**Recommendation 4: Work with TETRA TECH ARD, to revise, as appropriate, the target for the performance indicator for the “total value of exports as a result of USG assistance” to better reflect the decision to focus the New Opportunities for Agriculture project on supporting import substitutions.**

USAID/Kosovo Response: USAID/Kosovo agrees with this recommendation. A performance indicator and target(s) for import substitution will be documented in a revised Performance Management Plan for the project. We expect this to be finalized by the end of October 2012.

**Recommendation 5: Work with TETRA TECH ARD, to develop and implement a plan that encourages the targeting of project interventions that focus on increasing gender and minority inclusion under the New Opportunities for Agriculture project.**

USAID/Kosovo Response: USAID/Kosovo agrees with this recommendation. EGO is currently working with TETRA TECH ARD to address this important issue. TETRA TECH ARD is hiring a gender specialist, to advise on planning, implementation and monitoring project interventions that will focus on gender and minority inclusion starting with the project's support to the Ministry of Agriculture Forestry and Rural Development (MAFRD), specifically the Agricultural Extension Service. Additionally, the mission will continue to work with TETRA TECH ARD to address other

mechanisms to target gender and minority inclusion. [We expect this to be finalized by the end of October 2012.]<sup>3</sup>

**Recommendation 6: Work with TETRA TECH ARD, to develop procedures to strengthen the New Opportunities for Agriculture monitoring and evaluation system so that it adequately measures the result of gender and minority inclusion in its activities.**

USAID/Kosovo Response: USAID/Kosovo agrees and supports this recommendation. EGO has already engaged TETRA TECH ARD on this issue. These changes will be documented in a revised Performance Management Plan for the project. We expect this to be finalized by the end of October 2012.

**Recommendation 7: Work with Chemonics, International to establish a performance indicator and corresponding target to measure the progress of its activities designed to lower trade barriers under the Business Enabling Environment Program.**

USAID/Kosovo Response: USAID/Kosovo agrees with this recommendation. The project has been using a performance indicator that captures this information along with other information. The World Bank's Doing Business Trade Across Borders indicator is actually comprised of a number of sub-indicators that are then combined. Some of the sub-indicators measure the progress of USAID's activities designed to lower trade barriers. We will work with Chemonics to disaggregate this indicator. Additionally, the following indicators will be added: (1) the number of customs harmonization procedures implemented in accordance with internationally accepted standards as a result of BEEP assistance, and (2) the number of legal, regulatory, or institutional actions taken to improve implementation or compliance with international trade and investment agreements due to support from BEEP. All reforms that lower barriers to trade will be captured in the disaggregated entries as this measure is directly attributable to project activities and demonstrably contribute to an improved business environment. We expect these to be finalized by the end of October 2012.

**Recommendation 8: Work with TETRA TECH ARD, to establish a performance indicator and corresponding target to measure the change in rural incomes as a result of activities under the New Opportunities for Agriculture Project. If a proxy indicator is deemed appropriate, we recommend that USAID/Kosovo work with TETRA TECH ARD, to adequately document the assumptions supporting the choice of indicator and the methodology for its collection in the New Opportunities for Agriculture project performance management plan.**

USAID/Kosovo Response: USAID/Kosovo agrees with this recommendation. EGO has already engaged TETRA TECH ARD on this issue. If a proxy indicator is identified, the rationale for the decision and the assumptions and methodology will be well explained in the revised Performance Management Plan. We expect these to be finalized by the end of October 2012.

**Recommendation 9: Work with Chemonics, International to determine a realistic, yet achievable, target for the performance indicator "number of requests by businesses and citizens for their own credit reports" under the business Enabling Environment Program.**

USAID/Kosovo Response: USAID/Kosovo agrees with this recommendation. As an ambitious but achievable goal for the "number of requests by businesses and citizens for their own credit

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<sup>3</sup> Date of completion was omitted in USAID/Kosovo's initial response but later added as an amendment.

reports”, USAID and Chemonics, International have established the target of 960 credit report requests. This is 80 new requests every month for the next 12 months. We consider this recommendation to be closed.

**Recommendation 10: Work with TETRA TECH ARD, to streamline the performance management plan for the New Opportunities for Agriculture project by determining those performance indicators that best fit criteria defined in ADS 203.3.4.2 and eliminating those performance indicators that demonstrate little usefulness for project management.**

USAID/Kosovo Response: USAID/Kosovo agrees with this recommendation. EGO has already engaged TETRA TECH ARD on this issue. The Contracting Officers Representative will review the revised Performance Management Plan prior to its implementation and will also review progress on the plan on a periodic basis. We expect this to be finalized by the end of October 2012.

**Recommendation 11: Develop and implement procedures to verify that the performance results reported by its implementing partners are reasonably accurate, complete, reliable, and adequately supported.**

USAID/Kosovo Response: USAID/Kosovo agrees with this recommendation. EGO will carefully review the Data Quality Assessments (DQA) for both BEEP and NOA, analyze the data verification procedures of both partners and also assess how the EGO office monitors the partners’ procedures, identifying gaps and best practices. Contracting Officer Representatives for the two projects will then complete new DQAs three months after the changes recommended by this audit have been implemented to ensure compliance. In line with the recommendations above, we expect the partners to have new indicators and data collection methods for those indicators by the end of October 2012. Therefore our review of the new systems and new DQAs will take place by the end of February 2013.

**Recommendation 12: Work with Chemonics International and TETRA TECH ARD, to develop and implement procedures to verify that the data collection and analysis methodologies used to report results of its activities under the Business Enabling Environment Program and New Opportunities for Agriculture project are consistent with those outlined in the projects’ performance management plans.**

USAID/Kosovo Response: USAID/Kosovo agrees with this recommendation. EGO will work with both partners to review their internal data collection and analysis. A joint workshop between all private sector EGO partners may be utilized to enhance the sharing of best practices, encourage mentoring between partners and ensure consistency across the portfolio. We expect this work to be finalized by the end of October 2012.

**Recommendation 13: Work with TETRA TECH ARD, to revise, as necessary, the methodologies used for the collection and analysis of data so the reported results under the New Opportunities for Agriculture project are reliable and comparable across reporting periods.**

USAID/Kosovo Response: USAID/Kosovo agrees with this recommendation. This particular finding will be addressed by the actions proposed in Recommendations 11 and 12; a review of past DQAs, assistance for improving internal data collection and analysis, and a follow-up DQA assessment. We expect this work to be finalized by the end of October 2012.

## AGRICULTURE PROJECT REPORTED AND VERIFIED RESULTS

**Table III-1. NOA Reported and Verified Results FY 2011 (Audited)**

| Indicator   | Reported  | Verified         | Difference (%) |
|---|-----------|------------------|----------------|
| <b><i>Assistance Objective Indicators</i></b>   |           |                  |                |
| Total Value of Sales as a Result of USG Assistance  | \$522,304 | \$595,978        | 14.11          |
| Total Value of Exports as a Result of USG Assistance  | \$0       | \$0              | 0.00           |
| Total Value of Domestic Sales as a Result of USG Assistance   | \$522,304 | \$595,978        | 14.11          |
| Number of Person-Days/Full Time Equivalents (FTE) Generated Through Target Value Chains as a Result of USG Assistance             | 259       | Unable to verify | -              |
| <b><i>Products and Farmers Linked to Markets</i></b>  |           |                  |                |
| Number of Delivery Contracts Issued for Targeted Crops  | 13        | 0                | -100.00        |
| Value of Sales Resulting from Linkages Created Between Farmers, Processors, and Traders as a Result of USG Assistance             | \$138,594 | \$75,324         | -45.65         |
| Number of Farmers Engaged in Target Value Chains as a Result of USG Assistance  | 331       | Unable to verify | -              |
| Number of Participants in Study Tours, Business to Business Meetings (B2B), Market Investigation, and Trade Shows                 | 34        | 31               | -8.82          |
| <b><i>Agricultural Products Diversified and Increased</i></b>   |           |                  |                |
| Number of New Markets Entered for Target Value Chain Products   | 5         | 5                | 0.00           |
| Value of Sales/Purchases from Smallholders for Products as a Result of USG Assistance   | \$522,304 | \$276,496        | -47.06         |
| Number of New Technologies and/or Management Practices Introduced as a Result of USG Assistance                                   | 6         | 6                | 0.00           |
| Number of Individuals Trained in Agriculture Productivity Through USG Assistance  | 306       | 284              | -7.19          |
| Number of Farmers, Processors, and Others Who Have Adopted New Technologies or Management Practices as a Result of USG Assistance | 70        | 0                | -100.00        |
| Number of Farmers Receiving USG Assistance to Invest in Improved Technologies   | 11        | 11               | 0.00           |
| Number of Hectares Under Improved Technologies and/or Management Practices as a Result of USG Assistance                          | 8.4       | 8.4              | 0.00           |
| Number of New Varieties (Including New Crops) Introduced as a Result of USG Assistance  | 20        | 20               | 0.00           |

| <b>Indicator</b>  | <b>Reported</b> | <b>Verified</b> | <b>Difference (%)</b> |
|---|-----------------|-----------------|-----------------------|
| Number of Farmers Receiving New Varieties (Including New Crops) as a Result of USG Assistance   | 21              | 23              | 9.52                  |
| <b><i>Food Quality and Safety Improved</i></b>  |                 |                 |                       |
| Number of Firms Receiving USG Assistance that Obtain Certification with International Quality Control, Environmental, and Other Process, Voluntary Standards, or Regulations  | 1               | 0               | -100.00               |
| Number of NOA-Supported Products Certified and Meeting Established International Standards  | 0               | 0               | 0.00                  |
| Value of Sales of NOA-Supported Certified Products  | 0               | 0               | 0.00                  |
| Number of Local Food Inspectors Trained   | 0               | 0               | 0.00                  |
| <b><i>Increased Affordable and Accessible Credit</i></b>  |                 |                 |                       |
| Value of Lending of Project Customers for Targeted Crops and Products as a Result of USG Assistance   | 0               | 0               | 0.00                  |
| Number of Institutions Offering New Products Targeted at Agriculture and Agri-business as a Result of USG Assistance  | 1               | 0               | -100.00               |
| Number of Small and Medium Enterprises (SME) Receiving USG Assistance to Access Bank Loans or Private Equity  | 41              | 41              | 0.00                  |
| Number of Producers in Target Value Chains Receiving Assistance to Access Credit  | 46              | 46              | 0.00                  |
| Value of Grants and Subcontracts Issued for Value Chain Operations of Target Crops and Products as a Result of USG Assistance (excluding Innovation and Incentive Fund [IIF]) | 0               | 0               | 0.00                  |
| Value of Grants and Subcontracts Issued for Value Chain Operations of Target Crops and Products as a Result of USG Assistance (IIF)   | \$387,840       | \$326,856       | -15.72                |
| Number of Value Chain Operators of Target Crops and Products Receiving Grants and/or Subcontracts as a Result of USG Assistance (excluding IIF)                               | 0               | 0               | 0.00                  |
| Number of Value Chain Operators of Target Crops and Products Receiving Grants and/or Subcontracts as a Result of USG Assistance (IIF)   | 28              | 28              | 0.00                  |

| <b>Indicator</b>  | <b>Reported</b> | <b>Verified</b> | <b>Difference (%)</b> |
|---|-----------------|-----------------|-----------------------|
| <b><i>Improved Coordination Within Agricultural Sector</i></b>  |                 |                 |                       |
| Number of Policy Reforms/Regulations/Administrative Procedures Drafted and Presented for Public/Stakeholder Consultation as a Result of USG Assistance                            | 0               | 0               | 0.00                  |
| Number of Policy Reforms/Regulations/Administrative Procedures Drafted and Presented for Public/Stakeholder Consultation and Submitted for Approval as a Result of USG Assistance | 0               | 0               | 0.00                  |
| Number of Donor, Government Of Kosovo, and Agriculture Sector Roundtables or Other Events Facilitated by NOA  | 11              | 11              | 0.00                  |

**Table III-2. NOA Reported Results FY 2012, Quarter 2 (Audited)  
Quarterly Indicators Only**

| <b>Indicator</b>  | <b>Reported</b> | <b>Verified</b>  | <b>Difference (%)</b> |
|---|-----------------|------------------|-----------------------|
| <b><i>Products and Farmers Linked to Markets</i></b>  |                 |                  |                       |
| Number of Delivery Contracts Issued for Targeted Crops  | 1               | 1                | 0.00                  |
| Value of Sales Resulting from Linkages Created Between Farmers, Processors, and Traders as a Result of USG Assistance | \$82,580        | \$59,040         | -28.51                |
| Number of Farmers Engaged in Target Value Chains as a Result of USG Assistance  | 389             | Unable to Verify | -                     |
| Number of Participants in Study Tours, B2B, Market Investigation, and Trade Shows                                     | 15              | 13               | -13.33                |
| <b><i>Agricultural Products Diversified and Increased</i></b>   |                 |                  |                       |
| Value of Sales/Purchases from Smallholders for Products as a Result of USG Assistance                                 | \$141,246       | \$97,874         | -30.71                |
| Number of New Technologies and/or Management Practices Introduced as a Result of USG Assistance                       | 4               | 4                | 0.00                  |
| Number of Individuals Trained in Agriculture Productivity Through USG Assistance                                      | 207             | 199              | -3.86                 |
| Number of Farmers Receiving USG Assistance to Invest in Improved Technologies   | 22              | 22               | 0.00                  |
| Number of Farmers Receiving New Varieties (Including New Crops) as a Result of USG Assistance                         | 33              | 30               | -9.09                 |
| <b><i>Food Quality and Safety Improved</i></b>  |                 |                  |                       |
| Number of Local Food Inspectors Trained   | 0               | 0                | 0.00                  |

| <b>Indicator</b>  | <b>Reported</b> | <b>Verified</b> | <b>Difference (%)</b> |
|---|-----------------|-----------------|-----------------------|
| <b><i>Increased Affordable and Accessible Credit</i></b>  |                 |                 |                       |
| Value of Lending of Project Customers for Targeted Crops and Products as a Result of USG Assistance   | 0               | 0               | 0.00                  |
| Number of SMEs Receiving USG Assistance to Access Bank Loans or Private Equity  | 0               | 0               | 0.00                  |
| Number of Producers in Target Value Chains Receiving Assistance to Access Credit  | 0               | 0               | 0.00                  |
| Value of Grants and Subcontracts Issued for Value Chain Operations of Target Crops and Products as a Result of USG Assistance (IIF)             | \$828,145       | \$995,157       | 20.17                 |
| Number of Value Chain Operators of Target Crops and Products Receiving Grants and/or Subcontracts as a Result of USG Assistance (excluding IIF) | 0               | 0               | 0.00                  |
| Number of Value Chain Operators of Target Crops and Products Receiving Grants and/or Subcontracts as a Result of USG Assistance (IIF)           | 40              | 33              | -17.50                |
| <b><i>Improved Coordination Within Agricultural Sector</i></b>  |                 |                 |                       |
| Number of Donor, GOK, and Agriculture Sector Roundtables or Other Events Facilitated by NOA   | 12              | 0               | -100.00               |

**Table III-3. NOA Reported Results FY 2012, Quarter 1  
Quarterly Indicators Only (Audited)**

| <b>Indicator</b>  | <b>Reported</b> | <b>Verified</b> | <b>Difference (%)</b> |
|---|-----------------|-----------------|-----------------------|
| <b><i>Products and Farmers Linked to Markets</i></b>  |                 |                 |                       |
| Number of Delivery Contracts Issued for Targeted Crops  | 68              | 69              | 1.47                  |
| Value of Sales Resulting from Linkages Created Between Farmers, Processors, and Traders as a Result of USG Assistance | \$138,621       | \$90,500        | -34.71                |
| Number of Farmers Engaged in Target Value Chains as a Result of USG Assistance  | 559             | 574             | 2.68                  |
| Number of Participants in Study Tours, B2B, Market Investigation, and Trade Shows                                     | 37              | 34              | -8.11                 |
| <b><i>Agricultural Products Diversified and Increased</i></b>   |                 |                 |                       |
| Value of Sales/Purchases from Smallholders for Products as a Result of USG Assistance                                 | \$164,253       | \$179,554       | 9.32                  |
| Number of New Technologies and/or Management Practices Introduced as a Result of USG Assistance                       | 8               | 8               | 0.00                  |



| <b>Indicator</b>  | <b>Reported</b> | <b>Verified</b> | <b>Difference (%)</b> |
|---|-----------------|-----------------|-----------------------|
| Number of Farmers Receiving USG Assistance to Invest in Improved Technologies   | 4               | 0               | -100.00               |
| Number of Farmers Receiving New Varieties (Including New Crops) as a Result of USG Assistance   | 76              | 74              | -2.63                 |
| <b><i>Food Quality and Safety Improved</i></b>  |                 |                 |                       |
| Number of Local Food Inspectors Trained   | 13              | 13              | 0.00                  |
| <b><i>Increased Affordable and Accessible Credit</i></b>  |                 |                 |                       |
| Value of Lending of Project Customers for Targeted Crops and Products as a Result of USG Assistance   | 0               | 0               | 0.00                  |
| Number of SMEs Receiving USG Assistance to Access Bank Loans or Private Equity  | 0               | 0               | 0.00                  |
| Number of Producers in Target Value Chains Receiving Assistance to Access Credit  | 0               | 0               | 0.00                  |
| Number of Value Chain Operators of Target Crops and Products Receiving Grants and/or Subcontracts as a Result of USG Assistance (excluding IIF) | 0               | 0               | 0.00                  |
| Value of Grants and Subcontracts Issued for Value Chain Operations of Target Crops and Products as a Result of USG Assistance (IIF)             | \$27,737        | \$27,737        | 0.00                  |
| Number of Value Chain Operators of Target Crops and Products Receiving Grants and/or Subcontracts as a Result of USG Assistance (IIF)           | 1               | 1               | 0.00                  |
| Number of Value Chain Operators of Target Crops and Products Receiving Grants and/or Subcontracts as a Result of USG Assistance (excluding IIF) | 0               | 0               | 0.00                  |
| <b><i>Improved Coordination Within Agricultural Sector</i></b>  |                 |                 |                       |
| Number of Donor, GOK, and Agriculture Sector Roundtables or Other Events Facilitated by NOA   | 32              | 32              | 0.00                  |

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