

# **COMPENSATION STRATEGY**

**Kosovo**

Report

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11<sup>th</sup> to 14<sup>th</sup> July 2006

**Acknowledgement to the Swiss Government**

**Project code: OSRO/GLO/504/MUL Baby 2.**

## Summary

Kosovo has not detected any Highly Pathogenic Avian Influenza (HPAI) outbreak to date. Nonetheless the Provisional Institutions of Self-Government requested assistance of FAO, among other issues, to elaborate the compensation strategy in case of HPAI outbreak in the territory. To that aim a mission was undertaken from the 11<sup>th</sup> to the 14<sup>th</sup> of July.

Following interviews with the relevant actors in the sector and analysis of the information obtained, the recommendations to the Provisional Institutions of Self-Government are:

### 1- Compensation component:

- Establish the **categories** of poultry that will be compensated;
- Decide on the **base-line price for compensation**: whether it is based on market prices or based on production costs;
- It is recommended that the baseline for compensation is based on **production costs** given that there is no broiler production in Kosovo
- Apply those categories and compensation rates **homogenously across the nation** to avoid movement of poultry;
- Specify to farmers the **date** at which the **compensation** will take place. If this is not stipulated, it is possible that, especially in smallholders and backyard producers, farmers will prefer quickly selling their animal to at least obtain some money;
- Establish **official forms for the culling** (“registration/culling” forms, numbered) with at least 3 carbon copies with signatures of a member of the culling team, the poultry owner and a member of the local administration

### 2- Funding sources:

- Evaluate the possibility of creating an Animal Health Fund to be held and managed at the KVFSa where part of the animal health related taxes could be earmarked. Such mechanism would allow increasing KVFSa’s effectiveness and efficiency.

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# 1 Background

General information for Kosovo:

Population:	1.7-1.9 million (UNMIK 2003)
Child (<5) mortality rate:	69/1000 (UNICEF, 2005)
Number of poultry:	2.4 to 2.5 million (estimates, KVFA PISG)
Percentage of backyard poultry production:	60-67%

## 1.1 *Highly Pathogenic Avian Influenza situation*

Kosovo has officially had no case of HPAI. However, it is worth mentioning that the surrounding territories are infected. An FAO mission was organised in order to assist Kosovo in the elaboration and implementation of a compensation strategy. The mission also included an epidemiology expert as well as a laboratory expert, contributing thus to the overall understanding of the conditions in Kosovo to cope with Highly Pathogenic Avian Influenza (HPAI) outbreaks.

It is important to bear in mind that Kosovo still remains under the UN guidance through the United Nations Mission to Kosovo (UNMIK). Hence, certain data and activities are managed through UNMIK while the appropriate structures of the Provisional Institutions of Self-Government (PISG) are being established. Kosovo used to be an autonomous province of Yugoslavia but now it is a protectorate of UNMIK and waiting for status clarification by the end of the year.

## 1.2 *Poultry sector structure*

Following estimates from the Kosovo Veterinary and Food Service Agency (KVFSFA) the poultry industry in Kosovo includes **2.4 to 2.5 million chickens** of which:

- **900,000** are **commercial laying hens** (small and medium farms), and
- **1.4 to 1.5 million** are **backyard** production.

There is no broiler industry in Kosovo since the imports of frozen chicken legs from Brazil & EU (10%), and from USA (90%) at highly competitive prices do not encourage farmers to become involved in broiler production. Import data comes from the UNMIK-managed Integrated Border Management (IBM) which controls the information.

Turkeys and pigeons are kept by smallholders.

## 1.3 *Stakeholders*

The main stakeholders in the poultry sector in Kosovo are the following:

- Ministry of Agriculture, Forestry and Rural Development (MAFRD)
- Kosovo Veterinary and Food Service Agency (KVFSFA)
- United Nations Mission to Kosovo (UNMIK)
- Poultry Producers and Feed mill Association (SHPUK)
- Egg Layer Association

## 2 Compensation

This section describes the rationale existing behind compensation plans and the way compensation was implemented by the Provisional Institutions of Self-Government. It also describes the most appropriate structure of a compensation scheme given the situation in the Provisional Institutions of Self-Government and outlines the key areas that are recommended to be addressed by the PISG to strengthen their compensation strategy.

### 2.1 Reasons for compensation

Within the HPAI context, there are three main reasons pointing out the need for compensation. These reasons are the following:

- The threat that HPAI represents for human health,
- The transboundary nature of the virus,
- When there is a private asset (in this case poultry) that has been compulsorily destroyed by governmental decree, the government needs to reimburse that loss in some way.

These characteristics, notably the two first, allow the prevention of HPAI to be considered as a global public good (GPG).

### 2.2 Recommended compensation strategy

Given that Kosovo has not yet been infected by HPAI, no compensation strategy has been developed to date.

- **Categories**

When poultry are culled and compensation provided, rates need to be established according to the category of bird. Ideally there will not be too many categories, otherwise the registration process becomes unmanageable. After several discussions with relevant stakeholders (see [annex 1](#)) and especially with the Chief Veterinary Officer of Kosovo, the following categories were suggested:

- Day old chicks
- Laying hens up to 18 weeks
- End of production laying hen
- Pigeons
- Turkeys

- **Price baseline**

However, prices still need to be associated to each of these categories. Given that there is no broiler production in Kosovo, it was suggested that compensation baseline prices be based on **production costs**.

- **Registration/culling forms**

In order to establish an accurate and auditable compensation system, it is important to ensure that the numbers of animals culled are registered. To that purpose it is suggested that a form is created where:

- A table with the established categories to be compensated are included,
- Forms are composed by 3 carbon copies,
- Forms are signed by one member of the culling team, the poultry owner, and a member of the local authorities,
- Each of the forms is numbered or coded (to avoid mismanagement of funds).

- **Culling**

Culling may be performed by members of the KVFSa. However, it was suggested during the discussions with the relevant stakeholders that the Kosovo Protection Corps (KPC) were used for that activity.

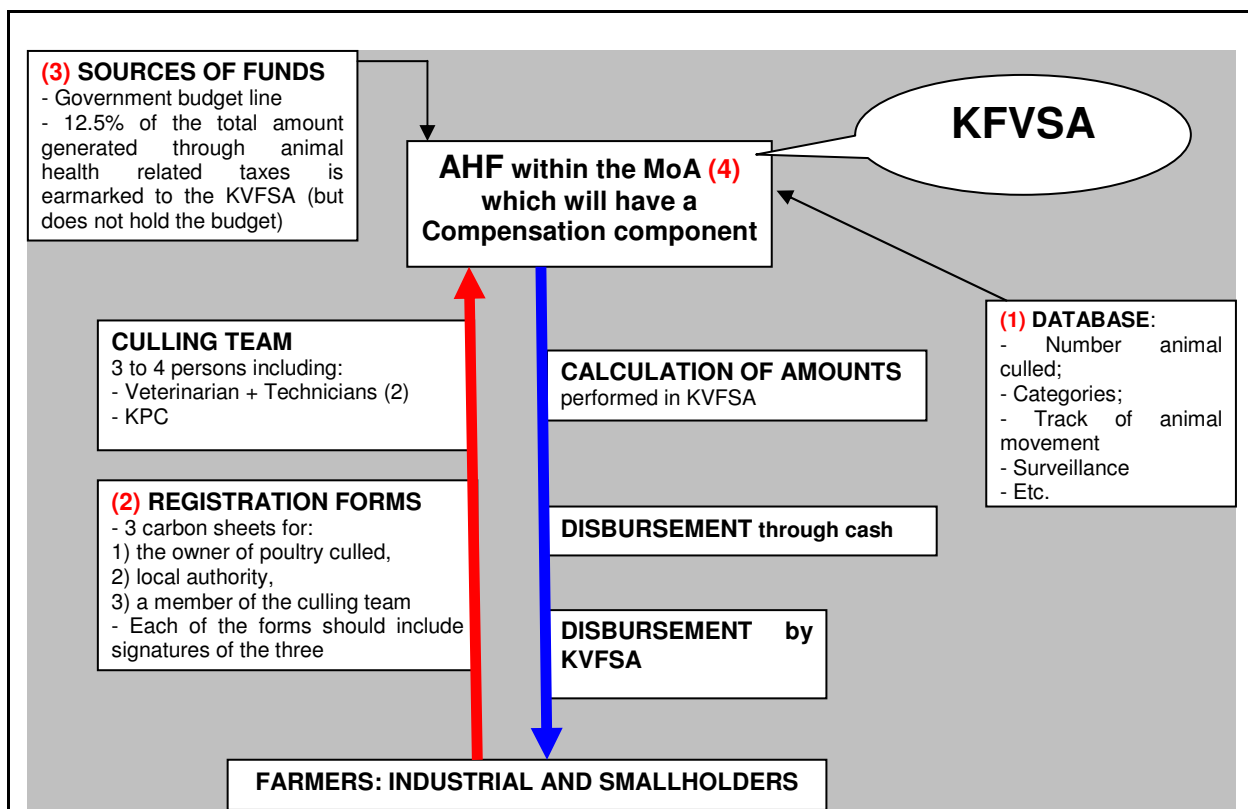
- **Date and means of disbursement**

In the event a compensation strategy needs to be implemented in Kosovo, it will be important to inform those farmers whose poultry will be culled the date when compensation will take place. This is suggested to encourage early reporting.

In addition it needs to be taken into account whether the farmers will receive cash or cheques. In the latter case, it needs to be ensured that smallholders are able to cash these cheques through the local available institutions (e.g. branches of local banks). Otherwise existing alternatives in Kosovo such as UNMIK, NGOs or other may be needed to perform this activity.

- **Core components of a compensation plan**

The core components of a general compensation plan adapted to the case of Kosovo are displayed in the chart below.



**Chart 1: Suggested core structure and functioning of a Compensation Fund**

**Legend:**

(1) It is suggested that a database is created whereby information regarding culled poultry, categories, prices, poultry industries, animal movement, surveillance etc. would be collected.

(2) Registration/culling forms have already been highlighted as key to the improvement of the current compensation plan. These forms would enable audit and accountability of the calculation of compensation levels as well as the disbursement of funds. Templates of forms used in other countries can be provided to the KVFSa should that be requested.

(3) The strategy is outlined below in section 3.

(4) The chart points out the need to decide where the fund will be exclusively used for compensation (CF = Compensation Fund) or whether the fund would include compensation activities and other animal health related actions (AHF = Animal Health Fund). This is debated in the next section.

Having outlined the current situation in Kosovo, the recommendations so far regarding the operational part of compensation are the following:

- Establish the **categories** of poultry that will be compensated;
- Decide on the **base-line price for compensation**: whether it is based on market prices or based on production costs;
- It is recommended that the baseline for compensation is based on **production costs** given that there is no broiler production in Kosovo
- Apply those categories and compensation rates **homogenously across the nation** to avoid movement of poultry;
- Specify to farmers the **date** at which the **compensation** will take place. If this is not stipulated, it is possible that, especially in smallholders and backyard producers, farmers will prefer quickly selling their animal to at least obtain some money;
- Establish **official forms for the culling** (“registration/culling” forms, numbered) with at least 3 carbon copies with signatures of a member of the culling team, the poultry owner and a member of the local administration

### 3 Funding strategy

Previous sections have focused on the methodology to follow in order to obtain accurate data on the culling, categories and disbursement procedures. This section focuses on the upper section of the compensation fund, namely where to find the financial resources to maintain the fund.

#### 3.1 Funding sources

The current funding strategy for the KVFSa is based on a MoF annually allocated budget line (fiscal year: end October). The allocation for 2005 was around **2.4 million euros**.

The way in which funds broken down is as it follows (source: KVFSa):

CODE	AMOUNT (Euros)
<b>Capital, of which:</b>	<b>1,662,000</b>
▪ Border phyto-sanitary controls	35,000
▪ Cattle identification	300,000
▪ Food hygiene	110,000
▪ Residues	100,000
▪ Animal welfare	115,000
▪ Border vet inspection/control	250,000
▪ Border disinfection plan	252,000
▪ Other (unspecified)	500,000
<b>Goods and services</b>	<b>160,000</b>
<b>Maintenance</b>	<b>43,000</b>
<b>Salaries</b>	<b>461,754</b>

It needs to be mentioned that animal health related taxes exist in Kosovo, these are:

- Border taxes
- Licensing: import/export, slaughtering and processing, ambulatory vet stations, registration of drugs and equipment, cold storages)
- Animal health certificate
- Disinfection

The amount of **animal health related taxes** for Kosovo in 2005 was of **2.4 million euros**. Up to May 2006 there has been more than 1 million euros collected already. The estimation is that the amount for 2006 will be of 4 million.

It has been agreed through a **Memorandum of Understanding** with the **MoF** that a **12.5%** of the amount generated through animal health related taxes are earmarked for the KVFSa. The MoF has a contingency fund which at the beginning of each fiscal year tends to contain 3 million euros. This fund is said to be used for natural disasters, which would include HPAI outbreaks. However, after discussions with officials of the MoF, it was said that only 1.4 million euros were left for the remaining of the year.

In case of HPAI it is expected that the MoA will manage the compensation process. However the funds will be held at central level in the MoF. Although earmarking taxes does not seem to be a foreseeable event within Kosovo's current political context, it needs to be borne in mind should the possibility arise. The idea is to earmark to a fund that will be held and managed by the KVFSa part of the abovementioned animal health related taxes. The percentage may be the same or increased subject to negotiation. One of the main advantages of establishing an "**Animal Health Fund**" (AHF) instead of simply a **Compensation Fund** is that the AHF will allow to use the collected funds in a more efficient and swift manner. This would allow the KVFSa to improve efficiency and effectiveness when dealing with public health and animal health hazards.

## 4 Conclusions and recommendations

Kosovo has not detected any Highly Pathogenic Avian Influenza (HPAI) outbreak to date. Nonetheless the Provisional Institutions of Self-Government requested assistance of FAO to elaborate the compensation strategy in case of HPAI outbreak in the territory. To that aim a mission was undertaken from the 11<sup>th</sup> to the 14<sup>th</sup> of July.

Following interviews with the relevant actors in the sector and analysis of the information obtained, the recommendations to the Provisional Institutions of Self-Government are:

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## **2. Funding sources:**

- Evaluate the possibility of creating an Animal Health Fund to be held and managed at the KVFSa where part of the animal health related taxes could be earmarked. Such mechanism would allow increasing KVFSa’s effectiveness and efficiency.

## Annex 1 – Schedule

<b>Date</b>	<b>Name</b>	<b>Position</b>
Tuesday 11 <sup>th</sup> July	Late arrival due to outbound	London plane delay
Wednesday 12 <sup>th</sup> July	Qaush Kabashi	Chief Executive Offices KVFSFA
	Flamur Kadriu	Chief of Veterinary Public Health Sector
	William Gardner	Department of Civil Administration, UNMIK
	Christian Mandra	TCEO Operations Officer, FAO
	Yanco Ivanov	Epidemiology expert, FAO
	Ardiana Hamiti	Administration and finance Officer, FAO
Thursday 13 <sup>th</sup> July	Skender Syla	NPO, Health Policy and Systems, WHO
	Hassan Iusfaj	Director of Budget, MoF
	Ken Schwarts	USAID contractor, Senior Advisor to the Director of Budget
Friday 14 <sup>th</sup> July	Presentation of mission findings to donors, UNDP	
	Frode Mauring	UNDP Resident Representative
	Chiara Melluchi	HPAI focal point
	Ardian Spahiu	Advisor, Office of Public Safety, Office of the Prime Minister
	Vito Intini	World Bank, Project Officer
	Skender Syla	NPO, Health Policy and Systems, WHO
	Fatos Mulla	Swedish Office
	Xhemajl Dervishi	Head of Laboratory, Kosovo veterinary laboratory
	Qaush Kabashi	CVO, KVSFA
	Gina Lucarelli	Child Protection Officer, UNICEF
	Luca Manunta	Monitoring Officer, EAR

## Annex 2 – General guidelines for the establishment of a compensation strategy

<p><b>THIS CHECKLIST IS A GENERAL STATEMENT OF THE AREAS THAT NEED TO BE TAKEN INTO ACCOUNT WHEN TRYING TO DESIGN A COMPENSATION STRATEGY. THE ANSWERS TO EACH OF THESE POINTS WILL OBVIOUSLY DIFFER BETWEEN COUNTRIES. IT IS THEREFORE NOT TO BE TAKEN IN A PRESCRIPTIVE MANNER.</b></p>	
<b>Steps to be taken in designing compensation strategy</b>	<b>Rationale / points to consider</b>
<b>1. Determine the reasons for compensation:</b>	Compensation may be considered for different reasons. The reason for compensation affects decisions about who should be compensated (see 2.) and how the process should work (see 3-5)
1.1 Compensation reduces the disincentive to report.	These reasons justify a typical compensation process where any farmers whose birds are culled by “culling teams” (as decided by authorities) are compensated for the birds destroyed.
1.2 It is a government responsibility to compensate when private assets of citizens are destroyed for public purposes.	
1.3 Livelihood support: Provide a “safety net” to protect the different groups of farmers against the economic losses incurred by having to wait for restocking and/or when they cannot sell their birds anymore due to the enforcement of movement restrictions. This may take the form of insurance or some kind of social security. Strictly speaking this is not compensation, although it is often discussed at the same time that compensation is being planned, and in countries with a well-funded livestock sector, both compensation and livelihoods support mechanisms may be in place	
<b>2. Decide who will be compensated?</b>	
2.1 Questions to be considered: Which actors or stakeholders? Should compensation be limited to farmers or also include processors and marketers? Should all sizes of farms/poultry production sectors be included? How will social biases (e.g., anti-poor, gender, ethnic group, etc.) be avoided? The aim is: <ul style="list-style-type: none"> <li>• To encourage early disease reporting.</li> <li>• To encourage people to take part in official compensation schemes, everyone whose birds are culled needs to be included.</li> </ul>	<p>If care is not taken in planning, certain key stakeholders (often the most vulnerable or those with least “voice”) can be excluded from compensation programmes. This can reduce the effectiveness of control programmes and the bio-security status in affected areas.</p> <p>Especially at the beginning of the epidemic, if there is no compensation for dead animals there is the risk of animal movement (i.e. disease spread). However death might not be due</p>

	to HPAI but to similar diseases (e.g. Newcastle Disease).
<b>3. Agree on the price for compensation:</b>	
3.1 Several stakeholders need to meet to <b>negotiate</b>	
3.2 It is generally better to have <b>uniform prices at national level</b> to avoid people/farmers moving birds	To avoid movement of birds due to price differences, as this would increase disease spread nationally.
3.3 Different prices by species and category (age, broiler or layer) should be negotiated but it is advised <b>not</b> to include <b>too many categories</b>	Keep the list short to make it administratively implementable.
3.4 Decide in advance what percentage of market price for each category will be paid. Percentage of market price needs to reflect how much can be afforded by the government and what people will accept.	If compensation level is too low farmers will not cooperate. A too high level is a disincentive for sharing the risks (between farmers and governments) associated to the presence of the disease. This measure is especially interesting in the case where there has already been an outbreak to encourage farmers to put in place appropriate/stipulated control and preventive measures
3.5 Decide in advance how market prices are determined. The average for the month or week? The price on the day of culling?	The occurrence of outbreaks has a significant impact on prices. The representativeness and availability of market price information may limit the variety of options to determine the compensation price.
3.6 State a date when the compensation will be received by the farmer (and stick to it)	For farmer compliance with the emergency contingency scheme
3.7 It may also be necessary also to include production losses from “downtime” or birds that die from HPAI.	If farmers are adequately compensated they are more likely to comply with culling schemes. Losses from downtime can be considerable. However, while estimating losses is quite simple for commercial flocks, it is more difficult for backyard flocks.
<b>4. Decide whether the costs of control measures will be refunded</b>	
4.1 Funds should be readily available through pro-rata estimates (e.g. amount per farm/household culled) for direct <b>disease control</b> measures associated to the culling activities such as disinfection, protection for culling teams etc.	A contingency or compensation plan will be less effective if it does not take into account the direct costs of culling and control measures that may be borne by farmers. Compensation programmes might provide good opportunities for building capacity in biosecurity. Funds may be provided to allow

	upgrading of biosecurity (e.g. bird proofing farms etc)
<b>5. Administer and enforce compensation</b>	
5.1 Decide in advance on the way people have to register for compensation. The <b>date</b> of compensation needs to be clearly stated to farmers for compliance. Numbers of animals reported need to be checked for accuracy. Each production system presents a different kind of challenge.	To avoid “double compensation” or people missing out. An accurate and accountable registration scheme may be difficult to implement. State culling teams could register the number of birds culled, but they need to work fast, otherwise infected birds might die or people cull their own birds before they can be registered.
5.2 The system to make payments needs to be simple and make use of existing institutions (e.g. veterinary services, financial institutions etc). Farmers might not have a bank account for receiving a payment.	To avoid high administrative costs of transferring the money. However, the efficiency of these institutions needs to be evaluated before engaging them.
<b>6. Funding strategy:</b>	
6.1 Estimate <b>how much</b> is needed to set up the fund (from previous information, i.e. number of animals, categories and compensation levels)	The setting up, source of funding and management of the fund need to be planned in close collaboration with the ministry of finance and may require changes of legislation.
6.2 Sources of funding may be from <b>national</b> and/or <b>local</b> levels.	Depending on the structure of public finances of the country i.e. devolution levels.
6.3 Ideally, funding is from both public and private sources. With a well organised private sector, it is possible to set up a fund for livestock emergencies, to which the government and the private sector can contribute.	To encourage reporting, help to ensure against losses, share the financial risk between the public and private sector so that both will take steps to reduce the disease risk.
6.4 Commercial farmers may take out private insurance if a scheme is available.	Insured farmers will probably be asked to join a quality management scheme.
6.5 In case of <b>international</b> contribution, there is a need to agree on how the funds will be disbursed and the monitoring process.	HPAI being a Global Public Good (GPG) there is a rationale for international contribution.
6.6 Decide who is going to <b>manage the fund</b> and where it is going to be located (i.e. ministry of finance (MoF) / ministry of agriculture (MoA)) at both national as well as local level. Decide on fast mechanisms to disburse those funds to the local level.	MoA tends to have the technical expertise but generally MoF does not allow other ministries to manage funds for what is labelled as “accountability reasons”.
6.7 Negotiation over setting up an initiative for compensation at regional level (for example within a regional trade block such as	In trade block, there is an economic rationale to set up a regional fund. Other activities could be envisaged within the fund, such as

UEMOA, Mercosur, CAN).	control of other transboundary animal diseases with trade implications. The value of the fund is likely to be considerably less than total contingency for several individual countries.
<b>7. Medium/long term strategies:</b>	
7.1 Take a clear decision on what is the country's strategy when/if the disease becomes endemic with regard to the compensation scheme above stated.	When dealing with endemic HPAI and the possibility of poultry vaccination attention should be drawn to the interventions needed to modify biosecurity conditions associated to the existing poultry production system in the country (i.e. backyard raising and smallholder producers)
<b>8. The compensation strategy needs to be publicised as part of the awareness campaign/strategy for HPAI control</b>	

## Annex 3 – Terms of Reference

### Terms of Reference

#### Compensation Strategy Consultant

Under the overall guidance of the Emergency Centre for Transboundary Animal Diseases (ECTAD), under the technical guidance of the Chief of the Livestock Policy Branch (AGAL) and under the operational supervision of the Chief of the Emergency Operations Service (TCEO), the direct technical supervision of the Senior Officer, and in close collaboration with the national FAO Representative or equivalent, the incumbent will:

- 1- Assess the current compensation policy developed by the government
- 2- Examine which elements in the current strategy need to be refined
- 3- Make recommendations to the government as appropriate.
- 4- To present the findings of the mission to the relevant authorities
- 5- Submit a detailed mission report (format provided) not later than 1 week after completion of the mission, containing recommendations and follow up actions
- 6- Contribute to development of a project document (format provided) for donor funding, to enhance the capacity of veterinary services for surveillance and control of avian influenza in collaboration with the other members of the mission.
- 7- Perform any other duties that may be deemed necessary.

The Consultant will be required to work closely with other members of the rapid response team and to interact actively with other organisations such as the WHO, OIE and UNICEF.

Duration: 4 days

Duty station: Pristina, Kosovo with in-country travel

**Qualifications:** Postgraduate degree in Agricultural Economics or Social Sciences and recent experience of economic or social issues associated with AI control. Knowledge of regulations and policies associated to animal health, particularly those related to AI bio-security and control. **He/she will have level C proficiency in English.**

Security:

Before starting the mission/travel, the consultant/staff member must find out in what security phase is the country of assignment and what this implies for his/her own security. As soon as s/he arrives at the duty station, through the FAO Representation or directly s/he must contact the designated UN security officer to be briefed on all the recommended security measures. In case this procedure is not properly applied, the consultant/PSA/staff member holder may not be covered under the Malicious Act Insurance Policy.

Health:

All Consultants and Staff Members, on duty travel, must accept responsibility for their health and well being as part of their official duties and also on their return.

The following are the main responsibilities of the traveller:

- Seek health advice, preferably 4 to 6 weeks before travel;
- Compliance with recommended vaccinations and other prescribed medication and health measures;
- Ensure health precautions are taken before, during and after travel;
- Obtain a physician's letter pertaining to any prescription medicines, syringes, etc., being carried;
- Precautions to avoid transmitting any infectious disease to others during and after travel;
- Report any illness on return, including information about all recent travel; and
- Respect the host country and its population.