# HORTICULTURE PROMOTION IN KOSOVO

**Project Review**

**Aggregation and its Effects on Kosovo's Fresh Fruit and Vegetable Market System**

**By**

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**November 2012**

Implemented by:

HELVETAS Swiss Intercooperation KOSOVO

Supported by:

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra
Swiss Cooperation Office Kosovo

MINISTRY OF FOREIGN AFFAIRS OF DENMARK

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## Abbreviations

HPK………….Horticulture Promotion in Kosovo
CC……………Collection Center
FFV…………..Fresh Fruits and Vegetables
ETC…………..Elkos Trade Center
VAT…………..Value Added Tax
NOA………….New Opportunities in Agriculture
HSI…………...Helvetas Swiss Intercooperation
M4P………….Markets for the Poor
TOR………….Terms of Reference
TA…………….Technical Advice

## Executive Summary

This report takes what is known about HPK's Phase V operational experience – observations and reports by HPK staff, partners and consultants -- and reflects, from an outsider's perspective, on the project's achievements to facilitate systemic and sustainable changes in Kosovo's FFV market system.

In Phase V, HPK's interventions have focused on filling the missing function of aggregation by creating – through co-investments and technical support -- farmer and trader owned and operated centers to collect, store, grade, package and deliver FFV to different buyers destined for the fresh and/or processed food markets locally and for export. Experience shows that all the Collection Centers (CC) have future commercial prospects based on their past performance: turnover has increased from year to year; sourcing relationships are strong and scalable through a core group and other nearby farmers; selling relationships with buyers are showing more trust and confidence especially with processors and wholesalers. This is indicated by more and larger pre-season agreements. With an estimated 10% of tradable FFV now moving through this new channel, all the CCs have room to grow should their owners be effective at managing this trading business in lockstep with current FFV market realities and emerging trends, the so-called "retail revolution."

HPK's interventions aimed, through the CCs, to demonstrate a mechanism to fill the aggregation function, and through this, improve Kosovo's FFV competitiveness in domestic (more local sourcing relative to imports) and regional export markets. The report first identifies the type of systemic changes one could expect from better aggregation – such as lowered transaction costs or better information flows-- and then examines HPK's effects against these and 5 other systemic changes over the course of Phase V from 2009 – 2012.

The adoption of aggregator services by suppliers and buyers have lowered search and bargaining costs while also encouraging more pre-season planning and investment because the CC's offer a more reliable and trustworthy source of information than existed before. CC's have made *rightsized* investments in short-term storage capacity though trading volumes will need to increase by about 40% to take full advantage of this capacity. There are few examples of effective "on-farm" use of longer-term storage (eg apples), but HPK co-investments in storage with larger integrated business such as processors of jams, compotes and all natural juices is likely to show more success in future.

Co-investments with CCs on equipment to upgrade quality such as grading machines and gluing machines for improved packaging have not yet paid off largely because the assumed market pressure for more quality has not yet materialized. The CCs and their farmer/suppliers will need to become more formal businesses to be long term trading partners with larger formal firms. Efforts to inform and train CC operators to install/use accounting systems required to issue proper invoices and pay taxes may have started the conversation of formalization but there is no evidence of adoption.

At it's close, the report examines a future role for a donor supported facilitator like HSI in Kosovo's FFV market and identifies two valid roles: productivity research to guide strategic questions on small farm participation, land use and farm practices and a serious look at the rules – such as trade, food safety – to be guide Kosovo's FFV competitiveness locally and in the region.

The report closes with a brief review of lessons for M4P facilitators from HPK's Phase V experience.

## Section 1. Introduction

*(i) Background*:

The Horticulture Promotion in Kosovo (HPK) program – twelve years of support to first rehabilitate post-conflict and then improve the competitiveness of Kosovo's fruits and vegetable (FFV) market system -- will end in December 2012. The HPK program can be divided into 5 separate but related phases:

- <u>Phases 1 & 2 (2001 – 2006):</u> Focused on improving Kosovo's agriculture production base immediately post conflict and beyond: testing new varieties and practices, demonstration and pilot plots, development of nurseries and working with selected partners – farmers and their associations -- with direct interventions, and low cost service delivery by the project for its partners.

- <u>Phase 3 & 4 (2007 – 2009):</u> Focused on selected sub sectors still with a strong supply side orientation on improving crop yields but also addressing demand side aspects of the FFV market. Interventions began to target improvements in the sector's organization and long term growth strategies in collaboration with the newly established government bodies. In 2008, the Danish Foreign ministry joined HPK, allowing it to expand outreach with considerable funds set aside for competitive grant funding with existing/new partners.

- <u>Phase 5 (2010 – 2012):</u> In this current phase, HPK has worked to better match demand and supply in a changing Kosovo FFV market featuring the arrival of modern supermarket chains (ETC/Elkos) and the emergence of a privatized food processing industry (e.g. Progres, Ask Foods). HPK's interventions have focused on filling the largely missing system function of aggregation by creating – through co-investments and technical support -- both farmer and trader led centers to collect, store, grade, package and deliver FFV to different buyers destined for the fresh and/or processed food markets both local and for export.

*(ii) Report Outline:*

After this 3 page introduction, the report is organized around the three main areas of enquiry as they are laid out in the TOR (see Annex 1 for the TOR objectives):

- <u>Section 2</u> (TOR 1 & III) discusses the influence of HPK's supported collection centers on improved matching between demand and supply and, through this, the effects of better aggregation on today's FFV market competitiveness;

- <u>Section 3 (TOR IV)</u> discusses the future role of aggregation and aggregators in a growing and changing FFV market system and, through this, gauges HPK's contribution to sustained improvements in this function and its players;

- <u>Section 4 (TOR II & V)</u> examines HPK's shift in role from a direct provider of technical services to facilitating market system change through its partners and related lessons for M4P facilitators.

*(iii) Scene Setter:*

FFV market systems everywhere are characterized by their inherent instability due to seasonal variations in growing conditions and the perishability of distributing fresh product from farm to market sometimes over long distances on very poor roads. Kosovo is a small country with good roads but it is a country surrounded by neighbors with more developed horticulture sectors (especially Macedonia and Albania). Kosovo is an open market with few, if any, protections from imports. As such, Kosovo's FFV consumers, producers, traders, collection centers and processors can gain or lose from gluts or scarcities of product elsewhere in Europe each with different affects on these market players.

**Table 1** presents, at a glance, the regional agriculture context from 2010 – 2012 into which HPK intervened to improve Kosovo's FFV aggregation function. Without this context, it would be difficult to discuss the nature and degree of systemic change brought about by HPK's interventions in aggregation.

**Table 1**: FFV Market & Project Context (At a Glance)

| Factors | **2010** | **2011** | **2012** |
|---|---|---|---|
| Market/ Growing Conditions | • Excellent<br>• Flooding in Europe<br>• Good Prices | • Poor<br>• Europe production high<br>• Very low prices | • Average<br>• Prices stabilize around seasonal norms |
| Collection Center (CC) Operations | • 6 CCs in operation<br>• Small number of farmer/suppliers<br>• Sell to supermarkets + traditional buyers<br>• Better than expected CC turnover | • 12 CC's in operation<br>• More suppliers/more output (greenhouses)<br>• More diverse buyers (processors/gherkins).<br>• Lower than expected turnover | • 13 CC's in operation<br>• Source more from more farmer/suppliers<br>• More pre-season planning especially with core farmers (20-25/CC)<br>• Expanded offer to farmers (seeds + TA) including 'pay-back' contracts<br>• CC turnover grows |
| HPK Support | • CC set up co-finance at 50% (storage, scales, forklift);<br>• Co-financing TA<br>• Hands on technical and management support to CCs;<br>• Broker deals between CC and buyers (ETC, Progres, Ask Foods) | • Continue co-investing in cooling facilities;<br>• Increased collaboration between service providers and CCs under an MOU with HPK;<br>• Less hands on TA with CCs;<br>• Period of uncertainty between HPK & SDC | • Phase out co-investing and focus on monitoring<br>• Little direct hands on support to CC's trading operation;<br>• Introduce cost share pilots with CC to expand offer to farmers (e.g. cost share seedlings & TA)<br>• Shift support to internal CC operations needed to formalize business practices (issuing invoices, paying taxes) |

**2010:** *THE HAPPY SEASON*: HPK's initial support to aggregation coincided with both excellent growing and market conditions. The Collection Centers (CCs) began small, sourcing from a small number of known suppliers within their family and friends network, and selling to traditional buyers (mostly to traders). A potentially new larger volume buyer, the modern supermarket chain, ETC/Elkos entered the scene with small orders. The CCs – all owned and operated by local area farmers -- clearly demonstrated their value to farmers in this season as they entered into more sourcing arrangements with more farmers for the 2011 season. At the same time the CCs encountered problems serving ETC mainly because, as HPK reports, ETC was unclear about what they wanted and by when (see *Text Box A*).

> **Text box A:** A Buyer's Mixed Message
> *The supermarket buyer was insistent: we want tomatoes sorted, graded and packed in cardboard instead of wooden cartons. Post harvest, the collection center delivered tomatoes in wooden cartons with the smaller (below grade) tomatoes lining the bottom of the carton. The buyer accepted delivery and paid the agreed price.*
> This mixed message – reported by an HPK staff member – weakens the system's capacity to convey good information effectively.

**2011**: *THE SAD SEASON:* The CCs – now 12 including 2 owned by full time FFV traders (in Prizren) – encountered many difficulties at time of harvesting and selling. Excellent harvests elsewhere in Europe caused prices to drop below B/E production costs for all of Kosovo's vegetable farmers (e.g. 20c/kg vs. 40c/kg tomatoes in 2010 vs. 30c/kg seasonal norm). Many farmers – including those with CC supply agreements -- refused to harvest at these prices (e.g. tomatoes) choosing instead to let their vegetable crops rot in the field. Some CCs with export markets (e.g. peppers) were able to meet their orders and still other CCs were able to link farmers with gherkins to processors. The trader led CCs were able to offset a drop in local sourcing with imports. As might be expected, relationships on all sides of the transaction were severely tested in 2011 (see *Text Box B*).

> **Text box B:** No Deal!
> *My truck arrived empty. I offered farmers the going market price of 3€/carton for their tomatoes but they bid up the price to 4€/carton thinking I'll pay it because I won't want the truck to leave empty. No deal! So I made a call to my Albanian supplier, got the tomatoes at the same price I offered local farmers, saving 4,000€ including the fuel.*
> …Trader-led Collection Center Owner

**2012**: *THE COME BACK SEASON:* Despite a bad 2011 season, the CCs were able to re-establish operations with some modest increases brought about by better pre-season planning (e.g. Mamusha CC changing from less tomatoes to more gherkins). Deals with the major supermarket chain declined though in some cases CCs delivered product to retail outlets nearby the CC. Collection centers were able to respond to "quick sales", turning to their best farmers (about 50% of total) to meet buyer's "unplanned" needs. HPK's direct support to CC trading operations declined as was consistent with its exit strategy in 2012 though it did make efforts – largely unsuccessful – to kickstart the formalization of CC business operations.

**Table 2** summarizes HPK's Phase 5 outcomes[1], through the 2011 season, aimed specifically to fill the missing function of aggregation in the FFV market. Is that gap now filled? Hardly. The volume traded through the CC channel is a fraction of the total volume of traded FFV[2]. Is there now a functioning demonstration of the benefits and costs of aggregation in Kosovo's FFV market? Absolutely.

**Table 2:** Outcomes thru Aggregation

| Season | Collection Centres | Tonnes Collected | Total Sales (€) | Farmer Suppliers |
|---|---|---|---|---|
| *2009* | *1* | *380* | *7,600* | *21* |
| *2010* | *6* | *5,890* | *1,737,000* | *325* |
| *2011* | *13*[3] | *7,790* | *2,203,000* | *350* |

*Section 2* of the report will examine the "systemic changes" in the FFV market than have been reported -- and can be observed by -- using an analysis framework designed to capture these changes. HPK has co-invested in the creation and/or expansion of 13 collection centers. Will all these CCs continue to operate in the years ahead? Unlikely. Some will grow and expand, others might remain unchanged while still others may fail. Will the local collection center business model as promoted by HPK be sustainable? Quite possibly. The answer to that question requires a look at how this business model is positioned as part of a likely future of Kosovo's FFV market. *Section 3* will examine that question.

1 See the HPK "Aggregation Intervention Report", Pettigrew, Hoti and Pulaj 2011
2 Survey data from 200 farmers and 30 traders/CCs, trading in apples, peppers and tomatoes, showed that about 10% of output in these crops were trade thru the CC channel. See HPK Impact Study, ETH/nadel February 2012.
3 Two investments totaling more than 100,000€ were completed late in 2011, and therefore no sales data is recorded from these centers. The data for the 2012 season was not yet available at the time of this report.

## Section 2. Effects of Aggregation on FFV Competitiveness and Sustainability

### *(i) FFV competitiveness*:

A more competitive Kosovo FFV market system is one with increased "market readiness" to satisfy existing and changing demand for a range of locally grown products in both local and regional markets. "Readiness" requires a system wide capacity, involving many functions and players, to effectively match consumer demand with farm supply across a broad range of FFV products. A strong matching capacity translates into better farm to market efficiency, a critical measure of FFV market competitiveness. Improved aggregation can be revealed by examining a set of indicators that are logically linked to better market matching.

### *(ii) Measuring aggregation affects on FFV competitiveness*:

**Table 3** presents and defines seven measures of desired change that would be expected from interventions designed to improve the matching between demand and supply in Kosovo's FFV market. Each of these "measures" is examined by the conditions that prevailed prior to 2010 and the post 2012 growing/sales season.

**Table 3:** Aggregation: Measures of System Change

| Changes Required | Why Important |
|---|---|
| a) Lower Transaction Costs | Lower trading costs between sellers/buyers creates efficiency gains for all players – farmers, traders, processors, and retailers |
| b) Better Information Flows | Better information on buyer quantity, quality and timeliness allows farmers to do better pre-season planning |
| c) Faster Adoption of Technology/Know-how | More rapid technology diffusion – integrated production, greenhouses, irrigation, inputs – fosters more and better crop production, sustainably |
| d) More Formal Business Management Practices | Ability to comply with changing "rules" – issuing invoices, paying taxes, meeting quality/safety standards – as they become basic costs of business. |
| e) Financing Cash Flow Gaps in Trading | Mitigates supply risk by filling critical cash gaps between planting and payment by buyers to farmers |
| f) Rightsizing Storage Capacity | Mitigates price risk by smoothing fluctuations in demand + supply throughout the season of highly perishable FFV (tomatoes, peppers, cucumbers) with short to medium term storage windows |
| g) Upgrading Quality thru Grading/Packaging | Faster response to changing consumers preferences as articulated by multiple buyers with products destined for fresh/processed markets, locally or for export |

Since there was no organized form of market organization prior to HPK's intervention it can be logically assumed that changes – whether positive or not – can be attributed to the project's interventions. **Annex 2:** Adoption/Sustained FFV System Change provides a summary table of the foregoing discussion.

*(iii) An examination of FFV market system change*:

**a) Lowering Transaction Costs:** Better matching between supply and demand can go a long way in lowering the search and bargaining costs between suppliers and their buyers. **Table 4** shows changes in how FFV was traded prior to HPK interventions and the changes that have been adopted by suppliers and buyers and reasons why an effective CC is now and likely will be seen as important trading partner going forward.

**Table 4:** Lowering Transaction Costs

| Adoption of Change | | Sustained Changes |
|---|---|---|
| Before (2009) | After (2012) | |
| • Individual sales dominates<br>• Farmers price takers – watch prices drop throughout the day<br>• No matching between demand and supply | • Farmers sell more of their farm output (up to 10%) thru aggregators than thru traditional channels<br>• More pre-season orders by buyers allows for better crop planning and investment by suppliers (e.g. greenhouses)<br>• "Quick (unplanned) sales" increases confidence of buyers in CC capacity to deliver. | • Cost savings among other benefits realized by farmers elevates group sales as norm of FFV marketing<br>• More aggregators invest in TA and pre-financing seeds to maintain and build supplier network<br>• Efficiency gains realized makes local sourcing for some products (e.g. Gherkins) preferred over imports |

For farmers, grouped sales (versus each farmer taking their product to the market as before) reduces their costs of selling: "Last year, I saved 3,700€ by selling thru Euro Tac instead of going to the market every day". CC owners are investing in their business to expand their storage capacity and the output of their suppliers through pre-financing better quality seedlings and paying for technical consultants[4]. For some processors, the timely delivery of raw material in the quantities and qualities required creates an efficiency gain that can't be replicated by imports (see *Text Box C*).

**Text box C:** Cost vs. Efficiency Gain

*"The CC delivers graded and packed gherkins within 4-6 hrs of harvest. The right quality gherkin (size, temperature, texture) increases our processing efficiency: more speed and less waste. I don't know how long imported gherkins sit in customs before delivered by the trader. We will order 200 Ts of gherkin from the CC next season and defray a portion of their transportation cost".*

…Director of a food processor

**b) Better Information Flows:** Lower trading costs and increased efficiency results from more of the right type of information flowing between suppliers and buyers. Spot markets were the primary source of information prior to the formation of CCs, placing farmers at a disadvantage relative to imports. Over the past 3 seasons, CCs have become a reliable and trusted source of information between suppliers and farmers: better crop planning has resulted from farmer confidence that a buyer is in place (see *Text Box D*); and, buyers can better plan their product lines with more confidence of a reliable supply.

[4] CC's cover a greater share of these costs as HPK's cash subsidies have declined without a reduction of services. More on HPK's use of cash subsidies in section 4 of this report.

**Text box D:** Information for Decision Making

*A Mamusha farmer, Mr. Fahredin Mazrek cultivates 1.5 ha in vegetables. In 2011, he cultivated 1.4 ha or 93% of the total area in tomato and 0.1 ha or 7% in cucumber. In 2011, tomato prices were low and cucumber prices higher. In 2012, he cultivated tomato with 0.9 ha or 60% of the total area and 0.6 ha or 40% with cucumber with the advice of the CC. A logical response to poor tomato prices last season? Yes, possibly, but a response with better demand information in advance of 2012 planting.*

A CC has proven that it can be an effective matching partner but this still depends on the intent of its trading partners. The information provided by ETC/Elkos has been inconsistent about quantities and qualities at times sending mixed messages to farmers (see *Text Box A* above) or over or under-estimating what they need by when. Whatever the reasons – possibly poor procurement practices or ETC/Elkos placing a lower priority on FFV relative to more profitable lines – uninformed buyers weaken the market system. Still, the CC's have shown their capacity to be a node of reliable information which positions them for the future when the demands for information such as traceability to the source of supply become a necessary part of doing business.[5]

**Table 5**: Better Information Flows

| Adoption of Change | | Sustained Changes |
|---|---|---|
| Before (2009) | After (2012) | |
| • No information flow except at point of sale<br>• No discussion about bulking between stakeholders<br>• HPK daily market surveys only reliable source of price information.<br>• Little supermarket activity in Kosovo. | • Aggregators organize pre-season discussion with suppliers on who is going to plant what<br>• CC increase number and volumes of pre-season agreements<br>• High variability of buyer knowledge on what they want & when sends wrong signals to suppliers. | • CC led channel demonstrates value to suppliers and buyers as evidenced by joint pre-season planning<br>• Information sharing/planning still over reliant on good will of the better buyers (e.g. Progres wants to see small farm growth)<br>• Uninformed buyers a major system weakness – talk is cheap and the farmers pay the price.<br>• As more standards are imposed on the FFV market the requirements for more and better information will increase (e.g. traceability) |

[5] Agrocelina is expected to be granted it's HACCP certification in November 2012 which requires an information system capable of tracing its source of peppers for export.

**c) Faster Adoption of Technology / Know-How:**

Given HPK's first 9 years of direct engagement with FFV farmers and its early experience with the collection center concept[6], this is one aspect of desired change where the project had a headstart. The first 6 aggregators were hand picked by HPK because they were known by project staff to be early adopters of new agronomic and business ideas. HPK organized a study tour for 3 farmers to Strumica, Macedonia where the collection center concept was well established. Of those attending the study tour, all co-invested with HPK to start the first farmer-led collection centers in Kosovo. As of 2012, the source of new ideas and up-take has shifted from HPK to owners/operators of aggregation businesses' with strong incentives to continuously promote innovation in horticulture production. *Text Boxes E and F* cite two illustrations of changing attitudes of the collection center owner's readiness to invest in better ways of increasing productivity.

**Text box E**: Collection Centers Stimulate Investments

*In 2008, HPK offered farmers 100% subsidy to either adopt and/or upgrade their existing greenhouses to more complex designs offering investors much better returns. There were no takers. Post the 2010 season, HPK offered farmers a 50% subsidy for the same greenhouse technology and there were 8 takers. Now that farmers had realized the benefits of group sales they were much more willing to invest in upgrading. Other donors continue to support new greenhouses, with increasing adoption of this technology.*

**Text box F:** Collection Centers Stimulate Investments

*Prior to Phase V, HPK provided TA free to farmers. Now the CC's are the source of privately contracted advise. HPK records show that 340 advisory days priced at 40€/day were contracted by the CC's on a 50/50 cost share basis with HPK. An estimated additional 120 days were contracted and paid 100% by CC. TA to farmers is becoming embedded in the CC's offer to their suppliers because the CCs are required to meet buyer quantity and quality specifications. They need to secure their supply.*

A subtle but no less important observation about the positive effects of better matching on the adoption of technology/know how was made by one HPK staff member: "Before farmers bragged about using more insecticides on their crops. Now the bragging rights go to the farmer who sprays less and gets more product." The norms of competition are shifting to better practices and the collection centers are playing important roles in influencing this shift.

**Table 6**: Faster Adoption of Technology/Know-how

| Adoption of Change | | Sustained Changes |
|---|---|---|
| Before (2009) | After (2012) | |
| • Improved production base resulted from HPK phases I-IV (2001 – 2009)<br>• Gradual farmer take-up of better practices (IP), inputs (seed varieties) and technology (more sophisticated greenhouses) mainly thru direct project TA<br>• HPK's main partner, Farmer Associations, focused more of political issues than on increasing productivity | • Early adopters of better agronomic practices become aggregators and push others to invest in better technology and know how;<br>• Evidence of increased willingness of farmers to invest in better equipment and know how (e.g. 380 farmers invest in TA). | • Farmer investments based on better understanding on how to manage risks and costs when increasing output of better quality product on a stable and consistent basis<br>• Competition between farmer shifts norms on better agriculture practices |

[6] See below discussion on "rightsizing storage capacity".

**d) More Formal Business Management Practices:** Larger volume buyers of FFV of all kinds – supermarkets, processors and traders – want suppliers to meet their requirements for quantity and quality on a timely basis. They simply want to make "one phone call" to place orders and, upon delivery of the goods, to be issued an invoice by the supplier. The recent adoption by Kosovo's tax authorities of a Value Added Tax (VAT) on businesses with a turnover greater than 50,000€ will place more pressure on large volume buyers to comply with VAT in all sectors of the economy. With CCs as trading partners large volume buyers will increasingly put pressure on them to issue invoices for both compliance and tax savings purposes.[7] CC's do not yet issue proper invoices nor do they use computer based accounting systems to record and track financial information. In 2012, HPK pushed the CCs hard[8] to see the benefits and costs of paying taxes, adopting better accounting practices and issuing invoices but despite these efforts the CCs have not yet adopted these more formal business practices. Large volume buyers will want to reduce their risk of exposure to audits and fines and through them the CC's will feel the pressure to adopt more formal business practices or risk losing business to suppliers who do (e.g. importers).

**Table 7**: More Formal Business Management Practices

| Adoption of Change | | Sustained Changes |
|---|---|---|
| Before (2009) | After (2012) | |
| • No formal trading relationships exist<br>• No pressure to formalize within the value chain (e.g. consumers) or external to it (e.g. food safety concerns) | • Project push to build awareness and adopt better record keeping by farmer led aggregators.<br>• Higher degree of awareness of need to change but practically no adoption of more formalized business practices (e.g. accounts, invoicing etc) | • Buyers will want to reduce risk of exposure to tax fines plus capture the tax savings when volume of trade is increased.<br>• This source of pressure will likely quicken the pace of adoption of accounting/invoicing by aggregators. |

**e) Financing Cash Flow Gaps in Trading:** As the Kosovo market for fresh FFV grows, the system will need to evolve mechanisms to finance the cash flow gaps between the farm gate and retail sales. Buyers will increasingly ask farmers to defer payment in exchange for a reliable sales outlet for their product. Farmers will increasingly ask buyers for better payment terms in exchange for a secure source of product. When CC's report that they have found "different modalities" to match buyers with suppliers they are performing the critical function of striking deals or, in the jargon of the economist, finding a means to reduce the bargaining costs in the system. HPK supported CCs have demonstrated their capacity to strike deals -- without the benefit of much pre-financing -- at larger volumes (still a fraction of overall traded FFV) and with more buyers mainly by asking farmers to defer payment in exchange for a reliable buyer[9]. While this may be a good indicator of increased confidence in the CC, it also points to a lack of cash flow financing in the system.

[7] VAT payers can reduce their tax liability by offsetting the tax paid by deducting the cost of goods sold. Without a proper invoice, they can't claim the tax savings.

[8] HPK printed and promoted a brochure 'Agriculture as a Business" explaining why paying tax will save CC's costs in the long run and provided free accounting software and the TA to install and use it.

[9] Some exporters have developed a *reputation* as being bad payers. HPK staff can cite numerous instances – mostly outside of the program – where farmers are still trying to collect payment 2-3 years after delivery.

Towards this end, HPK has piloted with 6 CC's (5 farmer led and 1 trader led) a means to pre-finance inputs – mainly better seed and substrate for planting (see *Text Box G*). The pre-finance arrangement works this way: farmers are provided the seed/substrate up front; the yield is estimated using standard input/output ratios; post harvest, the farmer repays the CC in crop up to the value of the amount pre-financed. The pilot worked: farmers repaid their advance in full.

**Text box G:** Pre-financing Seeds
*The total seed count by crop breaks down this way: 311,733 tomato seeds, 248,200 cucumber seeds, 572,900 white cabbage seeds, 63,300 red cabbages, 4 kg of seed onions, 5,000,000 pieces of carrots seeds, 100,000 red bell pepper seeds and 8 kgs of feferoni, a mild spiral yellow pepper for export. The total value pre-financed was 54,020€ with the CCs contributing 27,410€ and HPK 26,610 €.*

Looking ahead, the large volume buyer – such as a supermarket chain – is the more likely future source of cash flow financing and this will depend on the procurement strategies they put in place (see the section 3 for a discussion on future scenarios). As for the CCs supported by HPK, the trader-led CC will be better positioned than the farmer-led CC because they trade all year long and will have more cash on hand to invest. The farmer-led CC trades only during the season and is likely to be cash constrained unless they have sources of cash from other ventures.

**Table 8**: Financing Cash Flow Gaps in Trading

| Adoption of Change | | Sustained Changes |
|---|---|---|
| Before (2009) | After (2012) | |
| • Very little if any pre-finance to farmers from input suppliers, bankers or buyers;<br>• Little acceptance of high cost seasonal credit for inputs or equipment | • Pre-financing production: pilot scale CC-led pre-financing initiatives<br>• Some farmers have secured high cost (as high as 24% interest) seasonal finance from banks to cover a portion of capital costs (e.g. greenhouses & irrigation installation.) | • Financing in FFV market still rudimentary (formal finance weak, retailer financing on case by case basis, processor unlikely to pre-finance because of small margins)<br>• Commodity traders are best positioned to pre-finance supply at scale because year round sales generates more cash<br>• More competition for a secure source of product will likely increase pre-financing by supermarkets and other institutional buyers. |

**f) Rightsizing Storage Capacity:** More local sourcing of FFV requires aggregators with the capacity to store product closer to the source of production for a few days or months depending on the characteristics of the product (it's degree of perishability), the prices (it's degree of volatility), consumer preferences and eating habits (seasonal or year round). Storage permits better balancing of supply with demand especially at peak harvest times. With storage, a farmer can bring to market what s/he believes can be sold on that day and hold the balance for another day. The size and sophistication of storage depends on a very good understanding on how FFV market systems work (or not) and whether a technical solution – whether it be cool, cold, atmospherically controlled storage systems – enhances the market's capacity to efficiently insure exchanges between suppliers and buyers. The remnants of local and national cool/cold storage systems litter developing country agriculture markets because of heavy investments in a technical solution without a good understanding of more pressing issues of information and relationships in those countries.

*Rightsizing* storage capacity means finding the best match between market requirements and the storage size, type (short to long term) and management know how to operate the facility effectively. HPK's initial support to storage illustrates, through two cases (see Text Box H), *wrongsized* storage solutions in line with market conditions. A third case (see Text Box I) illustrates the lack of the basic understanding of storage as part of a business model for managing risk and related rewards.

HPK's early experiences, plus failed government/donor investments in very large FFV storage facilities (so big they could only fail), eventually led HPK to find the *rightsized* storage solutions (about 200 sq meters) consistent with the commercial requirements of local aggregators in today's Kosovo FFV market. Lessons from initial experience guided future HPK decisions on investment partners and guidelines for making investments in storage and other facilities:

**Text box H:** Cadillac and the Model-T for a Passat Market

*HPK's initial (pre-2010) co-investments in storage facilities might be labeled the **Cadillac** and the **Model-T** for a **Passat** market.*

***The Cadillac:** A grape grower invested 100,000€ in his own money for an underground storage facility based on a Swiss design. He used an HPK grant of 20,000€ to purchase a weighbridge. Access to the underground storage requires a lift: the lift does not yet exist nor does the electric hook up to run it. The facility is used for some short-term storage but the investment has not been used as designed.*

***The Model-T:** At the start of the growing season, HPK delivered a shipping container to be used for storage by members of a large farmer's association. The container was removed at the end of the season: it was not used and it was vandalized.*

**Text box I:** Storing Apples is a Tricky Business

*The right varieties of apples can be stored for up to 4-5 months. This apple farmer co-invested with HPK in apple storage hoping the hold apples when prices were low and sell apples when prices were high. He encountered two problems: there was very little price fluctuation in the apple market and varieties he grew had only a very short storage life.*

- Partners: Farmer Associations proved to be the wrong partner because of the leadership's greater interest in advocacy than in operating a commercial business. HPK switched investment partners to farmer/entrepreneurs and then in 2011 to trader/entrepreneurs. Their mostly positive track records as CC operators is evidence enough that this shift in partner choice was the correct one to make.

- Investment Policies and Procedures: HPK limited co-financing to a maximum of 50% of facility improvement and equipment costs and paid as reimbursement. Once a partner identified a CC cite, a concept paper was prepared covering the main points of products, quantities, markets and impacts, as well as costs and financing proposal. After details of the commitments from both partners were agreed, a contract was signed with performance benchmarks. The development of a collection center is dynamic, and often needs additional 'soft' support and amendments of the original agreement.

**Table 9** summarizes HPK's experience with finding *rightsized* storage solutions in the Kosovo FFV market. HPK can point to examples of good practice in short-term (peppers and tomatoes) and medium-term (cabbage -- see <u>*Text Box J*</u>) storage among its CC partners even though the use is estimated at about 40% of installed capacity.[10] The main evidence, however, is that the CCs are still in business (and not losing money though there are no accurate financial records to back this up) and they have invested (beyond the HPK co-investment) in their facilities and operations (on their own account and with other donor support[11]).

**Text box J*:*** <u>Albini Successfully Stores Cabbage</u>
*Mr. Bekim Vokrri is a trader-farmer with long established experience in selling cabbage plus some carrots and other vegetables to large buyers. HPK's co-investment with Albini was successful for several reasons: there was a good fit between the products stored and the features of a storage facility meant for medium term storage (6 plus months); Albini's knowledge of market size and how expanded storage allowed him allowed Albini to capture a greater share of the market; and finally the timing of sales in products that are consumed all year round.*

HPK's investments in longer-term storage through 2010 were mainly for 'on-farm' storage of apples – and these were not very successful. However, subsequent investments in apple storage have been with agri-business partners where storage is integral part of a business model that includes both processing and marketing of processed (jams + compotes) and fresh products (juices not from concentrate). These investments in longer-term storage are more likely to be successful.

**Table 9**: Rightsizing Storage Capacity

| Adoption of Change | | Sustained Changes |
|---|---|---|
| Before (2009) | After (2012) | |
| • Large capacity in state owned companies either destroyed and/or outdated;<br>• Early initiatives in storage underlines (i) *wrongsized* choices and (ii) lack of knowledge of market rationale storage | • Better knowledge of advantages of storage to smooth balance between demand and supply w/out negatively affecting prices or costs (e.g. waste)<br>• Less capacity to make the right investment decisions for *rightsized* storage against aggregators business objectives. | • Difficult to assess the effects of storage costs (depreciation) on the aggregator's bottom line (best evidence is that they are still in business);<br>• Difficult to forecast the future viability of local aggregator's set up w/out a discussion on the future FFV market (see section 3) |

[10] This indicator can be confounding for a couple of reasons: it could indicate inflated investment; or that 200 sq meters was the most cost-effective size when evaluating contractor estimates; the HPK grant might have inflated the size; or that the installed capacity was intended to meet future growth.

[11] No specific data available

### Upgrading Quality Through Grading and Packaging:

When HPK began Phase 5 in 2010 it had placed great hopes on supermarkets to drive quality in fresh FFV markets beyond the basics of size, color and firmness. HPK wanted to pre-position the collection centers to be trading partners with supermarkets for higher quality FFV by upgrading their grading and packaging equipment.

> **Text box K:** Euro Tac Makes the Grade
> When Euro Tac landed a contract with Progres to provide 150T of gherkins within a specific timeframe and with a price premium for smaller sizes, the CC received a grading machine from USAID/NOA. At 1 T/hr, it would take the CC 13 hrs/day to grade product as it arrived and deliver it in time to the processor. In hindsight, the CC may have preferred a higher capacity grader but by utilizing the machine efficiently, it achieved the required results, something it could not have met by hand grading.

Co-investments with CCs were made in 3 box gluing machines (not yet used) and 2 vegetable grading machines (partially used) but the anticipated push by supermarkets for higher quality FFV did not materialize except in a few cases where one supermarket (Tregu I ri I Gjelbert) chose to source directly with farmers or another outsourced their FFV space to a sub-contractor (e.g. Adem/Interdex). HPK's pre-positioning strategy may work better in the coming seasons as and when buyers' push for better quality[12] as is illustrated by the case of one CC with a contract for graded gherkins (see *Text Box K* above).

Agrocelina, one of HPK's farmer-led CC's, invested in HACCP certification to meet increasing quality standards for bell pepper exports. So far, there is no pressure by government for a food safety standard/practice (such as monitoring pesticide residue on tomatoes) and, there is no testing capacity in Kosovo to deal with a food safety standard even if one were to be adopted.

**Table 10**: Upgrading Quality thru Grading and Packaging

| Adoption of Change | | Sustained Changes |
|---|---|---|
| Before (2009) | After (2012) | |
| • Consumers highly price sensitive, and not likely to buy graded products by unit vs. in bulk (e.g. tomatoes)<br>• No demand for improved grading or packaging from buyers<br>• No standards available | • Only small changes in consumer demand for graded products<br>• Buyers still not sending clear message on demand<br>• Processors appear to be better adopters of quality demands – e.g. gherkins<br>• Quality standards guidelines available and promoted with training | • No clear evidence in FFV sales, as consumers still buy bulk items in season<br>• Potential for change in (i)out of season sales (when price sensitivity is lower) (ii) changes driven by processors |

[12] When this happens past investments in gluing and grading machines will be utilized as they are appropriate to the market conditions.

## Section 3.  Aggregation in a Growing and Changing FFV Market

*(i) A Future Scenario:*

Kosovo's so-called "retail revolution" was expected to have occurred by now.  The pre-conditions for such a "revolution" -- greater urbanization, increasing incomes, changing family structures and shifts in consumer diets, food preferences and buying behaviors– appear to have emerged or are at least emerging.

ETC/Elkos – Kosovo's biggest retailer – has an M11€ expansion plan in place.  This plan includes a strong emphasis on fresh products -- fruits, vegetables, meat, bread[13].  The Meridian company has recently opened the first of 50 retail neighborhood shops branded around offering its "neighbors" fresh goods daily.  The actions of these large private sector companies indicate that the conditions for a "retail revolution" in Kosovo have arrived with large investments focused on fresh goods daily.

Sigrid Giencke[14], a specialist consultant in regional horticulture markets, expects that big supermarket chains from the region (e.g. Agrokor in Croatia, Delta in Serbia) will soon enter the Kosovo market by setting up new stores or acquiring existing retail chains. Like other countries of similar size, only 2-3 supermarket chains will most probably remain in the market but with a more professional approach especially regarding FFV.

A future vision of Kosovo's FFV market is one where large volume buyers will dominate and bring with them their business models for sourcing, aggregating, grading, packaging and displayed FFV in their retail outlets.

Giencke reports that "retailers like Agrokor have already learnt that cooperation with farmers in the region is difficult due to small farm sizes, lack of production planning and unwillingness to sort and grade as well as lack of product aggregation. Therefore, these functions have been taken over by company-owned collection centres and warehouses."

A representative of the Ministry of Agriculture[15] stated that small farm size is a "big constraint" to the modernization of Kosovo's agriculture sector.  Mr. Fatos Islami of ETC/Elkos sees the integration of large farms (e.g. 600 ha) as a necessary addition to the firm's long-term business success.   International donors – the EU, USAID's NOA project – are working with the Ministry of Agriculture to establish three (3) large collection centers as a mechanism to accelerate more private sector/foreign investment in Kosovo's FFV sector.

The future may be now (ETC/Elkos, Meridian), by 2015 (Giencke) or later but whenever it occurs the development of Kosovo's retail sector will have a strong influence on the FFV market and its participants.  What will the function of aggregation look like in this future scenario and what, if any, role will there be for the HPK supported collection centers?

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13 Interview with Fatos Islami, Vice President, Elkos Group.

14 See Gienke's report -- "Review of Market System Development in Kosovo and Project Activities for 2010 and 2011" -- on her consulting assignment with HPK in October 2011.

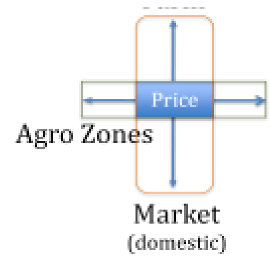
15 Halit Hoxhaj, international trade specialist and political advisor to the Minister of Agriculture.

*(ii) Aggregators in this Future Scenario:*

Most students of Kosovo's FFV market would agree that when large buyers become the dominant player in the retail sector they will establish a large and professionally managed collection and distribution center (s) to serve their requirements. After this, views diverge on the sourcing strategies of the future.

Some think that retailers will integrate vertically to meet their FFV needs by some combination of setting up their own nucleus farms and contract growing. This intensive sourcing strategy favors a core competency of establishing long term relationships based on performance and trust. Others think that retailers will continue to pursue a more extensive sourcing strategy by sourcing across agricultural zones largely because Kosovo's trade rules (no tariffs and open borders) and communications networks enable this strategy. This strategy favors a core competence of building horizontal networks across space and in searching more extensively as retail prices rise, reflecting seasonal scarcity.

**Fig. 1**: Sourcing Strategies




On the face of it, the more intensive strategy would favor local sourcing though smaller farmers might be disadvantaged in this strategy. The more extensive strategy would favor imports especially if ownership of Kosovo's retail sector shifts to outside owners.

The arbiter of where FFV is ultimately sourced in this future scenario will be those agriculture zones which are more competitive in meeting the quality, quantity and continuity requirements their buyers. HPK-supported collection centers and their network of suppliers can participate in this future scenario provided they can overcome some inherent constraints within their business model.

*<u>Farmer-Led Collection Centers</u>*: As local aggregators, their competitive advantage is to source from nearby farmers. They would need to grow to a size of 2,000 T per season (about 3 times their current size) to qualify as a meaningful satellite supplier to the distribution center in their region. The outlines of a more professional offer to their suppliers and buyers are in place with the exception of the adoption of more formal business practices. The limiting factors will be access to investment capital to expand facilities (both holding and cooling) at the required scale and the working capital to pre-finance their suppliers at larger volumes.

**Text box L:** <u>Whither the 13 Collection Centers?</u>

Will the 13 HPK supported collection centers survive? That is anyone's guess. All are owned and operated by entrepreneurs: successful farmers who now trade commercially or successful traders who have expanded to source more locally. What can be said is that HKP's support, for the most part, has not saddled them with fixed costs or debt that trading margins could not sustain. Trade in fresh product tests entrepreneurial skills and so those still in CC business through the "happy", "sad" and "come back" seasons are very likely to survive an uncertain future.

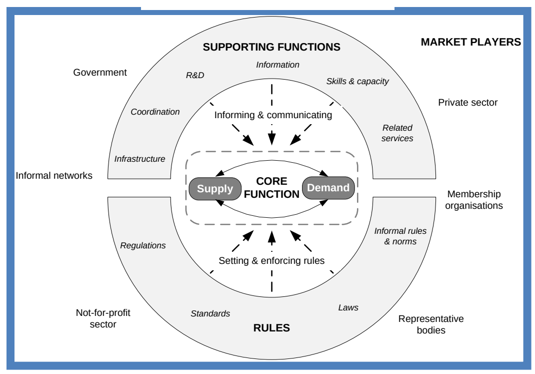
*<u>Trader-Led Collection Centers</u>*: Scale is not a factor: they trade now at volumes of between 5-10 T/week. They have yet to firmly establish a track record of sourcing more locally relative to imports at the peak of Kosovo's growing season. However, with HPK support, they are in the process of adopting strategies to source more FFV locally in the

future. The limiting factors are not capital or cash flow but rather the core competence and patience needed to establish long term relationships with a growing network of suppliers based on performance and trust.

## *(iii) Kosovo's FFV Market: Is there a role for HSI?*

In Phase V, HPK focused on filling the missing function of aggregation in the FFV market system. The collection centers are firms that perform a vital step in the transformation and distribution of FFV to both fresh and processed food markets. HPK intervened in the "core function" of the market system (see market system diagram insert)[16]. HPK's cash subsidies and technical assistance to the collection center owners/operators have demonstrated the importance of support services and playing by formal business rules such as requiring that all investments were made through official invoices and bank transfers.

**Fig. 2:** M4P Lens




These past 12 years HPK with SDC and Danish Government support have made significant contributions to a better functioning FFV market: it's prior work in agriculture production was a major factor in being able to demonstrate viable business models in aggregation in the short period of three growing seasons. So, the question must be asked: is there a future role for HSI in the horticulture sector? Or, framed another way, are there wider systemic constraints outside the core that could justify a dedicated, donor supported, role for an organization like HSI to facilitate inclusive growth in the FFV sector[17].

*<u>In Supporting Functions?</u>* Yes, but limited and focused. The sector's main players – farmers, inputs supply companies, traders, retailers and now commercially oriented aggregators – have access to information, technology, know-how within the value chain and more widely within the region. Their readiness to use it – using the example of business accounting systems – will be mostly influenced by the competitive pressures they face. The high cost of finance effects all sectors including agriculture. When retailers seriously invest in their fresh fruit and vegetables sections a likely future source of cash flow finance will be embedded in commercial relationships. Input suppliers are very commercial and offer farmers payment terms of capital improvements such as greenhouses and irrigation.

There appears to be an absence of credible research on sector productivity at a time when there are looming issues on farm size and land use. Is small farm size a limiting factor to sector growth or simply the preference of large volume buyers? Is there a need for land aggregation or better systems of distribution? Use of agriculture chemicals and related food safety (e.g. pesticide residue) and environmental issues (e.g. ground water contamination) do not seem to be part of the discussion of the sector's future.

[16] Courtesy of the The Springfield Centre.

[17] These are the author's observations. The TOR did not include a landscape survey of whose doing what in support of the FFV sector.

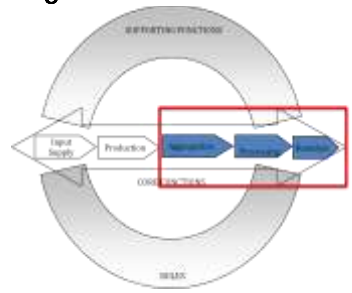
These issues could form part of a research agenda where an outside facilitator could get these discussions started in a systemic way and with the right mix of stakeholders in the private and public sector.

*In Rules?* Yes and with a broad focus. Kosovo is an open market with few if any trade barriers. Is it too open? Is there a level playing field in agriculture between Kosovo and its neighbors? There appears to be a lot open questions where a third party facilitator could play a role in convening all players to review and address trade rules that are in the long term interests of Kosovo's FFV market. The new VAT rules are a relatively new part of Kosovo business in all sectors. Should farmers be exempt? Research on productivity and environmental issues will yield findings for serious consideration by all stakeholders. Are there food safety issues and, if so, how will this influence the rules of the game. Again, there is a legitimate role for a facilitator to examine the adequacy of the sector's rules and regulations for the sustained benefits of all players.

## Section 4. Facilitating Market System Change: Lessons from HPK Interventions

What can be learned from HPK's phase 5 implementation tactics that could be relevant to implementers of a market facilitation approach. Two areas of potential learning stand out: finding and working with leverage and rightsizing project support in this case the use of competitive grants (e.g. cash subsidies).

**Fig. 3:** Phase V Intervention



### *(i) Finding and working with leverage:*

Phase V marked a conscious shift in strategy away from supply side interventions focused mainly on improving the production base with better agronomic practices (e.g. integrated production) to interventions aimed at filling the missing market function of aggregation. HPK continued to intervene in the core function of the FFV value chain (see Fig 2 insert) and did so to increase the competitiveness of local sourcing relative to imports during Kosovo's 8-10 week growing season. Despite more farm output, farm income did not rise in proportion because of the high costs borne by farmers to sell individually. Grouping sales would have the effect of boosting farm income from prior investments already made in production.

The question to be answered in Phase V was which market player(s) is best positioned to perform this function effectively and over the longer term. HPK had precluded larger farmer associations from taking on this function because prior experience showed that the leadership was focused more on advocacy than in group trading. In the absence of leadership the responsibility of business management would fall to everyone or effectively no one.

HPK chose instead to work with individuals – initially farmers – who were able to see for themselves (e.g. the study tour to Strumica) a practical vision for investing and operating their own collection center. Besides farmer-led HPK co-invested with traders in creating an "aggregation offer" to farmers. There has been insufficient time to compare the pros and cons of the farm led vs. the trader led[18] collection center model in making local sourcing more competitive. Lessons here would be useful for M4P facilitators generally and for FFV markets specifically[19].

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[18] One trader – Lirimi Commerc (Prizren) – used HPK co-investment to establish a new CC near the Albania and Macedonia borders for export but good prices in Kosovo relative to Albania/Macedonia saw very little additional trading from this CC in 2012. A second trader – Fatmir (Prizren) – used the HPK co-investment to expand his cold storage capacity and increased daily FFV trade from 2T to 7T though it's not yet known what percent is sourced locally vs. imports. Fatmir's intent to expand local sourcing is indicated by his cost shared investments in pre-financing seed and technical assistance.

[19] In section 4, this report suggests that trader led are better positioned to trade larger volumes of locally sourced FFV because of access to more cash available because of year round trading activities.

*(ii) Rightsizing HPK Support*:

Facilitator resources (influence, time and cash) should be used to bring about change that is consistent with the market reality. Familiar examples of "wrongsized" support include over (or under) investment in technology that stands very little chance of sustainability because the underlying costs of operation. Early trials of HPK support to aggregation (see *Text Box H*, **Cadillac** and the **Model-T** for a **Passat** market) provide two illustrations of this problem. Phase V included a competitive grants program which HPK used to co-invest in facilities (cool and cold storage) and equipment (fork lifts, graders, cardboard carton assembly) with its partners. These investments were made with considerable due diligence to find the minimum economic scale required to get the collection center's started and in operation. Subject to the caveats explored in Section 3, these investments were *rightsized* and offer good practice illustration on how to effectively manage a competitive grant facility.

While assumptions made on size and sophistication of storage facilities proved to be accurate, the assumptions on equipment for upgrading quality might fall in the category of "ahead of their time". HPK's reports acknowledge that much the project's co-investments to improve the quality of post-harvest handling goes under) utilized. HPK's assumption on the speed at which demand pressures on quality would require the collection centers to adjust their offer to buyers with better equipment did not happen (see *Text Box A* above). When the demand pressure for quality is real then the equipment purchased with HPK cash subsidies will still be used (see *Text Box K* above) because it is consistent market requirements.

HPK's use of cash subsidies with its partners for facilities, equipment, inputs and technical assistance has signaled *rightsized* solutions for aggregation in Kosovo's FFV market. HPK employed better practices in managing[20] cash subsidies by insisting on matches and declining subsidies as partners expanded their use of seed and/or technical assistance.

A major challenge for market facilitators is to identify interventions that advance change toward a future vision of inclusive growth without pushing it so fast or with the wrong support that these interventions retard vs. advance the change process. HPK's phase V support has demonstrated a viable private sector solution to aggregation in today's FFV market realities with a strong foundation to grow as the system changes and grows.

When asked about his future investment requirements, one collection center owner responded: *I need to invest 36,000€ in more space and equipment. I hope to find a donor to pay for it. If not, I'll pay for it myself.*

[20] Pressures to spend too much money too fast can undermine even the best intentions of using cash subsidies to demonstrate firm based solutions to wider systemic issues.

## ANNEX 1: Objectives of the Consultancy

HPK-IC wishes to mandate an experienced M4P expert with long time development experiences in various continents with an external review of the projects interventions. The external review shall bring a critical outside review and reflection of the projects achievements focusing **mainly on systemic and sustainable changes in the market system**. The review shall reflect

I. Strategies and related actions used by the project overall – but mainly in the last 3 years – to foster an industry norm of continuous investments in upgrading and innovation;
II. Interventions points, the selection and engagement of partners to play a leadership role in bringing about positive firm change (as innovators) and leveraging, through their actions using sector's momentum, evidence of wider systemic change among key players performing key functions for a more competitive industry;
III. To assess overall impact of project's interventions in acceleration the adoption and adaptation of better ways of improving competitiveness and changes in the market system
IV. Outlook to future development of markets and partners (future challenges; sustainability: outlook for continued development without donor interventions; persisting market weaknesses)
V. Lessons learned: with specific attention on planned exit strategies in M4P type projects

## ANNEX 2: Adoption/Sustained Market System Changes (at a glance)

| Measure | Adoption of Change | | Sustained Change |
|---|---|---|---|
| | Before (2009) | After (2012) | |
| a) Lowering Transaction Costs | • Individual sales dominates<br>• Farmers price takers – watch prices drop throughout the day<br>• No matching between demand and supply | • Farmers sell more of their farm output (up to 10%) thru aggregators than thru traditional channels<br>• More pre-season orders by buyers allows for better crop planning and investment by suppliers (e.g. greenhouses)<br>• “Quick (unplanned) sales” increases confidence of buyers in CC capacity to deliver. | • Cost savings among other benefits realized by farmers elevates group sales as norm of FFV marketing<br>• More aggregators invest in TA and pre-financing seeds to maintain and build supplier network<br>• Efficiency gains realized makes local sourcing for some products (e.g. Gherkins) preferred over imports |
| b) Better Information Flows | • No information flow except at point of sale<br>• No discussion about bulking between stakeholders<br>• HPK daily market surveys only reliable source of price information.<br>• Little supermarket activity in Kosovo. | • Aggregators organize pre-season discussion with suppliers on who is going to plant what<br>• CC increase number and volumes of pre-season agreements<br>• High variability of buyer knowledge on what they want & when sends wrong signals to suppliers. | • CC led channel demonstrates value to suppliers and buyers as evidenced by joint pre-season planning<br>• Information sharing/planning still over reliant on good will of the better buyers (e.g. Progres wants to see small farm growth)<br>• Uninformed buyers a major system weakness – talk is cheap and the farmers pay the price.<br>• As more standards are imposed on the FFV market the requirements for more and better information will increase (e.g. traceability) |
| c) Faster Adoption of Tech/Know-How | • Improved production base resulted from HPK phases I-IV (2001 – 2009)<br>• Gradual farmer take-up of better practices (IP), inputs (seed varieties) and technology (more sophisticated greenhouses) mainly thru direct project TA<br>• HPK’s main partner, Farmer Associations, focused more of political issues than on increasing productivity | • Early adopters of better agronomic practices become aggregators and push others to invest in better technology and know how;<br>• Evidence of increased willingness of farmers to invest in better equipment and know how (e.g. 380 farmers invest in TA). | • Farmer investments based on better understanding on how to manage risks and costs when increasing output of better quality product on a stable and consistent basis<br>• Competition between farmer shifts norms on better agriculture practices |

| Measure | Adoption of Change | | Sustained Change |
|---|---|---|---|
| | Before (2009) | After (2012) | |
| d) More Formal Business Mgmt Practices | • No formal trading relationships exist<br>• No pressure to formalize within the value chain (e.g. consumers) or external to it (e.g. food safety concerns) | • Project push to build awareness and adopt better record keeping by farmer led aggregators.<br>• Higher degree of awareness of need to change but practically no adoption of more formalized business practices (e.g. accounts, invoicing etc) | • Buyers will want to reduce risk of exposure to tax fines plus capture the tax savings when volume of trade is increased.<br>• This source of pressure will likely quicken the pace of adoption of accounting/invoicing by aggregators. |
| e) Financing Cash Flow Gaps in Trading | • Very little if any pre-finance to farmers from input suppliers, bankers or buyers;<br>• Little acceptance of high cost seasonal credit for inputs or equipment | • Pre-financing production: pilot scale CC-led pre-financing initiatives<br>• Some farmers have secured high cost (as high as 24% interest) seasonal finance from banks to cover a portion of capital costs (e.g. greenhouses & irrigation installation.) | • Financing in FFV market still rudimentary (formal finance weak, retailer financing on case by case basis, processor unlikely to pre-finance because of small margins)<br>• Commodity traders are best positioned to pre-finance supply at scale because year round sales generates more cash<br>• More competition for a secure source of product will likely increase pre-financing by supermarkets and other institutional buyers. |
| f) Rightsizing Storage Capacity | • Large capacity in state owned companies either destroyed and/or outdated;<br>• Early initiatives in storage underlines (i) *wrongsized* choices and (ii) lack of knowledge of market rationale storage | • Better knowledge of advantages of storage to smooth balance between demand and supply w/out negatively affecting prices or costs (e.g. waste)<br>• Less capacity to make the right investment decisions for *rightsized* storage against aggregators business objectives. | • Difficult to assess the effects of storage costs (depreciation) on the aggregator's bottom line (best evidence is that they are still in business);<br>• Difficult to forecast the future viability of local aggregator's set up w/out a discussion on the future FFV market |
| g) Upgrading Quality thru Grading and Packaging | • Consumers highly price sensitive, and not likely to buy graded products by unit vs. in bulk (e.g. tomatoes)<br>• No demand for improved grading or packaging from buyers<br>• No standards available | • Only small changes in consumer demand for graded products<br>• Buyers still not sending clear message on demand<br>• Processors appear to be better adopters of quality demands – e.g. gherkins<br>• Quality standards guidelines available and promoted with training | • No clear evidence in FFV sales, as consumers still buy bulk items in season<br>• Potential for change in (i)out of season sales (when price sensitivity is lower) (ii) changes driven by processors |