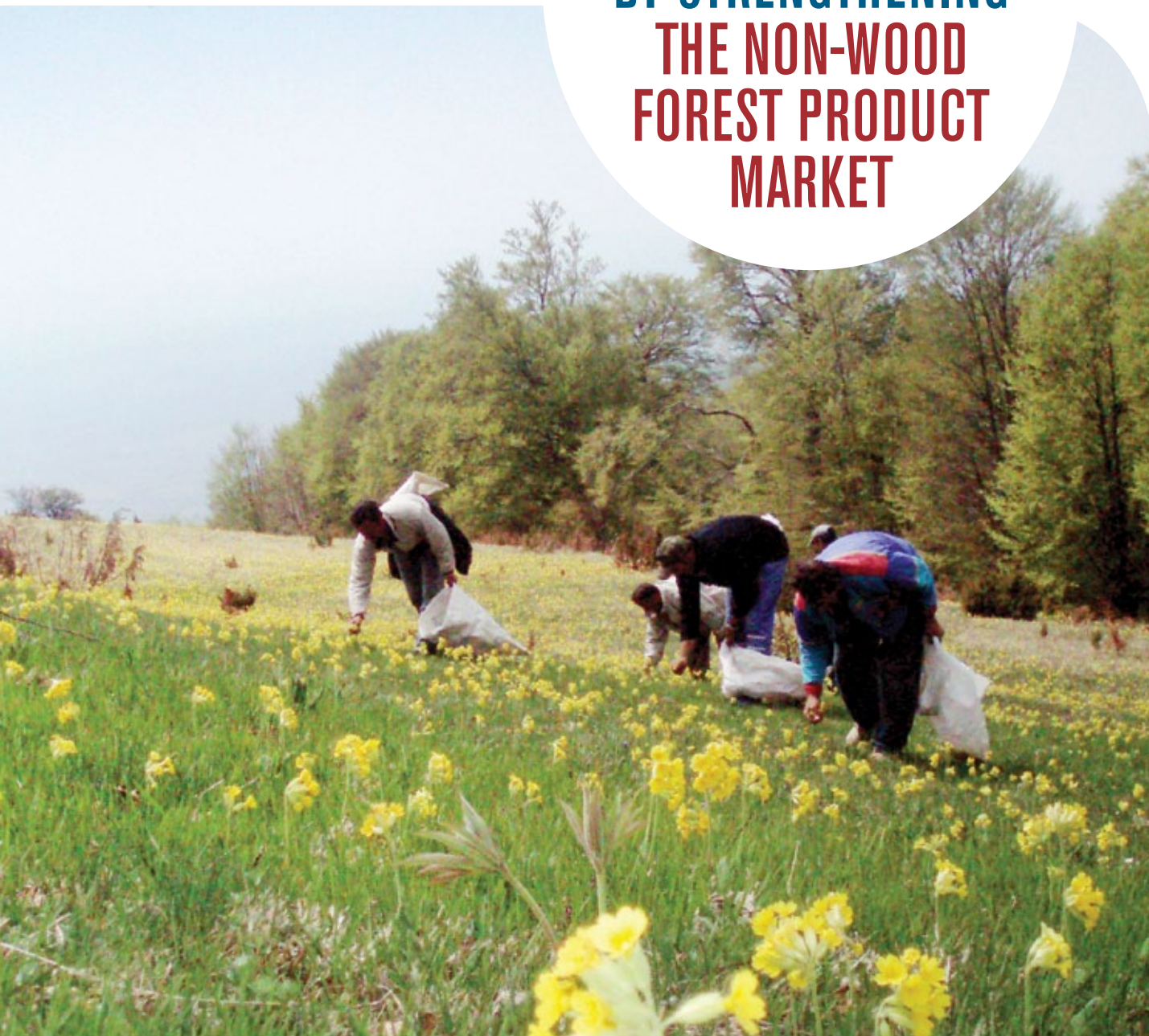


HPK INTERVENTION REPORT

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INCREASING EMPLOYMENT AND INCOME BY STRENGTHENING THE NON-WOOD FOREST PRODUCT MARKET



Summary

The project goal of HPK is to generate sustainable and broad-based employment and income for the sector actors and contribute to economic growth. This report shows how HPK intervened in the Non Wood Forest Products (NWFP) sector to achieve this goal by progressively adapting its intervention in accordance with the sector's dynamic. NWFP markets were small and informal at the beginning of HPK's intervention and have meanwhile developed

tremendously. Once the basic concerns have been addressed; the number of participants increased, volumes traded and degree of institutional organization have grown incredibly fast. By now large scale impact can be reported as 11'400 families in remote rural areas of Kosovo receive an estimated additional income of €2.6 million. Employment has increased by 3 to 4 times and the sector generates 260 permanent and 800 part time jobs in the value chain.

Background

Kosovo has a long tradition in the collection of wild grown medicinal and aromatic plants, mushrooms, fruits and berries. Important areas well known for collection of different species are the Kosovo Alps and Sharri Mountains. This formally organised sector was heavily impacted on due to break up of the former Yugoslavia.

Still, after the war, there were old market linkages still functioning in a smaller level, mainly with Serbia, Croatia and Slovenia. Some projects, including GiZ, Care and HPK, were identifying the potential of the sector and started with project activities. When HPK started intervening in the sector it was with few local buyers involved in herbal tea production that absorbed relatively small quantity from few species. In 2003-2005 it was estimated that about 3,000 families from the remote rural areas who were involved in collection; the demanded species were mainly herbs.

The industry was facing several constraints; weak overall market organization, lack of finances and low investments, inadequately trained personnel on all levels, inconsistent supply leading to ad hoc deals, lack of market information and overall low levels of public awareness. These constraints were paired with risks associated with

the natural conditions and vulnerability of the ecosystems; both affecting sustainability of supply.

In this intervention report, the sector is defined as Non Wood Forest Products (NWFP) including three groups of products: Medicinal & Aromatic Plants - MAP; Wild fruits and berries; and Mushrooms.



Strategy and vision

HPK aimed at bringing employment and income to remote rural areas through reorganising the sector focusing on value-chain development. The strategy progressively evolved with particular emphasis on:

- i. Promoting commercial cultivation of MAPs by small farmers;
- ii. Assisting market actors to develop processing and marketing capacities upwards in the market system of NWFP; and

- iii. Progressing to a systemic market approach guided by M4P principles achieving broader impact through facilitation.

The main interventions of these phases are described in the following chapter and it is highlighted how the HPK intervention changed and thus could play a significant role in developing the NWFP sector. A key issue to this is the consecutive value chain analysis and market assessment of the sector in order to adjust focus of interventions stimulating investment opportunities.

HPK interventions

HPK interventions into NWFP sub-sector started in 2001 and showed a modest growth in first years. The sector's development became more dynamic from 2007 onwards when the market organization took shape and main value chain actors were in place. The project intervention went through three distinct phases.

Import substitution through local cultivation (2002-2006): Responding to existing local market demand for herbs which was mostly covered by imports; HPK concentrated on cultivation of MAPs to substitute the imports. The main focus was production related creating a stable supply base and reorganizing the sub-sector improving linkages within in the value chain actors. Main outputs of this phase are as follows,

- Development of local production: 10 MAP species were cultivated on 8 ha – including 2.5 ha with 3 small growers with the technical support of the project.

- Processing: One processor was supported with processing line (comprising specific equipment such as drier, separator, calibrator and chopper);
- Facilitation of market access and better presentation (packing and branding) of teas and herbs to the local retail market
- Coordination with other projects which concentrated on processing capacities for wild species, better market linkages, locally and in exports including preparing organic certification

Country wide sector approach (2007-2009): Aware of the bigger potential for wild grown species, HPK turned away from the limited intervention in cultivation of herbs and included all NWFP subgroups. The project began to support investments in equipment on sub-operators and operators level, facilitate trainings and study tours. In cooperation with GiZ and Care the regional activities were extended to the country approach and a thorough resource assessment on NWFP supply base was undertaken. The main findings were:

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- Kosovo has a total potential for 28'000 tonnes in 85 identified species in five regions assessed, such as Alpet Shqipetare, Sharri, Gollaku, Mitrovica and Podujeva, and Central Kosovo;
- Available potential is used only 6% with concentrating on few species mainly blueberries, juniper berries;
- Lack of knowledge and regulations for Sustainable Collection;
- Lack of proper infrastructure and know how to produce quantity and quality allowing to access directly international market.

Enhance systemic change in the sector (2010-2012) In line with the change towards more systemic market approach for vegetable and fruit sector, HPK drafted a new strategy for NWFP to guide interventions. The main focus in this period was on scaling up and increasing the sector's organization. Entry points representing the leverage for scaling up were the few

bigger operators-exporters in the market system. In partnership with them *robust intervention in improving the infrastructure* were undertaken. Main tool was the Competitive Fund for Horticulture (CFH). HPK co-financed investment in the NWFP sector with grants of €453,560 (up to 50% maximum of investments) other projects have additionally supported the partners. In total it is estimated that investments in the sector were of around € 2 million. The interventions included improvements of the infrastructure of sub-operators that enabled quality and continuity of supply with raw material. Further activities in the last years were:

- Quality assurance was facilitated; 100 collectors were trained with 17 Collection points;
- Two publications on main species were published and distributed; one co-financed with operators;
- Market linkages enhanced through B2B meeting, fair visits (BioFach, Germany) and direct linkages with international buyers enhanced.

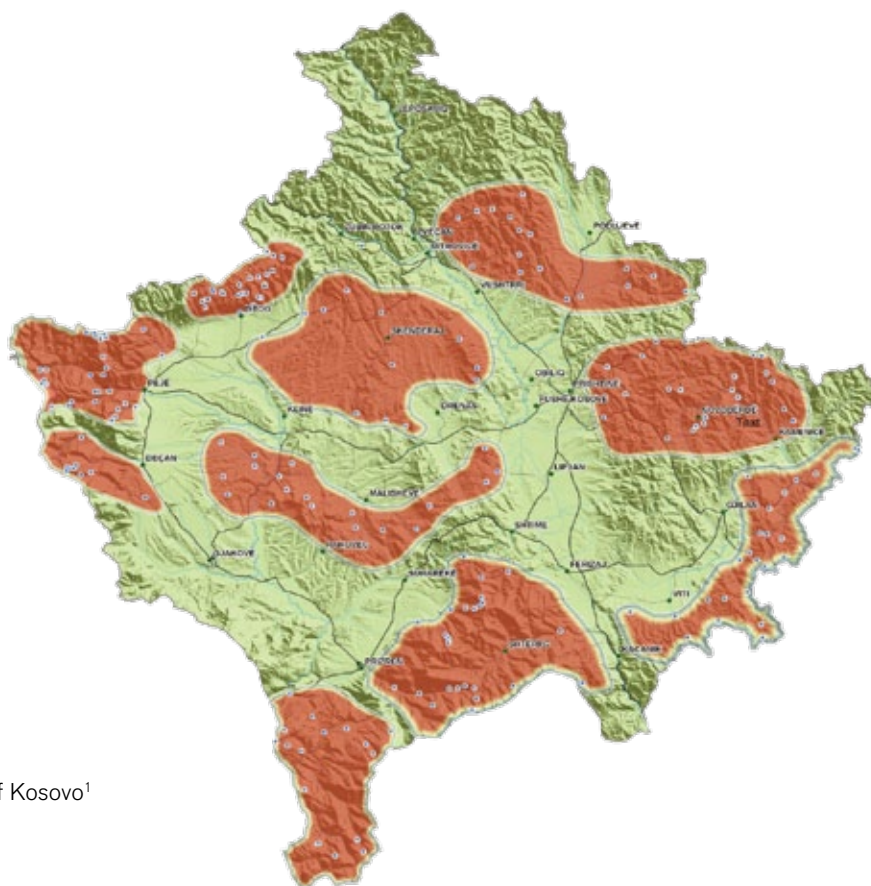


Figure 1: NWFP areas of Kosovo¹

¹ (Millaku, F 2009)

Results

In 2012, the NWFP involves a network of professional and experienced operators with well-established ex-

port markets and a large number of collectors around the country as shown in the figure below:

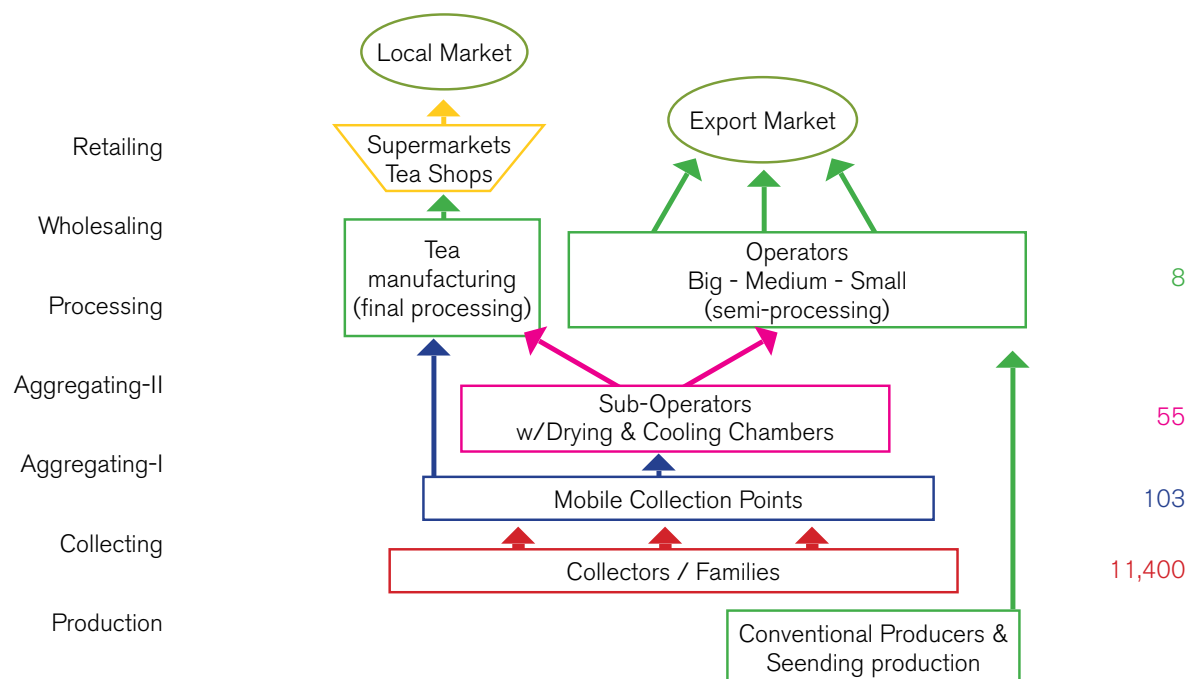


Figure3: Value Chain for Non Wood Forest Products, number of actors in the chain in 2011

Nearly all products are sold on export markets and at the same time provide income or additional income of €2.6 million from the collection, flowing to an estimated 11,400 households in the rural areas of the country. The operators exporting play a vital role in organizing the market system. Through them 180 aggregators (collection points and sub-operators) and collectors families have access to buyer's markets which are abroad.

In 2011 HPK mandated an assessment of the last 5 years by an external expert. The main findings shown below are very encouraging; they cannot be attributed to HPK alone as the achievements are also the result of a well coordinated approach by several mentioned donors and implementers.

Main findings	2007	2011
Full time employment (no.)	18	69
Part time and seasonal employment (no.)	112	526
Persons at collection points (no.)	80	192
Collectors supplying raw material to the six companies (no.)	3,100	11,400
Turnover of the four leading companies (€)	1,214,000	4,100,000

Table 1: Main findings on NWFP assessment²

² Boor, B., 2011. Assessment of Impact of Project Activities in NWFP sector in Kosovo.

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The above findings explain that over five years there was a growth of 3-4 times in all levels. In addition, the finding shows a steadily increasing on number of buyers in the region from 12 to 30 as well as international buyers from 1 to 22.

Other qualitative results

- Today the NWFP sector is well equipped with cooling and freezing rooms, shock tunnels, dryers, herbs processing lines and storage facilities.
- Know-how of leading companies on markets and requirements to enter international markets has been increased. All participated at a number of different trainings and study tours on quality management, supply chain management, traceability systems, markets, etc;
- Better quality and higher quantities can be offered to a higher price market due to established contracts with processors in western markets;
- The major constraints are seen in the lack of sustainable direct market links, lack of sufficient cash flow and lack of investment capability.

Conclusion – Lessons Learned

This report analysed some features of HPK interventions and the response of the NWFP sector towards mentioned interventions. As has been shown, the NWFP market system was strengthened through building vertical and horizontal functions with different market players. The summarized lessons learned are as follows,

Cooperation in the NWFP market system has improved a lot in the past years. Cooperating with the operators was the right intervention as they provide, driven by their commercial interest, a high degree of business support down the value chain to assure their supply of the commodities they need. Sub-operators provide them

with specific products in quantities and qualities as determined by operators, and collectors do follow. There is a lot of vertical and horizontal cooperation amongst the operators although they are also competitors. *Management skills and business organization* should be further build with operators particularly since their profits are based in export markets that require higher quality risk management. Improved management of operators would respond to structural changes in the sector, where the larger buyers (international processors) are driving the changes in the market system.

Trust Building, reliability amongst actors, and formalization of agreements is a key ingredient for the future success of NWFP sector. The trust built within the operators requires honest brokering, a reliable network and attributed response to the contracted market, including payment, quantity and quality modalities. Formalised, clear agreements at all levels are important in maintaining good relations in this business.

Introducing innovations in a traditional and informal market system (with short term deals) takes quite a lot of time to produce results. Yet, despite the



superior profit performance, NWFP has advanced better than other sub-sectors (e.g. horticulture) being exposed to a more requiring international market than the local market requirements.

Sustainability of supply: NWFP sector is depending highly on the wild collected supply base. There are yet very few signs of overusing the supply base, but increasingly it will be important that measures are taken and reinforced to prevent overharvesting and respect for the biodiversity which is the source of the potential of the NWFP sector. GiZ is working on the necessary frame work the needs to be established by the public entities in cooperation with the private sector.

Impact of changes in the international market are higher with Kosovo operators compared to other regional countries since they are not yet fully established in international market, but have more the position of gap fillers. A big problem of this situation is

that price information is poor before the season. This information is provided by major international traders to well established suppliers. Therefore, as companies become aware of the structural changes of the international markets or potential markets, a number of interesting markets are developing.

Financing remains a main concern as for the moment most of the financial risks are accumulated on the operators' level; pre-financing the bulk of the operations and also having most of the risks of sales fluctuations. A better sharing of the inherent risk amongst all market players would help. Options to share the risks with the buyers on long term relation base with some forward financing is one way out, whereas soft loan conditions could help as well with financial institutions that consider the nature of this sector by paying more attention to the cash flow rather than only collateral. Also the sub- operators could take on part of the risks.



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Implemented by:



HELVETAS
Swiss Intercooperation

KOSOVO

HPK
HORTICULTURAL PROMOTION
IN KOSOVO

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Schweizerische Eidgenossenschaft
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