HPK INTERVENTION REPORT

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MAKING HORTICULTURE MARKETS MORE COMPETITIVE

HELVETAS Swiss Intercooperation KOSOVO

HPK HORTICULTURAL PROMOTION IN KOSOVO

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Background

Product aggregation is a fundamental activity in all value chains, but has not existed in Kosovo until recently. The market system up until 2009 saw local producers mostly selling their fruit directly in the hope of achieving better prices. Farmers tried to sell directly in market or road sales to retailers, processors and consumers. A market based on many sellers but few buyers results in producers becoming 'price takers'. Traders can work between numerous sellers and keep downward pressure on prices.

This lack of coordinated marketing meant that for supermarkets and retailers to provide customers with consistent quality and quantity of fruits and vegetables, importers were a more reliable supplier. Market system improvements for fresh fruit and vegetable trading in Kosovo have been driven by the demand for local products by processors and traders.

Inconsistent supply hindered local processing companies to invest in new equipment or markets. Currently most processed products sold in Kosovo are being imported.

WHAT IS A PRODUCT AGGREGATOR?

A product aggregator is a market actor that brings together fresh produce from a number of producers to increase the volume available for transactions with buyers. It is a key activity in marketing for the horticulture sector.
Product aggregators are collection centres, processors or traders. Aggregators operate under two main models – Service Providers or Traders (or a combination of both). Service Providers act as an agent, and charge a fee for collection, grading and marketing, typically between €0.01 and €0.03 per kilogram. Traders buy the products from farmers and sell on to further markets at a profit. A trader therefore bears a greater proportion of the market risk.

This difficulty in supplying markets was not a result of local production being unable to compete with imported products. Kosovo was well known as a supplier of fruits and vegetables under the former Republic of Yugoslavia.

Vision & Strategy

Facilitation of market access for small and medium farmers is the main objective of Horticulture Promotion in Kosovo (HPK). A successful horticulture sector requires large parcels of quality fruits and vegetables to be traded under formal business relationships. A fragmented market with farmers competing for a limited number of traders reduces incentives to improve quality and quantity of supply.

It was clear to the project staff that they needed to address the constraint that local buyers were not willing to work with suppliers through informal business practices, but instead demanded larger quantities of products, meeting their specifications. The challenge for HPK was to develop a local supply system that could compete with imports to fulfil this demand.

The vision of HPK is to see Collection Centres forming the key link between small scale producers and the traders and processors. For this to happen, a range of systemic changes needed to occur. The infrastructure to successfully aggregate and store products needed

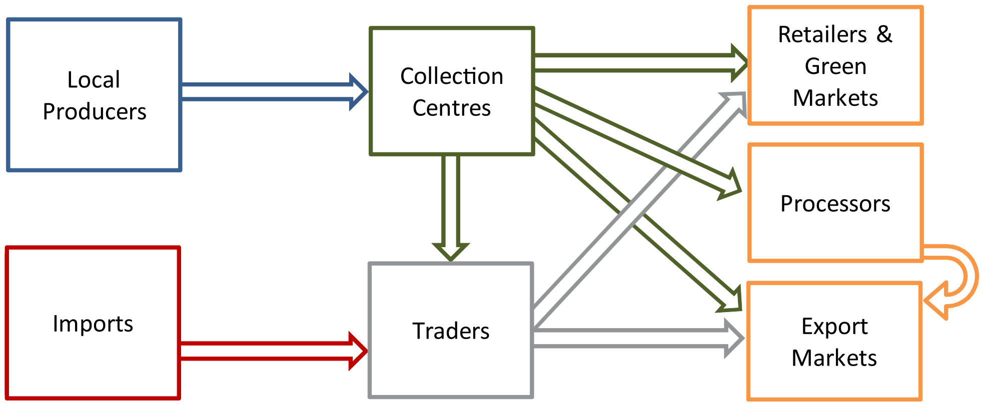

Figure 1: HPK vision for fresh fruit and vegetable marketing in Kosovo

to be established, formal business practices should be implemented and above all the quality and extended growing season for main crops must improve.

Due to the small size of the market, only a few large distribution centres are required, fed by 5 to 6 regional centres. In turn, these regional centres are supported by 20 to 30 local centres, each of which service as many as 100 small scale farmers.

What was missing in the local system were medium sized traders who have direct contact with farmers and are able to aggregate products in sufficient quantity to compete with imports.

HPK's strategy is to encourage smaller traders to take the step up to becoming product aggregators.

The strategy does not aim to create large traders, as they already exist, but they predominantly rely on imports for consistent supply of fresh fruits and vegetables. The larger centres should be driven by private sector initiative, supported by donors and Ministry of Agriculture, Forestry & Rural Development (MAFRD)..

In the processing sector, it was recognised by HPK in 2010 that as the push to better quality of fresh marketed products was developed, a surplus of processing grade products would be available. The issue for farmers was that without a competitive processing sector to take this lower grade produce, the temptation to try to market it as fresh grade products would be too great, thereby diminishing the overall quality of the product offering.

Interventions by HPK

HPK began supporting joint marketing in 2009 with a refrigerated container located in the tomato growing area of Mamusha. This had only limited success, but provided the idea to a local farmer trader to begin a collection centre. In 2010, HPK took a small group of traders to Macedonia to see how product aggregation through collection centres operated. As a result of this, and further promotion by HPK, 6 collection centres were established in 2010. Based on these first experiences the vision was rolled out with a targeted strategy including the following elements:

CO-FINANCING INVESTMENTS

Development of aggregation facilities, including storage, refrigeration and grading is capital intensive. Even a small Collection Centre requires financing of at least €25,000 in equipment and facilities. To encourage farmer-traders to establish these centres, co-financing investments was an important part of the intervention strategy.

A key to successful co-financing is to leverage both financial inputs from the partners as well as to instigate systemic changes to the market. If this is not achieved, then the grant funding can be an impediment to growth. Maximum co-financing by HPK was 50% of equipment costs, and linked to other interventions outlined below.

To ensure a market was available for this, HPK co-financed processing facilities, and began strengthening linkages between producers and processors. Between 2009 and 2012, HPK co-financed 12 fruit and vegetable processors.


Increasing processing capacities was an important part of the intervention strategy of for HPK

BUSINESS TO BUSINESS MEETINGS

Facilitating market system changes starts by identifying key actors and bringing them together for informal discussions. This has been achieved by B2B meetings with all key actors form both the supply and demand side, followed by meetings where specific market opportunities are explored. In 2011, 2 major events and more than 10 smaller meetings were facilitated.

STUDY TRIPS

In 2010 and 2011, study trips were conducted to Macedonia and Turkey with product aggregators, to gain an insight into how such a business can be established and developed. A group of more advanced traders and aggregators also visited 'Fruit Logistica' in Germany.

IMPROVING QUALITY QUANTITY AND CONTINUITY OF SUPPLY

If the input from farmers is poor and unreliable, the aggregator will not be able to supply the traders with what they demand. Linking agronomic advisors with farmers was achieved through an tri-partite agreement HPK co-financed a set number of days to 50%, with the other 50% paid either by the farmers or by the aggregator as part of the service fee. It was a requirement that t principles of Integrated Production were practiced by farmers and advisers. This intervention has seen the number of farmers paying for advisory services based on IP principles increase from none in 2009 to more than 350 in 2011[1].

QUALITY STANDARDS

When negotiating trade between value chain actors, a common 'language' with regard to quality is required. HPK has produced guides for 8 crops (tomatoes, apples, peppers, strawberries, cucumbers, plums, onions and carrots). These use the UNECE standards[2] as a starting point, but have been produced with farmers in mind, using simpler descriptions and pictures

1 Refer to the separate HPK Intervention Report titled "Integrated Production and Advisory Services".
2 United Nations Economic Commission for Europe - more information can be found at: http://www.unece.org/trade/agr/standard/fresh/ffv-standardse.html & HPK guides can be downloaded at http://helvetas-ks.org/HPK/en/index.html

to demonstrate key aspects of quality. HPK produced the guides in Albanian, Serbian and English, as well as Turkish for tomatoes and cucumbers. Guides have been distributed through partners, and training programs for farm advisors were organised.

FORMAL BUSINESS PRACTICES

With the emergence of buyers such as retailers, exporters and processors, the pressure has increased on farmers to provide formal invoices and account for VAT. The project helped develop software manage sales and invoices from collection centres. On-Farm Accounting Software has been introduced, and meetings between aggregators and traders to resolve these issues have been conducted. It is apparent that there is a lack of knowledge by farmers on how to meet the requirements of the formal system, and HPK has produced an information booklet 'Agriculture as a business' released 2012.

Results

	Collection Centres (Total)	Annual Investment (€)	HPK Support (€)	Tonnes Collected	Total Sales (€)	Farmer Suppliers
2009	1	1,000	1,000	380	7,600	21
2010	6	235,940	77,500	5,890	1,737,000	325
2011	13[3]	692,090	264,000	7,790	2,203,000	350

Table 1: Results of collection centres supported by HPK from 2009 to 2011

The network of product aggregators supported in 2011 expanded to 13, and by the end of 2011 HPK had also supported 12 fruit and vegetable processors. The table below shows the investments by HPK, the amount of product collected as well as the number of farmers collaborating with each collection centre. To avoid double counting, information is not provided for processors, as much of this product is first aggregated by collection centres.

As can be seen from the number of farmers compared with total product collected, delivery by individual farmers is quite small (average of around 22 tonnes per farmer in 2011). In part the low delivery by each farmer reflects this new model for trading. Farmers often deliver only part of their produce to the collection centres, and do not abandon the traditional market channels they have previously used. However, the small individual delivery also shows the value of product aggregation as a powerful tool for farmers in Kosovo.

The results in 2010 and 2011 showed the ability of product aggregation through Collection Centres to increase producers returns, open up new market opportunities and reduce producer costs associated with transport and marketing. Other impacts include the following.

INCREASING EFFICIENCY – REDUCING MARKETING COSTS

Driving produce to the market puts pressure on farmers to return with an empty truck, often resulting in poor prices late in the daily market session or travelling to a second market to offload remaining products.

The direct costs of taking produce to markets are eliminated by using a collection centre. Market entrance fees range from €3 to €10 at the Pristina wholesale market. Fuel and transport costs in Kosovo can be as

3 Two investments totaling more than €100,000 were completed late in 2011, and therefore no sales data is recorded from these centres

much as €50 per market trip, often with less than 1 tonne of produce per trip. This compares with a typical charge of €0.02 per kilogram for collection centres.

In addition, the time saving for using a collection centre is considerable. Green markets are often only operating for a few hours each morning. Delivery to market will take a minimum of 3 to 4 hours – more if sales are slow. Delivery to collection centres takes a fraction of this, and delivery times can reflect more closely the optimal harvesting time.


Producers' access to advice and willingness to invest in new production methods have increased

A third efficiency gain provided by collection centres is through an improvement in quality. Virtually no producers have cool storage prior to or during transport, and the loss in quality can be significant. If competition is high at markets (over supply) then losses can amount to 50% for highly perishable products such as salad vegetables.

UNLOCKING INVESTMENT POTENTIAL

Increased confidence in the market is encouraging new investments into production. Producers are investing in greenhouses, improved production techniques, as well as increasingly in paying for farm advisory services.

An example was seen in the region of Mamusha in 2010, when as a result of good returns achieved through the collection centre, a group of 7 farmers co-invested with HPK in modern greenhouse structures to increase early and late season production. A further 20 greenhouses are being co-financed in 2012 (not by HPK) through this same collection centre.

Conclusions

The results have been encouraging, and a basic network is in place. HPK experience illustrates that product aggregation unlocks market potential, improves the sector's performance and can become the driving force for systemic change of market organisation with benefits for all actors. Market share of local products has increased latest trade balance report shows that imports of vegetables stagnate; it can be assumed import substitution takes place. Export markets can be more readily accessed. Market requirements for quality, quantity and continuity (QQC) can be more readily achieved through the product aggregation as formal and informal producer groups are forming linked to the collection point.

Collection centres are a driver for increased production, better market access will give producers confidence to invest in their businesses. Strategic investments on the aggregation level are more efficient than direct intervention with many farmers.

Activities for 2010 and 2011 were focussed on increasing the infrastructure for collection centres, increasing the geographic and product diversity of these centres, and establishing linkages between them for improved collaboration across the sector.

Replication of this by other partners and donors both highlights the success of the program, but also the risk of over investment distorting existing market development.

Lessons learnt

- Partner identification: Identifying good partners for project interventions is the core business of market development. For the product aggregation HPK found that an individual or small group of individuals (lead farmer, trader, processor), rather than an association, should be the lead actor for product aggregation.

- Negotiation of plans: HPK asks potential partners to prepare a Concept Paper covering the main points of products, quantities, markets and expected impacts, as well as basic planning costs and financing of future business. Then a meeting is arranged to assess plans and do a first inspection of the proposed site for the centre. These are essential first steps in the planning stage.

- Which support? Too much support from the project tends to 'create' partners are whereas too little support may reduce the impact of the investment. HPK has at the beginning mostly supported co-financing of necessary investments; co-financing was limited to a maximum of 50% of equipment costs, paid as reimbursement after investments have been made by the partners. This ensures only serious partners, ready to risk with their own investments, are involved. Necessary infrastructure is a prerequisite for product aggregation, but collection point can only function well if the business is well managed. Lately HPK focussed its support much on management capacity and formalizing their business. These 'soft' skills are essential base for a longer term success, and should be considered from the beginning.

- Implementation is not a simple task of signing a contract and following an agreed timeline. The development of a centre is dynamic, and often needs additional 'soft' support and amendments of the original agreement. It is important to be responsive and close to the partner for good facilitation. HPK field staff spent considerable time following up investments with visits and addressing issues as they arose. Without this constant 'soft' support, investments will not achieve the level of impact seen from these results.

- Future donor interventions. The success of HPK's collection centre strategy is influencing other donors. At least 3 centres have been established with other donors in 2011, whilst several more are being planned, including 3 large investments through MAFRD.

Whilst investment in local centres can stimulate producers, HPK believes major donor-driven investments should stop. Such investments will harm existing actors by creating unequal opportunities. Donors and government should focus on the supply side of the market – namely identify ways to stimulate local producers to increase the quality, quantity and consistency of products supplied.

Peppers being prepared for export

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