

HPK INTERVENTION REPORT

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PROMOTION OF CONTRACT FARMING PARTNERSHIPS FOR GROWTH



Summary

The project goal of Horticulture Promotion in Kosovo (HPK) is to generate sustainable and broad based employment and income for the sector actors and contribute to economic growth. Contract farming has not been used a means of organizing the commercial agricultural production of both large-scale and small-scale farmers. As a result, in 2012 HPK began promoting contract farming which is carried out according to an agreement

between a buyer and farmers, which established conditions for the production and marketing of farm products. Six Collection Centres show willingness to promote it through 123 farmers; with support for seeds (different vegetable crops) and substrate in amount of € 54,019.70 co-financed by HPK and Collection Centres. With such investment, farmers produced 4,363 tonnes of different products supplying processors and fresh market.

Vision and Strategy

Facilitation of market access for small and medium farmers is the main objective of HPK. A successful horticulture sector requires large parcels and production of quality vegetables to be traded under the formal business relationships. It was clear for the HPK staff that they need to address

constraints that local producers were not willing to increase production due to the lack of finance at the start of each season. The challenge for the HPK was to develop a local supply system through the support provided by the collection centres to the farmers.

Intervention By HPK

HPK's interventions aimed, through the CCs to demonstrate a mechanism to fill the aggregation function, and through this, improve Kosovo's fresh vegetable competitiveness in domestic and regional export markets.

HPK began intervention in the production of vegetables from 2001. In the early phases, the Project was mainly

involved in promotion of new varieties as well as expanding area under the cultivation, with the objective of increasing productivity by 30% and improving quality. In 2012, the HPK start promoting the contract farm agreement. The overall objective of the contract farming was to link farmers and buyers for scheduling the planting program and volume which is going to be produced and collected by buyers.

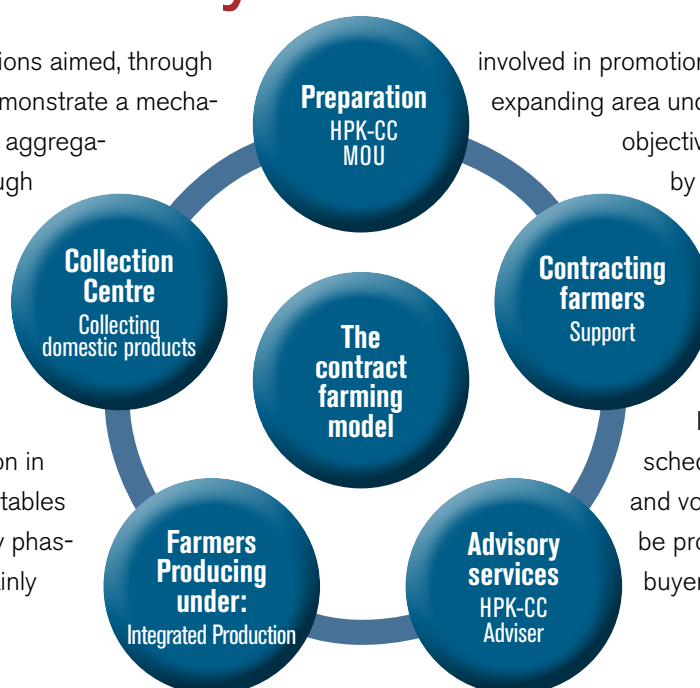


Figure 1: Contract farming model 2012

Memorandum of Understanding (MoU)

HPK facilitated the market system changes by identifying relevant actors and bringing them together at the early time of the year. This has been achieved by informal meetings with all key actors from the supply and demand side where they agreed to sign MoU. The aim of MoU is to improve the management and collaboration of these centres and for the benefit of the supplying producers. All partners involved

in this project are agreed in set of conditions, where HPK agreed to co-finance inputs and advisory services while the CC agreed to pay the rest and farmers agreed to follow conditions set up by partners, to pay back with product, to supply CC in timely and with high quality of products as well as to follow advice provided by an external adviser.

Contracting farmers - support

Despite a bad 2011 season, the CCs were able to re-establish operations with some modest increases through supporting farmers with inputs and pre-season planting. This has been achieved through signing a contract which involves all relevant partners and it works in this way: i) farmers are provided the seeds/substrate up front, ii) the yield is estimated using standard input/output ratios, iii) when harvesting time start, farmers repays the CC with product up to value of the amount pre-financed, farmers repaid their advance in 100%.

The total seed count by crop breaks down in 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 of carrots seeds, 100,000 red bell pepper seeds and 8 kg of feferoni. This intervention has seen 123 farmers agree to be contracted by receiving inputs and paying back with products.

| Collection Centres | Annual investment -Inputs (€) | CCs support (€) | HPK support (€) | Farmers supported |
|----------------------|-------------------------------|-----------------|-----------------|-------------------|
| Agrocelina | € 10,800.00 | € 5,800.00 | € 5,000.00 | 57 |
| Euro Tac | € 9,773.20 | € 4,886.60 | € 4,886.60 | 31 |
| Bashkimi | € 8,815.50 | € 4,407.75 | € 4,407.75 | 8 |
| AgroProdukti | € 7,462.00 | € 3,731.00 | € 3,731.00 | 10 |
| Shala Produkt | € 7,439.00 | € 3,719.50 | € 3,719.50 | 9 |
| Albini | € 9,730.00 | € 4,865.00 | € 4,865.00 | 8 |
| Total | € 54,019.70 | € 27,409.85 | € 26,609.85 | 123 |

Table 1: Support provided by the project to the vegetable nurseries producers 2001/2011

Results of the Collaboration

Both partners engaged in contract farming are benefiting from the collaboration. Farmers have a guaranteed market outlet, reduce their uncertainty regarding prices and are supplied with loans in-kind through the provision of farming inputs such as seeds, fertilizers and substrate.

Purchasing firms benefit from having a guaranteed supply of agricultural products that meet their

specification regarding quality, quantity and timing of delivery.

Purchasers may undertake measures to ensure that contracted producers have timely access to inputs with better price. In contract farming a predetermined price for the crop is generally established during contract negotiations at the onset of the growing season. This may protect farmers from incurring losses in sales due to downward price fluctuations.

Contracts between suppliers and buyers-processors

Contract farming arrangements serve to link farmers to distant markets where the demand and price of crops are more favourable. Contract farming is helping collection centre to minimize the transaction cost, usually incurred due to classic principal agent problems.

Linkages between collection centres and buyers (processors) have been increased rapidly. Through

this arrangement, collection centres achieved to have formal and informal agreements with different buyers with certain volume of different crops.

The six collection centres involved with contract farming in 2012 sold more than 6131 tonnes of different fresh vegetables for fresh market and processing.

Supply side is increased

Between collection centres and producers it was an agreement which aims for supply quantity during the year. Producers which they received support from CCs agreed to pay back to the CCs with certain quantity of specific products as well as more than 60% of their total production. The demand from the collection centres is for 6,131.00 tonnes, whereas the 123 farmers make available to support them with 5,731.00 tonnes or 93% of the

total demand. The 7% of the total order of CC's has been collected by other farmers out of group supported. From overall support given to the farmers has been estimated to be produced around 4,363.00 tonnes which was for 1,800.00 tonnes less than the demand side. Due to the better flow information, farmers increased the size of production with aiming to supply CC with at least 93% of their demand.

| Crops planted (by producers) | Production capacity (t) | Total Production collected by CC (t) | Contribution by farmers to the total collection (t) | Market |
|------------------------------|-------------------------|--------------------------------------|---|--------------------|
| Tomato | 1,269 | 600 | 450 | Fresh |
| Cucumber | 598 | 926 | 826 | Processing/Fresh |
| Pepper | 360 | 2428 | 2378 | Proc/ Fresh/Export |
| Cabbage | 1,115 | 1257 | 1207 | Processing/Fresh |
| Milder spiral (feferoni) | 456 | 300 | 300 | Processing |
| Onion | 357 | 355 | 305 | Fresh |
| Carrot | 145 | 225 | 225 | Fresh/Processing |
| Melon | 63 | 40 | 40 | Fresh |
| Total | 4363 | 6131 | 5731 | |

Table 2: Results of collaboration from contract farming agreement

Advisory services

HPK supported linkages between advisory services, farmers and collection centres. Under this approach the HPK co-financed max 50% of the total contribution directly to the collection centre, the rest paid by them. The collection centres in collaboration with HPK prepared contracts for

advisers. They contracted 140 days where the HPK co-financed with 43 % and the rest or 57% has been paid by the collection centres. It was a requirement that the principles of integrated production were practiced by farmers and advisers.

Improving quality, quantity and continuity of production

Demand side is looking for the high quality, quantity and continuity of domestic production. Yield in vegetable crops grew significantly in the range of 10 to 30% for producers by using appropriate varieties and technologies as well as the quality of products is improved by implementing the integrated production and using the advisory services, leading to better marketing opportunities.



Figure 2: High quality of tomato

Collaboration between farmer and owner of the collection centre



Figure 3: Mr. Rexhep Kryeziu - farmer from Mamusha

Mr. Kryeziu, has been engaging in vegetable production for 30 years where in 2005 he starts seriously dealing with vegetable. Implementation of Integrated Production is main technology in cultivation of vegetable crops for last 7 years. Mr. Kryeziu, is representative of 9 producers from Mamusha where in 2012 they start collaboration with CC from Prizren.

Mr. Kryeziu says, in last two years I was cultivating 1.2 ha, while in 2011 I cultivated 1ha or 83% of total area with tomato and 0.2 ha or 17% with cucumber and other vegetable crops, in 2012 I am cultivating tomato with 0.7 ha or 58% of the total area and 0.5

ha or 42% with other vegetable crops. One reason is because of the bad year in 2011 and a response with better demand information in advance for planting. From better information flows and advices in IP, I was able to increase yield for 20-30%. Before I used to sell my production through different outlets like wholesale market and along road market being everyday in the market, but now I am selling to the one point such is collection centre NTP Bashkimi from Prizren. Selling my products through one outlets, helps me to reduce costs of selling, because only this year I saved around 3,000€ by selling through CC Bashkimi.

Mr. Nehat Taç, owner of the CC considers the collaboration between HPK, producers and his collection centre being very effective in promotion of sustain market system. Interest in contract farming as a mechanism to coordinate linkages between farmers and agribusiness firms has grown recently. For me, the contract farming is seen as a commercial transaction intended to be beneficial to both parties. Implementing contract farming model brought to my company lot of benefits,



Figure 4: Nehat Taç - owner of CC 'Euro Taç'

because I am getting supply in time, with enough quantity and higher quality. As CC, in 2010 we began with small, sourcing from a small number of known farmers in most cases as from our family and friends network, now we are expanding to large number of farmers with more business relationship. Only during this year the company collected and sold to the processors and fresh market more than 755 tonnes of different sort of vegetables.

Lessons Learned

- Producers receiving support with main inputs at the early time of the year which make sure that the market is going to be secured, they can increase the area under the cultivation as well as they may produce a range of products.
- The producers show high willingness and ability to improve the quality and increase quantity. Producers now are offering a range of products and different vegetable crops produced under the IP standards.
- As with any other form of contractual relationship, there are also potential disadvantages and risks associated with contract farming. If the terms of the contract are not respected by one of the contracting parties, then the affected party stands to lose. Common contractual problems include farmer sales to a different buyer or a company's refusal to buy products at the agreed price or quantity. Continual monitoring by HPK as the 'independent monitor' helped avoid these problems in 2012. It remains to be seen if this model is sustainable in 2013 and beyond without the direct support of HPK.
- Trust is a critical element of any contract farming model, and the success of 2012 should help establish the system in future seasons.
- Additional problems are related to the quality of product produced by the local producers and in some case where the CC doesn't use the advisory services.
- Identifying good partners for project intervention is the core business of market development. The success in 2012 of this program was the result of the long relationship developed between HPK and the participants.



Figure 5: High quality of tomato - ready to supply market

PROMOTION OF CONTRACT FARMING PARTNERSHIPS FOR GROWTH



Implemented by:



HELVETAS
Swiss Intercooperation

KOSOVO

HPK
HORTICULTURAL PROMOTION
IN KOSOVO

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Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
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Swiss Cooperation Office Kosovo

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