HORTICULTURE PROMOTION IN KOSOVO (HPK)

Assessment of Impact of Project Activities in NWFP Sector in Kosovo and Development Outline of Project Activities for 2012

Country: Kosovo

Consultancy Contract HP Kosovo – no 624

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SUMMARY

Background

- Kosovo is rich in bio-diversity and has a long tradition in the collection of NWFP.
- Under the Former Yugoslavia Kosovo had no direct links to international markets, but had been a collection centre for raw material for processing and trading companies in Croatia, Slovenia and Serbia.
- Due to the war the restructuring of the sector is lacking far behind the development of competing neighboring countries. In 2005 the sector was still not structured and lacking information on markets, prices and quality requirements. Facilities and equipment at collection points and export companies had been poor.
- During the last decade the requirements to enter international markets has increased enormously. This includes among others product quality, quantities offered, documentation, traceability, organic certification and communication and logistics.
- Since 2007 the NWFP sector in Kosovo started to structuralize itself. Before many small companies and individuals competed on the raw material and just delivered raw material to larger companies in neighboring countries without any value addition. Business in this sector had often been seen as one-day-wonder without the intention of developing a long-term business. A few companies with clear visions and ambitions developed during the past few years. There are now ca. 4 companies in the position to target international markets.
- HPK as well as giz, USAID and Care International supported this sector starting from 2002 to 2005 onwards. The support measures differed. While giz activities focused mainly on the company's level and exclusively provided consultancy services, study tours and trade fair participation, HPK and the other organizations provided financial support and trainings on the production level, which means collectors and collection points.

Result of the Assessment:

The development of the sector during the past 5 years is summarized below on the basis interviews with 6 major companies:

- The number of full-time employed people increased from 18 to 69, which means by nearly 4 times during the last 5 years
- The number of part-time employees and seasonal workers increased from 112 to 526, which means an increase by 4,7 times.
- The number of persons involved at collection points increased from ca. 80 to 192,which means an increase by 2,4 times:
- The number of farmers growing herbs or berries for the sector increased from 2 to 62, which means an increase by 310 times.
- The number of collectors supplying raw material to the six companies increased from 3,100 to 11,400, which is an increase by of 3,7. Collectors may be counted manifold, but the increase shows that their outlets have increased and most probably the number of products and therefore their income.

- The turnover in volume of 3 companies increased by 3 times within 5 years and by 2,3 times of 1 company within 3 years. One company had a steady decrease.
- The turnover in value of the 4 leading companies increased from 1,214,000 € to 4,100,000 €, which means an increase of nearly 3,4 times.
- The number of buyers in the region increased from 12 to 30 by 2,5 times.
- The number of buyers in the international markets increased from 1 to 22, which means a tremendous growth.
- Collectors benefit from the development of international markets, as they fetch higher prices now.
- All companies received financial support. The co-financing granted by HPK to the sector during the past 3 years was 327,960 CHF in total. The investment undertaken by the companies as co-financing during that time was 598,320 CHF. Additional investment was done.
- Today the sector is well equipped with cooling and freezing rooms, shock tunnels, artificial 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.
- The major constraints are seen in the lack of direct market links, lack of sufficient cash flow and lack of investment capability.

Recommendations

The NWFP sector in Kosovo as a whole has developed tremendously and changed in its structure. But there are also structural changes of the international markets about which most companies are still not aware. The infrastructure of post-harvest handling and the quantities produced improved a lot. The leading companies have undertaken high investments in the past years. Some may have been pushed by development projects through the offer of co-financing equipment and are now under high pressure due to high monthly rates they have to pay to the banks.

One of the major constraint is markets. 4 to 5 companies are now in the position to enter international markets, but ensured markets are not yet established. Therefore, activities of HPK should concentrate on helping those companies in development of international markets and in better plan their cash.

Individual recommendations are listed below:

1. Support to international market access:
    - Visiting of / participation at major trade fairs:
        - **BioFach** Nuernberg, Germany 15. – 18.02.2012, largest trade fair for organic products world-wide.

Other fairs eventually to be considered:

- **SIAL**, Paris, France, 21. – 25.2012
- **SANA**, Bologna, Italy, September 2012 International Exhibition of Natural Products - Nutrition, Health, Environment
- **BIOVAK**, IJsselhallen, the Netherlands, 19. – 20.01.2012, Professional trade fair for durable agriculture, nature, food quality and entrepreneurs with good taste.
- **HALAL AND HEALTHY PRODUCTS FAIR,** Istanbul, Turkey, 30.08. – 02.09.2012,

- Training in marketing:
  - How to present oneself, communication
  - Preparation of company and product profiles
  - Sending out of samples.
- Support in establishing direct market links
  - Organizing meetings with potential buyers during the visit to BioFach fair in Nuernberg
  - Compilation of potential buyers incl. complete contact data and short description of the companies in the sub-sector (both organic and conventional quality):
    - Medicinal and aromatic herbs
    - Berries, frozen
    - Mushrooms, dried, frozen and fresh

2. Training in budgeting – plan your cash in Pristina.
3. Training on processing of berries, quality management and markets in Germany (*repetition of a training which was conducted in 2008 and which was financed by GiZ. In 2008 none of the companies had proper equipment in the berry sector. This training is now of much more relevance*. *5 to 6 companies could participate*.
   - Theoretical training
   - Visits of company in the berry sector

BACKGROUND AND APPROACH

BACKGROUND

The Horticulture Promotion in Kosovo (HPK) project was launched in 2001 with the overall goal of creating sustainable employment and income through the promotion of the horticulture sector. During the first 4 phases of the project, HPK mainly worked on five different horticulture sub-sectors: 1) vegetables, 2) soft fruit, 3) top fruit, 4) ornamental plants, and 5) Non Wood Forest Products –NWFP (berries, mushrooms, medicinal and aromatic plants).The project is now in its 5th phase (2010 -12). It is funded by Swiss Development Cooperation and Danish Foreign Ministry and implemented by the Swiss not-for-profit foundation – Helvetas Swiss Intercooperation (HSI).

HPK has, over the years supported the NWFP sector with various activities; namely with co-investments into equipment on the operators and sub-operators level as well as various trainings on the collectors level, resource assessment of wild plants in Kosovo and various publications. These activities were coordinated with other implementers, mainly GiZ, Care, and USAID-KPEP. In the last 2 years the focus of HPK was shifted mostly to key operator (exporters/processors) active in the upper Value chain of the sector. In 2011 the HPK team has started data collection on the sector and a review of project's strategy; a draft document is available.

The NWFP market system in Kosovo has become more dynamic and is rapidly changing. This is due to the activities of HPK and other development organisations, as well as the emergence of a number of key actors willing to invest in trading and processing activities.

Birgitt Boor of BIOHERB, who had been working as a consultant of GiZ in this sector between 2005 and 2011, was engaged to assess these changes and the impact of the project activities over the past 5 years and based on the results of this assessment to help HPK in planning for 2012.

The consultant visited Kosovo between 20.11.2011 and 26.11.2011.

APPROACH

Before visiting Kosovo, the consultant prepared a questionnaire. Based on this questionnaire data on the development of the sector from 2007 to 2011 were collected. The data collection ranged from number of people involved in the sector, via, turn over, markets and product assortments.

Six major players of the sector were visited during the mission. Those were:

- Eurofruiti
- HitFlores
- Scardus
- Besiana-G
- Fungo FF
- Agroproduct-Syne

THE NWFP SECTOR IN 2005

Wide areas of Kosovo are characterised by a large biodiversity of the natural flora as well as by a high quantities of certain species with medicinal properties. Not least therefore, Kosovo has a long tradition in the collection especially of medicinal and aromatic plants, but also wild berries (blueberries and juniper berries) and mushrooms. Many species exported by the Former Yugoslavia came from the Kosovo region. The cultivation of herbs was and still is less developed in this region and was started by a few farmers on a very small scale in 2002.

During the Former Yugoslavia a number of collection centres had been based in Kosovo. Kosovo was however merely a raw material sourcing centre. No value-adding was done here. Before the break-up of the Former Yugoslavia almost all herbal processing and manufacturing was done in Slovenia, Croatia and around Belgrade (Serbia). Thus, Kosovo had no direct market links to international markets. This was still the case in 2005.

The few former facilities for post-harvest handling and distilling units of herbs and cooling of berries and mushrooms had been destroyed during the war. Since then very little processing units had been set up until 2005. Among them was the packing of herbal teas as the most important one, which served the domestic market as well as one client in Italy. At least 4 companies started producing tea bags. The herbs packed for teabags often come from abroad or had been processed (cleaned and cut) e.g. in Macedonia. Collection of NWFP started again after the war on a rather small scale. Persons, who had been involved in the former collection centres (e.g. HitFlores and Besiana-G) and newcomers started to develop links to companies in neighbouring countries. While both the linkage to Serbian and Croatian processing and the trucking of herbs through the Former Yugoslavia was still extremely difficult, certain export relations had already been established to Albania and Macedonia.

Other Balkan states of e.g. Former Yugoslavia, Bulgaria and Romania had already re-established the sector and were far ahead of Kosovo. Export companies with well established market links had been developed during the last years. Bulgaria became the fifth largest supplier of crude drugs to the world-market. But also the quality requirements became stricter. Implementation of Good Agricultural and Collection Practices (GAP) has become obligatory in the EU and most companies of the freezing sector were already certified according to ISO standards. Documentation and implementation of traceability systems has been demanded by major purchasers.

A first export of juniper berries was realised to Germany in 2005. This ended however in a big disaster. The berries were not properly dried and already in the process of fermentation, when the truck arrived at its destination. The reception of the shipment was rejected. Then this shipment was offered by a number of different persons (relatives of the exporter) throughout the entire herb trade sector in Germany. This resulted that the image of Kosovo as potential supplier of herbal raw material had already suffered damage.

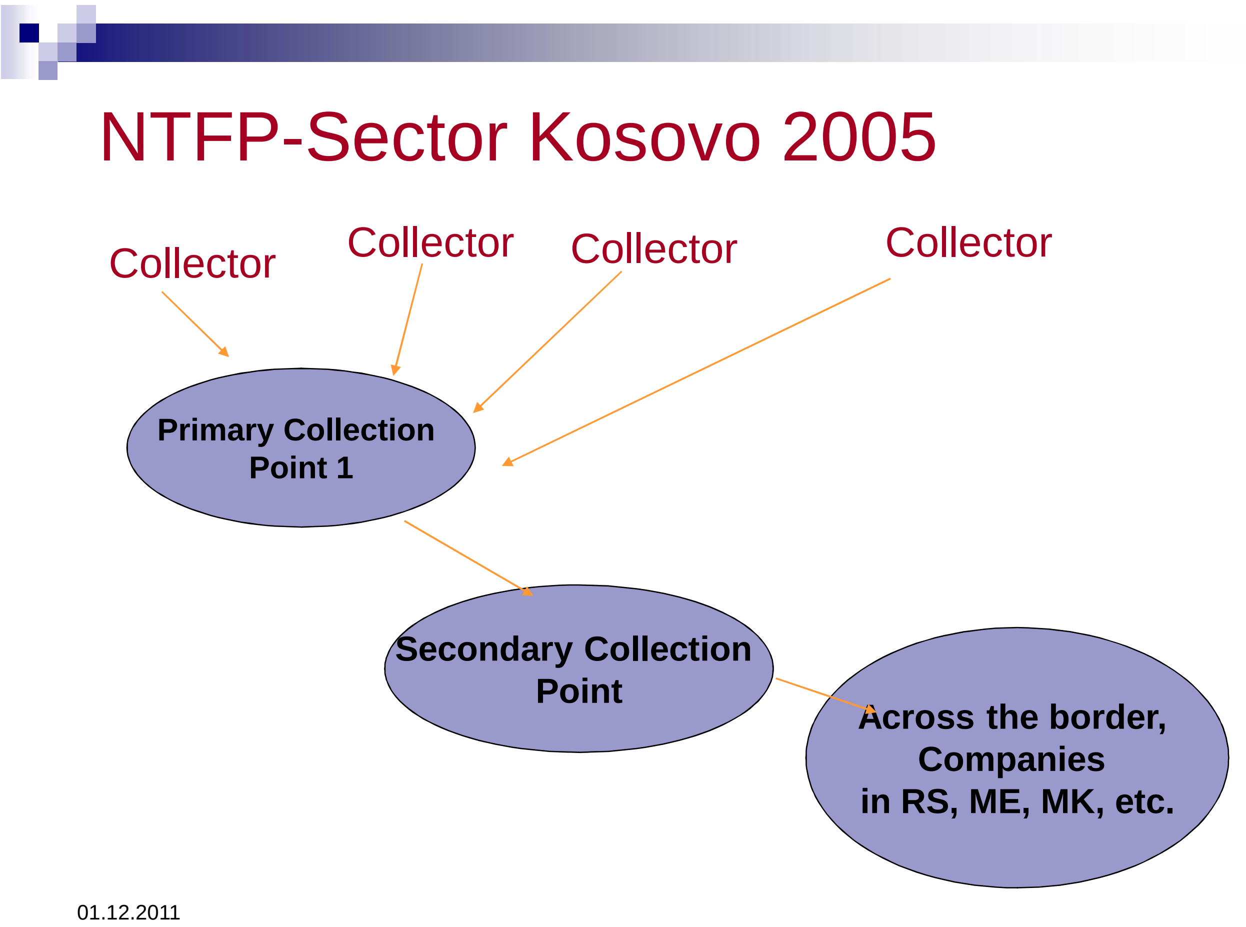
In 2005 a number of secondary collection centres were established or in the process to be establish, which supplied larger companies in the neighbouring countries. Quantities handled by individual companies were however too small to enter international markets.

The sector can be summarized as follows:

- Too small quantities per company to enter directly international markets
- Lack of market information and market links
- Lack of information on prices

- Lack of information on quality requirements
- Lack of management capacity and language capability to communicate with the potential markets
- Lack of equipment/facilities for post-harvest handling (**MAPs**: drying, cutting, sieving, sorting, calibration, etc. **Mushrooms:** cutting, drying, cooling, freezing; **Berries:** cleaning, cooling, and freezing).
- Lack of investment capacity
- Lack of sufficient cash flow.

Chart 1:



ACTIVITIES OF OTHER IMPLEMENTERS

Besides HPK the following projects support the sector:

- GiZ
- USDAID, KPEP
- USDAID, NOA

A meeting was held during the visit of the consultant to exchange information with all implementers in the NWFS on the current and future activities.

GiZ is not very clear at the moment and fears the risk of over-collection. A consultant was engaged to identify entering points. Most probably GiZ will support the government in regulating the wild product sector. Another activity is the follow up of anthocyane in blueberries and support in exhibiting in Biofach 2012.

NOA has selected 10 top products with good market prospects and will promote their cultivation. Among those are different berries, like gooseberries, blueberries and raspberries etc. Another product is safran.

KPEP will not have important activities in the sector.

RESULTS OF THE SECTOR ASSESSMENT

During the visit of the consultant six major operators of the sector were visited and interviewed with the help of a questionnaire. The questionnaire asked about the development of:

- Employment
- People involved as sub-contractors
- Turnover
- Markets
- Equipment and facilities
- Major constraints for further development
- Need for further support

In the following chapters the results of these interviews are summarized without going into details of individual companies. Rather, the development of the sector as a whole is illustrated.

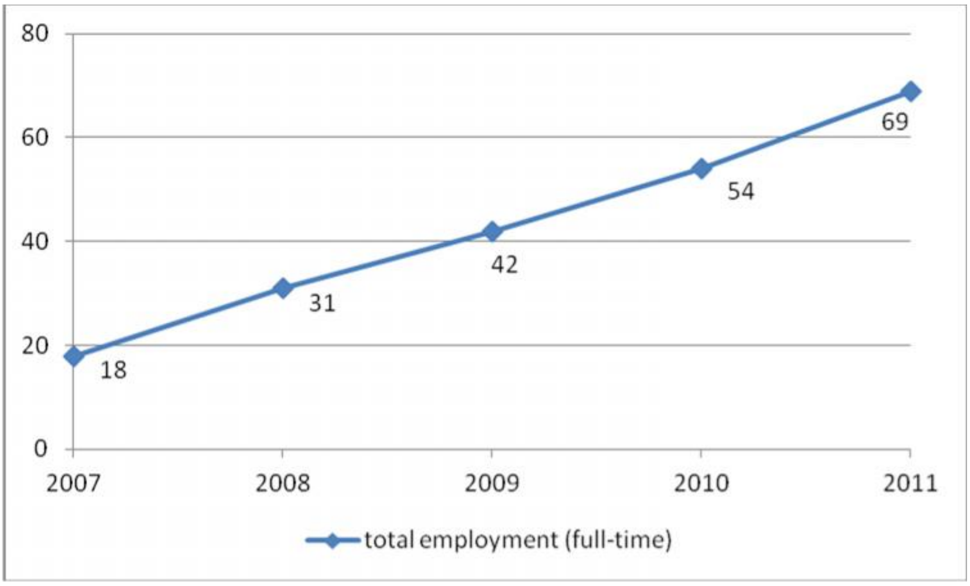
The figures and data shown in this assessment are the summary of the data and figures provided by the interviewed company managers. They were all given verbally and not checked on 100 % correctness. They are however sufficient to clearly show the development of this sector during the past five years.

EMPLOYMENT IN THE NWFP SECTOR

FULL-TIME EMPLOYEES OF THE MAJOR OPERATORS

In 2007 4 out of 6 companies had already employees. Their number ranged from 1 to 4. In total 18 persons including the general managers and family members were employed by the 6 companies. Their number increased steadily during the following years and reached 69 in 2011. This is a tremendous increase of 385 % within only five years. It has to be considered that one company started its operation only in 2009 and henceforward had a rather consistent development with 2 employees plus himself. A second company had a slow development. In 2007 2 family members managed the operation alone and from 2008 to 2011 the number of employees exclusive family members increased to 4.

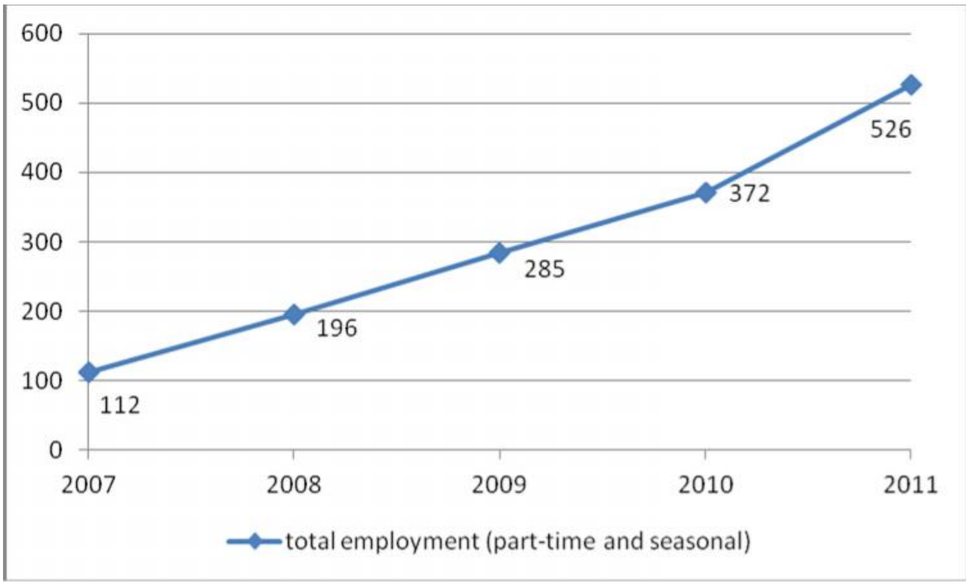
Graph 1: Number of Full-time Employees



PART-TIME AND SEASONAL EMPLOYEES OF THE MAJOR OPERATORS

In 2007 the total number of part-time and seasonal employed personnel of the 6 companies was 112 persons. Their number increased to 526 persons in 2011. This is an increase by 4,7 times, which is enormous. The development per company is different. It ranges from 0,3 via 3 to up to 100 times.

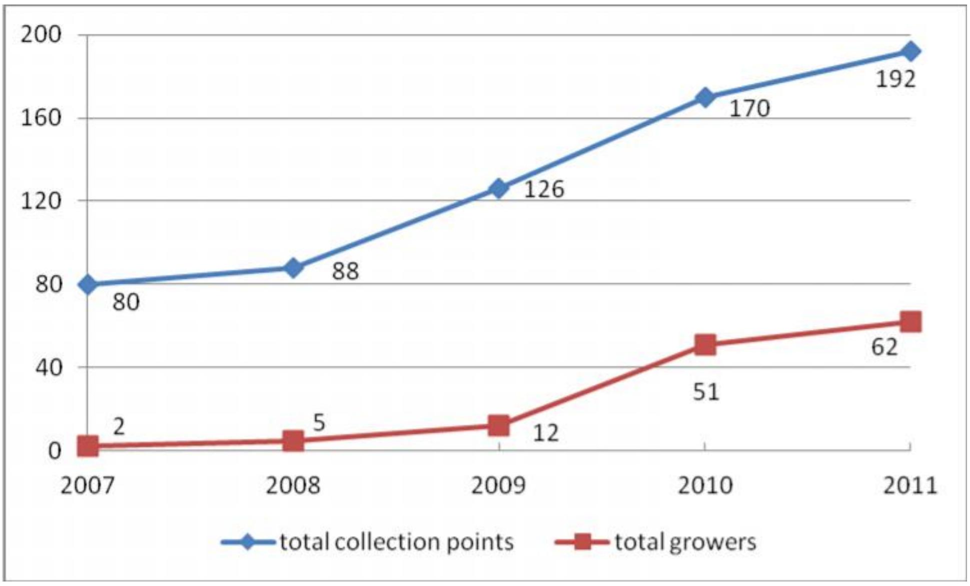
Graph 2: Part-time Employees and Seasonal Workers



NUMBER OF PEOPLE INVOLVED IN COLLECTION POINTS AND AS GROWERS

The questionnaire asked about the number of collection points (sub-operators) per year and not about the number of people working per collection point. The consultant assumes that at least 2 person are employed per collection point. In many cases it may be more. In 2007 40 collection points delivered raw materials to 5 operators. This makes ca. 40 persons having income from this activity. At that time only 2 growers cultivated herbs for 1 operator. In 2011 the number of collection points increased to 96, which makes 192 persons. This is an increase of 240 %. The number of growers however increased from 2 to 62, which is an increase of 3,100%. About 15 growers cultivate medicinal and aromatic plants for 2 operators. All other growers cultivate berries, namely raspberry and strawberry as well as peppers, cucumbers and pepperoni.

Graph 3: Number of Personnel at Collection Points and Growers



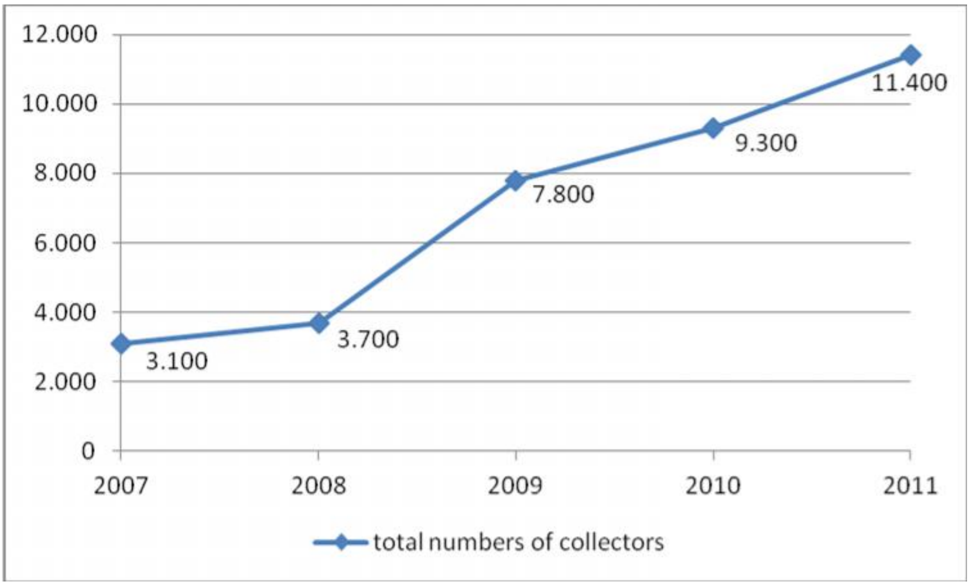
Some of the collection points may be listed several fold as they may deliver to more than 1 operator. They may for example deliver mushrooms to one operator and juniper to another one. This however can be neglected in this assessment as the objective is to show the development. The number of collection points delivering raw material to the operators has increased without doubt. In case that they deliver to several operators can also be interpreted that more business and income has been generated by the operators, which means that the income of the collection points has increased.

Number of Collectors

In 2007 the number of collectors supplying raw material to operators via collection points or directly ranged between 400 and 900 per operator. The total number had been 3,100 collectors of 5 operators. In 2011 the number of collectors involved in the business of 6 operators was 11,400. Here it is obvious that as above some collectors are calculated several fold. According to other information only about 8,400 collectors are engaged in the NWFP sector. However as the specialisation of some operators differ from those of other major operators, the collectors have the opportunity to collect an enlarged the range of different species and can therefore increase their income from this type of activity.

The below graph shows a 370% increase.

Graph 4: Number of Collectors



Development of Turnover

Turnover in Volume

The below table 1 illustrates the development of the turnover in volume of 5 companies.

Table 1: Development of Turnover in Volume

Company	**2007**	**2008**	**2009**	**2010**	**2011**
1	500	700	1,000	1,300	1,500
2	100	↗	↗	↗	300
4	235	↗	↗	↗	700
5	--	--	70	150	160
6	592	↘	↘	360	172
TOTAL	**1,427**				**2,832**

Not all data of all companies are available, as is shown. The arrows show a rise or decrease of turnover. The available data clearly indicates that the volume of 3 companies (number 1, 2 and 4) increased by 3 times within 5 years. Company number 5 increased the volume by 2.3 times within only 3 years. No data are available for one company. Here, the turnover in value however exists and a clear increase of the business by 235 % has been noticed.

An exemption is company number 5. While all other companies were able to increase their business by around 3 times, this company has a steady decrease of business in the NWFP sector. The volume decreased from 592 t in the year 2007 to 172 t in 2011. In 2009 this company started to exports fresh mushrooms to Switzerland and since last year also to Germany and England. All other products are sold to companies of neighbouring countries. Here this company still operates as secondary collection point. The formerly main products by volume were blueberries and juniper berries and especially the volume of these species decreased mostly. As the company has no direct link to international markets they can pay only low prices to collectors. Other companies which have entered international markets in the West are able to pay higher prices to the collectors as they receive higher prices from their buyers. It was mentioned that they pay the price for mushroom and berries, which can be fetched in Serbia, to their collectors. These companies have taken over the collectors of the company number 5.

This fact means that the collectors benefit from the development of international markets.

Turnover in Value

Data of the largest 4 companies are available. All of them increased the value of their turnover enormously. The individual growth ranges from 233% to 1,100 %. The value of annual turnover increased in total of the respective 4 companies from 1,215,000 EUR to 4,100,000 EUR, which is an average increase of nearly 340%.

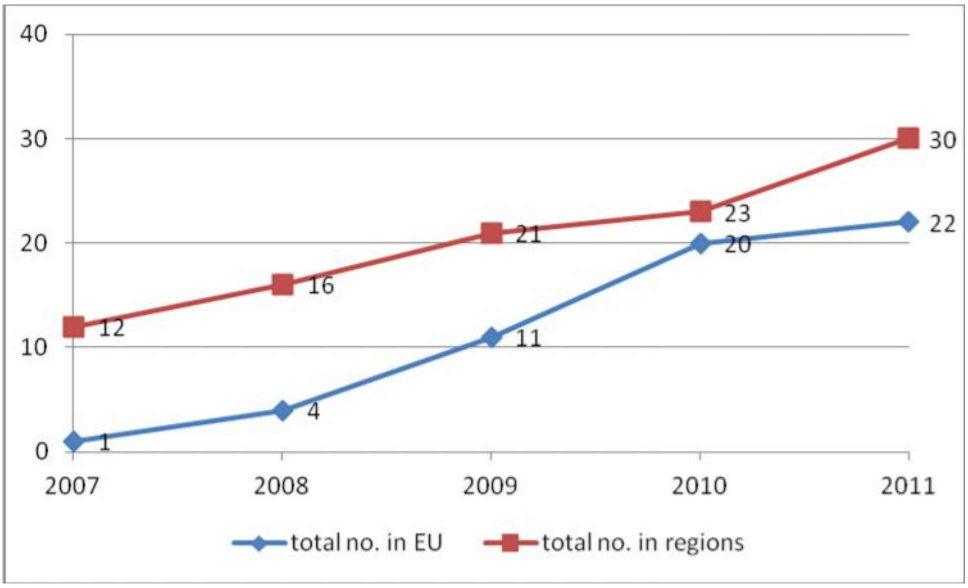
According to the identified data the increase in value is higher than the increase in volume. As however the data are not complete, no final statement can be made on this issue. On the other hand the companies were more and more able to sell to international markets to better prices compared to the prices they can fetch, when selling to neighbouring countries, it can therefore be assumed that the average prices per volume increased during the past years.

DEVELOPMENT OF MARKETS

In 2007 only 1 company exported to Western Europe. All other companies still sold to neighbouring countries. The respective companies had together 12 purchasers in the region and 1 in Germany. In 2008, the following year, another company was able to export to Germany. The market link was established during a study tour to Germany, which was organised by GiZ. The other exporter increased its numbers of buyers in Germany to 3. In 2009 already 4 companies had buyers in the international market. It is interesting to see that not only the number of buyers in international markets increased steadily, but also the number of buyers in the region. The number of buyers in the region increased from 12 to 30 and the purchasers in Western Europe from 1 to 22.

Although all but one company have established links to international markets now, marketing is still a major problem today. Some of the companies have no direct links, but sell via agents. This is partly even the case for the regional market. None, but one company has established long-term trade links. This is Agroprodukt-Syne. Mr. Avdijaj has established contract production for a number of cultivated crops with 3 companies. The market for his bulk production from collection is however still very risky as is the market for all other companies. They are not yet established in the international market, but have more the position of gape fillers. A big problem of this situation is that price information does hardly exist before the season. This information is provided by major international traders to well established suppliers.

Graph 5: Development of Markets (Region and International)



Interesting to note is that one of the companies has developed a market of cultivated champignons in Kosovo. When the company started in 2000 they sold 9 kg fresh champignon per day. Today the volume is 250 kg per day.

FINANCIAL SUPPORT

In 2007 most companies had very little equipment and facilities for post-harvest handling and storage. The berry and mushroom sector had only some cooling rooms and was in the need to sell mushrooms and berries within 1 to 2 days after harvest. The trucks from Serbia and Macedonia usually came in the night to pick up, what was harvested the day before. This did not allow any price negotiation. No value adding was done in Kosovo

The MAP sector was similarly poor equipped. Hardly any artificial dryer existed and products were therefore dried naturally, which often resulted in poor quality. No equipment for cleaning, cutting, sorting, calibrating etc. was available. These steps of further preparation of MAPs were done by the buyers in the region. Quality and prices were low.

All six companies assessed undertook high investments during the past 5 years, with a peek in 2011. Most of the shown financial supports were co-financing of equipment (machines, freezers and cooling rooms, etc), usually 50 to 50%. The companies in addition invested in buildings. Three of the companies (1, 2 and 4) had own investments between 200,000 EUR to 400,000 during the last 3 years.

The below table 3 shows the financial support, that was given to individual companies by HPK and other organisations/projects.

Table 3: Financial Support (in EUR)

Company	**2007**	**2008**	**2009**	**2010**	**2011**
1	5,800 / 0	0 /26,000		11,000 /6,000	60,000 / 35,000
2	HPK?	HPK ?	HPK?	9,000 /0	41,425 / 35,000
3		0 / 8,000	0 / 7,000 (Collection point)		24,000 / 0
4			15,000 / 0	0 / 20,000	46,500 / 0
5		0 / 25,000	0 / 30,000		12,500 / 32,000
6			0 / 20,000	0 / 7,000	11,000 CHF / 0
TOTAL	**5,800 + ? / 0**	**? / 59,000**	**15,000 + ? / 57,000**	**20,000 / 33,000**	**182,925 / 102,000**

The company 2 received some small financial support by HPK during every year. High investment was however undertaken in 2011. This was supported through co-financing by HPK and USDAID (KPEP).

HPK granted in total 327,960 CHF co-financing in this sector between 2009 and 2011. KPEP, NOA and Care International provided additional funds for equipment and financing of implementation of HACCP. As a result the sector is much better equipped today compared to 5 years back. Better qualities can be produced and proper storage facilities are in place. Some companies are now in the position to directly target international markets.

PLANS FOR DEVELOPMENT IN THE NEXT 5 YEARS

The 6 interviewed companies were asked where they see their companies in the next 3 and 5 years. The answers are listed below:

- 1 company wants to enlarge the product assortment with frozen and fresh berries and fruits, ajvar, cucumbers and pepperonis in jars for the already established buyers.
- 3 other companies want also to develop frozen and fresh berries for the retail market within Kosovo and the region.
- 1 company mentioned distillation of juniper.
- 1 wants to manufacture natural shampoos for the national market.
- 1 company wants to implement HACCP and to achieve organic certification. The same company wants to increase capacity and to improve its infrastructure.
- 1 company of the MAP sector wants to develop better packaging, like cartons for flower drugs and paper bags with plastic inlayer for other drugs.
- Only 1 company has no plans for further development. They want to continue their business as it is at the moment.

MAJOR CONSTRAINTS

4 companies answered the same constraints of their business, namely:

- Markets
- Insufficient cash flow
- Lack of investment.

Although nearly all of them have exported to the EU or Switzerland they are aware that their market is not yet ensured. Furthermore, most of them export via agents. They want to get into direct market links with manufacturing companies and not with traders.

During the season all are in need of cash to buy the raw material from the collection points or collectors. Cash flow is usually a problem and companies need to take credits.

Although all have improved their facilities enormously during the past few years, most companies need further investment to realize further development and plans of the future.

NEED FOR FURTHER SUPPORT

The answers to this question are listed below according to frequency of naming

1. Market information and market links (direct market links)
2. Training in quality management and marketing
3. Co-financing
    - of equipment for collection points;
    - 1 company for shock tunnel
4. Organic certification.

All but 1 company mentioned the need of support in establishing direct market links. It was said that this is the weak point of the sector. Markets are still very unsure and risky. Most companies have depth and have high monthly bank rates to pay. One company mentioned 15,000 EUR per month. Risky and unsteady markets put high pressures on them.