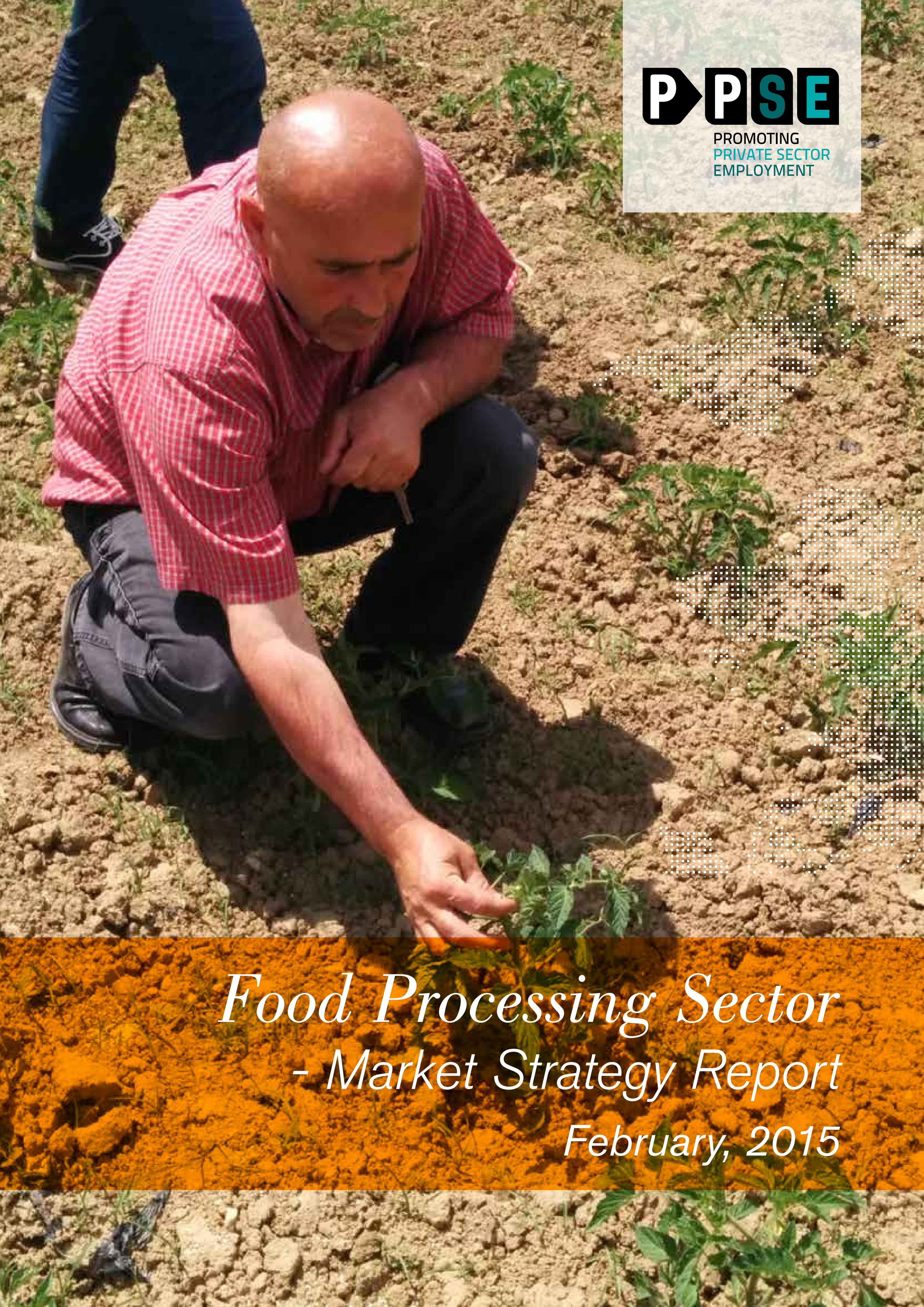
PPSE
PROMOTING
PRIVATE SECTOR
EMPLOYMENT



Food Processing Sector
- Market Strategy Report

February, 2015

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About PPSE

The Promoting Private Sector Employment **(PPSE)** project in Kosovo, financed by the Swiss Agency for Development and Cooperation in Kosovo **(SDC)** and implemented by **Swisscontact** (lead partner), **Riinvest Institute** and **PEM Consult**, aims to assist small and medium size businesses (hereafter SMEs) operating in competitive and well-organized economic sectors, where public policies better match private sector needs, to provide increased sustainable employment for women and men. The main domestic partners are the Ministry of Trade and Industry **(MTI)** and the Kosovo Chamber of Commerce.

PPSE utilizes the Market System Development (MSD) approach (formerly the Markets for the Poor or M4P approach) specifically focusing on market facilitation through new business models to ensure large-scale sustainable change. The program outcomes/objectives are:

1) The increase in productivity, additional income and employment generation; 2) The influence of well-established and organized SME's on sector policies; 3) The reduction of barriers for women to access sustainable employment while their decision-making power is increased.

In selected sectors, PPSE will contribute to SME's increasing their productivity and generating additional income and employment, through enabling service and input providers to develop advanced and sustainable products (goods and services) and production practices. Moreover, PPSE will enable service and input providers to deliver market system processes in specific value chains.

With regard to private sector development governance, PPSE will design specific interventions which will support SMEs internal organization and sector organization in the project related sectors. Transparency, accountability and efficiency are fundamental good governance principles that will be addressed in order to target advocacy initiatives and policy changes.

At the impact level, there is a considerable gap in employment between men and women. Women in Kosovo represent an untapped resource, underemployed and underrepresented as business owners and managers. To decrease gender inequality and provide equal benefits for women and men, a Women's Economic Empowerment outcome and strategy is a cornerstone approach. As a result, the enhanced access to employment and decision making for women is key to a sustainable and gainful employment.

Based on expected results, seven hundred and fifty SME's of selected sectors will increase their productivity and generate additional income and employment. As such the program aims:

- Net income increase of **CHF 1,900,000** across selected sectors
- The creation of **800** additional Full Time Employment (FTE's), **30%** attributed for women.

Initially, the program is focused on two main sectors: **the food processing sector** (specifically the fruits and vegetables processing and the non-wood forest products sub-sector), The third **manufacturing sector** will be selected during the implementation phase.
All sectors, offer excessive potential improvements for employment and asset utilization through removing hurdles uncovered by our alpha to omega analyses of the sectors.

The PPSE project initiated the inception phase in October 2013. The implementation phase is launched in November 2014 and will be active through November 2017. Pilot interventions have been implemented for the tourism and food processing sectors. Moreover, the project has established an **Opportunity Fund** – an additional instrument to boost growth and employment creation for Kosovo entrepreneurs. PPSE uses a solid Monitoring and Results Management (MRM) framework on establishing baselines, assuring output quality, defining indicators, estimating impact, and reporting data per each intervention. Project is **the first** program in Kosovo that uses the **DCED (Donor Committee on Enterprise Development)** standard for quality assurance. Mainstreaming of women, governance, and minorities as cross cutting issues are crucial in all interventions. The project will disaggregate data along gender and ethnicities, and a special effort will be given to include K-Serb SMEs.

Brief sector description of the food processing sector

The agriculture sector provides approximately 42% of Kosovo's employment, according to Kosovo Agency of Statistics (KAS).

Agriculture, which accounted for 25% of Kosovo's GDP in the 1980s and early 1990s, reduced its share to 14% of GDP in 2011. Kosovo's GDP per capita amounts to € 2,650, which is about 10.6% of the EU-27 average.

Kosovo's agricultural products trade balance is negative. The value of Kosovo's exports was €28.9 mio in 2013, is dwarfed by €527.4 mio in imports, representing just 5.4% of the value of imports[1]. Between 2007 and 2013 Kosovo's agricultural exports increased by 51%, from €19.1 mio to €28.9 mio in 2013. For the same period, the value of agricultural imports increased by 50%.

PPSE research indicates that the highest potential for growth and employment in the food processing sector lies in the fruits and vegetables processing sub-sector. The fruits and vegetables processing sub-sector is dynamic, providing approximately 50,000 full time jobs[2]. As a result, this sector is a top priority for Kosovo's Ministry of Agriculture, Forestry and Rural Development (MAFRD).

Demand for processed fruits and vegetables in the European Union have increased significantly in recent years in response to time-pressed consumers. Accordingly, processed fruits and vegetables production in the European Union (EU) has increased by 85% between 2005 and 2010[3]. EU countries have recorded an average annual increase rate of 4.2% of imports for processed fruits and vegetables for more than a decade[4] as countries from the region have increased exports to meet demand.

Kosovo has great potential to meet this increased demand. The Centre for the Promotion of Imports from developing countries (CBI) maintains statistics on the EU imports of processed fruits and vegetables from developing countries. CBI has recorded a 48% increase between 2005 and 2010[5]. Despite the market opportunity, processing companies in Kosovo fail to meet even the domestic demand for processed fruits and vegetables. It is estimated that around 70% of the market share consists of imported products[6].

Not withstanding the increasing trend of investments in food processing across the EU, the processing industry in Kosovo remains in transition. The fruits and vegetables sub-sector consists of large and medium scale processing and small scale processing companies. There are a dozen large or medium scale processing companies in Kosovo, processing 9,000 tons annually (80% vegetables and 20% fruits),[7] with a relatively small range of products. There are also several women's associations that produce small quantities for sale through different market channels, focussing on the so-called "homemade" products.

The quality of fruits and vegetables in Kosovo has improved, resulting from extensive support and the development of market actors. Input suppliers have improved their offerings and the introduction of collection centres and advisory services has improved the supply system.

Farmers, however, focus on producing fresh varieties rather than expanding to meet processing demand, as sector-wide collaboration is currently weak. Retail chains are very powerful actors in the food processing sector, imposing strict conditions on food processing companies that include delays in payments. Financial products that might ease the pressures on farmers and food processors are expensive and impractical at this time. Processing companies and other market actors also face legal, regulatory and policy barriers (e.g. anti-dumping laws). Despite many problems, processing companies are improving competitiveness, with Kosovo companies successfully exporting to EU and regional markets.

1 NOA, "Kosovo Agriculture Trade Balance 2007 to 2013"
2 Recura Financials "Scoping Study of the Agribusiness Sector in Kosovo", 2014
3 CBI "Tradewatch Preserved Fruits and Vegetables", 2013
4 European Commission "Monitoring Agri-Trade Policy: The EU and major world players in Fruits and Vegetables Trade", 2012

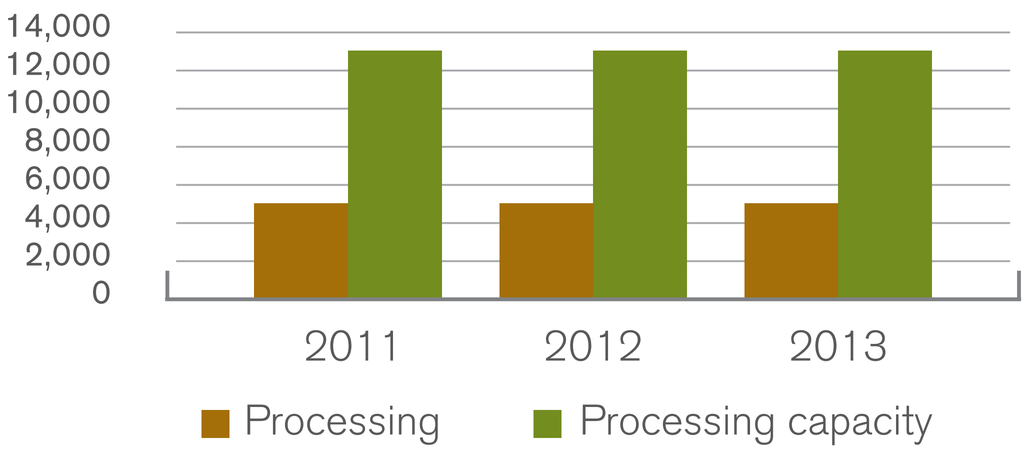
Market Dynamics

Even with consumer preference towards domestic products, the majority of processed fruits and vegetables are imported, a result of domestic processors' limited competitiveness[8]. Concurrently, processors are exporting their products, targeting Kosovo's diaspora market in EU. Kosovo's processors have market potential in both local market for import substitution, and export market for an increase of exports. These factors make PPSE project interventions an opportunity to leverage existing dynamics for maximum impact.

Kosovo has ten large scale fruit and vegetable processors out of the ten, four are dedicated to the processing of vegetables, and one dedicated to fruit processing, the remaining five doing both. Besides large-scale processing, there are several small-scale processors predominately led by women's associations, processing mainly vegetables, "home-made" products targeting niche market channels. There is a growing market for these products in urban areas.

Despite an increasing trend in the production of processed fruits and vegetables, the gap between capacity and current output is narrowing (see Figure below). The current gap is due to the largest processors currently utilising only 20% of its capacity.

Annual processing vs. processing capacity of fruits & vegetables in Kosovo, 2011-2013 change, in tons



5 CBI "Tradewatch Preserved Fruits and Vegetables", 2013
6 Ministry of Agriculture, Forestry and Rural Development "Plant sector study for IPARD Programme", 2013
7 USAID-NOA "Hulumtimi për përpunuesit e pemëve dhe perimeve, qendrat grumbulluese dhe marketet", 2013
8 Field Assessment (December, 2013)
9 ProFound "Market Assessment of processed Fruits and Vegetable products"

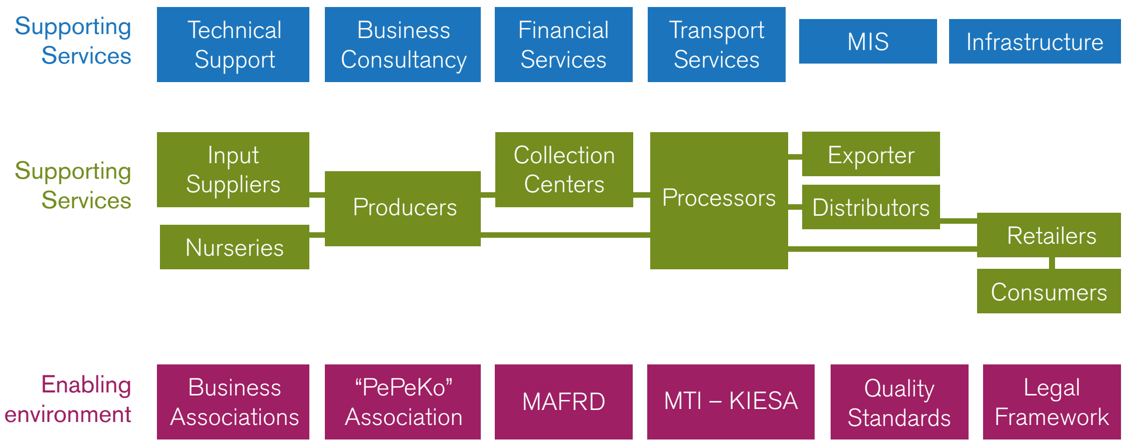
Problem Analysis with Intervention Logic Framework Analysis (an MSD, former M4P, tool)

(1) Problem Analysis	(2) Cause	(3) Services and (4) BEE	(5) Service Weaknesses / underlying causes	(6) Intervention	(7) Market Actor
LARGE FORMAL PROCESSING					
1. Low supply of processed products	Processors are unable to secure raw material regularly	Provision of product aggregation services	Lack of supportive services/aggre-gation services	**Intervention 2 -** Promotion of aggregation system	Collection centres; farmers; processing companies
	Production is focused for the fresh market	Provision of varieties for the processing industry	Provision of industrial varieties by input suppliers; Weak aggregation services for the processing industry	**Intervention1-** Introduction of Industrial Varieties for Vegetables	Input suppliers; collection centres; processing companies; farmers
	Poor management and planning by processing companies	Lack of in-house management capacities and provision of management and planning services	Processing compa-nies have limited capacities in management – middle management is missing; Manage-ment and planning services are considered expensive	**Intervention 7 -** Introduction of affordable planning/manag ement services	Business consulting companies; processing companies
2. Processing companies underutilise capacities	Processing companies face liquidity problems	Provision of feasible financial services	Banks services do not overcome liquidity constraints; financial products are expensive	**Intervention 4 -** Introduction of feasible financial products	Banks and financial institutions; processing companies; retail chains
	Processors do not contract supply of raw material ahead of time	Provision of product aggregation services	Lack of supportive services/aggreg ation services	**Intervention 2 -** Promotion of aggregation system	Collection centres; farmers; processing companies
	Access to retail market is difficult; domestic products have inferior product placement	Access to retail markets; provision of sufficient space and favourable promotion	Retailers offer unfavourable conditions to domestic processors	**Intervention 6 -** Promote placement of domestic processed products in retail chains	Retail chains, processing companies; processors' association
	Processing companies face uncertain demand for their products; bargaining power is low	Provision and access to market research and marketing services	Expensive service and unwillingness to pay	**Intervention 8 -** Introduction of Affordable Market Research Products	Business consulting companies; processing companies

4. Weak product diversification	Lack of technical human capacities: Food technologists	Provision and access to food technology services	Universities and vocational educational centres in Kosovo lack programs for food technology	**Pre-Intervention -** Provision of Short-term Experts on Food Technology	Food technology experts; processing companies
	Limited market knowledge and marketing initiatives	Provision and access to market research and marketing services	Expensive service and unwillingness to pay	**Intervention 8 -** Introduction of Affordable Market Research Products	Business consulting companies; processing companies
3. Uncertain quality of domestic processed products	Lack of technical human capacities: Food technologists	Provision and access to food technology services	Universities and vocational educational centres in Kosovo lack programs for food technology	**Pre-Intervention** - Provision of Short-term Experts on Food Technology	Food technology experts; processing companies
	Lack of quality and safety standards	Provision of quality and safety standard certification services	Professional private safety and quality international certification bodies are not present in Kosovo	**Intervention 9 -** Introduction of private certification bodies	Private certification bodies and experts; processing companies
5. New export markets	Processing companies have limited knowledge for new export market opportunities	Provision and access to market research and marketing services	Expensive service and unwillingness to pay	**Intervention 8 -** Introduction of Affordable Market Research Products	Business consulting companies; processing companies
	Lack of quality and safety standards	Provision of quality and safety standard certification services	Professional private international safety and quality certification bodies are not present in Kosovo	**Intervention 9 -** Introduction of private certification bodies	Private certification bodies and experts; processing companies
	Promotion in international markets through fairs is weak; Collective organiza-tion and promotion is missing	Access to and provision of promotion in international fairs	Few initiatives from public institutions and weak processor coordination	**Intervention 5 -** Promotion of Kosovo Processed Products in International Markets	Investment Promotion Agency of Kosovo (IPAK); Ministry of Trade; Processors' association; Processing companies

SMALL SCALE PROCESSING					
6. Inconsistent quality	Small processing companies have limited technical knowledge on food technology	Provision of trainings for food technology; access to agricultural technologists	Small scale companies are unable to pay for professional services in food technology	**Intervention 3-** Introduction of Private Local Distributors for Small Scale Processors (Training services embedded with distribution services)	Private distributors; small scale processors; food technology experts;
	Poor quality and safety standards	Provision of training for safety and quality standards, and product standardization	Small scale processing companies are unable to pay for quality and safety certification	**Intervention 3-** Introduction of Private Local Distributors for Small Scale Processors (Training services embedded with distribution)	Private distributors; small scale processors; quality and safety experts;
7. New market segment	Small scale processors generally sell either through fairs or direct order, unable to access retail market	Provision of distribution services to access retail markets	There are no private distributors to work with small scale processors that offer “home-made” products.	**Intervention 3-** Introduction of Private Local Distributors for Small Scale Processors	Private distributors; small scale processors, retail chains;

The food processing value chain



Proposed vision of change

Based upon the findings our research, the Vision of Change[10] for the fruits and vegetables processing sub-sector in Kosovo has two approaches, at the market and the service level, aiming to improve producer capacities and rationalize the supply chain by addressing key weaknesses in the current environment.

1. Market level:
- Increase productivity of producers;
- Increase utilization of capacities of processing companies;
- Improve collaboration between processors and collection centers/producers for sourcing raw material;
- Establish new products to be offered by processors;
- Improve quality and access new market segments for small-scale processors.

2. Service Level:
- Improve system of product aggregation through collection centres;
- Provision of extension services by collection centres and input suppliers;
- Implement planning and market research, as offered by private business consultancies;
- Improve market access for home-made products offered through private distributors/retailers;
- Improve supply of seeds.

10 Swisscontact "Guideline for Sector Analysis" Indonesia, 2013

Interventions

Based on analysis, the following interventions have been planned:

1. Introduction of varieties for vegetables
2. Promotion of aggregation system
3. Introduction of private local distributors for small-scale processors
4. Promotion of placement of domestic processes products in retail chains
5. Promotion of Kosovo processed products in international markets
6. Introduction of feasible financial products
7. Introduction of affordable planning/management services
8. Introduction of affordable market research products
9. Introduction of private certification bodies

To tackle the constraints of the fruits and vegetables processing sub-sector, nine interventions have been proposed by the PPSE food processing team.

Interventions have been designed in order to achieve the Vision of Change for the sector. All interventions are designed to achieve 'systemic' market shifts that ensure sustainability. Interventions will inspire market actors to tackle service weaknesses in the sector, who will then apply the necessary shifts in market systems. Each intervention targets shifts in specific sub-systems that aim to achieve sustainable improvements in the fruits and vegetables processing system.

Accomplishments to date

INTERVENTION 1: Introduction of Industrial Varieties

Since there is poor planning and limited contract farming, producers generally do not specialise. Farmers produce varieties that are targeted for the fresh market, even though their produce might be destined for processing. Fresh varieties are not suitable for processing.

This intervention aims to introduce industrial varieties of vegetables for farmers that produce for processors, that currently are not widely available in the Kosovo market. The intervention benefits all value chain actors, particularly farmers whose yields and income could increase and processors due to increased utilisation of existing machinery. Industrial varieties are more suitable for processing, with potential for producing higher-quality processed products at reduced costs.

Promotion of Aggregation System. New seeds will be introduced by input dealers, collaborating with collection centres for provision of extension services and contracting farmers leading to collection centres providing the extra services for promoting the aggregation system defined in the next intervention.

PPSE has established initial success with the beginning implementation of Intervention 1.

Vegetable producers in Kosovo mainly target fresh market channels. Due to seasonal production (domestic vegetables are available in the market for 3-4 months only) and over supply during that period, producers can't sell all their production. At the same time, there is growing demand for vegetables by food processors, but there is very little production directed to that market.

"The positive experience was that through PPSE support, a wider number of actors benefited including – input dealers, processors, collection centres and producers," *Fehim Rexhepi, the owner of AgroCelina,* a collection centre in Xerxe Rahovec. **"In addition, PPSE interventions were focused on having supporting actors shift one part of production from fresh products to processor markets. That is what we need for the development of the whole fruit and vegetable sub-sector in Kosovo."**

PPSE, through its intervention, is advising processors, encouraging them to sign supply contracts with producers, arrangements previously lacking. In the PPSE inception phase, the introduction of industrial tomatoes was tested. PPSE's partner, the input dealer "Jonathan, supplied seeds and provided advice to twenty-nine producers, which included fifteen women. A processor and a collection centre were involved as well. The largest processor, Abi & ELIF 19, has signed a supply contract with collection centre AgroCelina; the centre has signed contracts with tomato producers in turn. As a result, twenty nine producers have produced and sold 150 tons of tomatoes to the processors, via the collection centers.

INTERVENTION 2: Promotion of Aggregation System

Small-scale producers, scattered across the country offering low quantities of products to buyers, characterize Kosovo. Insufficient supply is a major obstacle, creating problems for processors needing a regular supply of raw material. Due to supply difficulties processors struggle to utilize their capacities and end up with low quantities of processed products; meeting year-round demand of retailers is problematic.

The market offers poor aggregation services and processors do not see clear benefits to collaboration with collection centres, yet the centres are the only actors who could optimally aggregate product. Further, processors do not contract the Currently, only 10% of processors' raw material is purchased through collection centres, while the remaining 90% is bought directly from farmers.

To overcome this market inefficiency, an intervention to promote the aggregation system via collection centres is undertaken. The intervention promotes an aggregation system through collection centres, by developing services as well as improving planning and contracting which could incentivise processors to buy up to 50% of their raw material from collection centres. The collection centres model is typical in the region, addressing many problems, including the forward contracts and planning, promotion of quality and rationalizing the entire supply chain. The aggregation system intervention is closely linked with intervention 1: Introduction of Industrial Varieties.

Women's position in food processing

Promoting women's economic empowerment will be integrated into the interventions, empowering women with business creation and planned market shifts. Activities that will improve women's position in the food processing sector include:

- For empowering women producers, PPSE has involved the women business association "SHE-ERA" to promote the introduction of industrial tomatoes among women producers. "SHE-ERA" has identified women producers and has contracted a female agronomist as a technical adviser. Women producers will use the market linkages through collection centres and the designed processor.
- A specific intervention is planned for improving the competitiveness of small-scale processors, which are mainly women's associations. The intervention - Introduction of Private Local Distributors for Small-Scale Processors— aims to improve the quality and marketing of products and enable women producers' access to new markets, particularly in retail shops. Strengthening the role of women within the value chain will overcome gaps in management capacities, promotion and marketing. Private distributors are expected to expand marketing channels and increase marketing capacities, with women included as part of the initiative. Women can play important roles when trained in marketing/labeling and quality assurance.
- In the value chain, women have the poorest representation in collection centers. Collection centers offer relatively low-skilled jobs, which are not gender- and skill-specific. PPSE will promote greater involvement of women in collection centers through the intervention – Promotion of Aggregation Services. The potential exists to increase women's participation in training organized by collection centers. Women can also be further developed through exchange of experiences, production planning and other areas. Women can achieve higher positions in collection centers and offer advice to producers and rise to management functions, currently taboo. In supermarkets women's roles have changed over time from low-skill work into leadership positions.
- Additional activities for promoting women's economic empowerment will be mainstreamed in other interventions at the time of development. Implementation of these activities will be ensured by inclusion in deal-making with intervention partners.

Private Sector Development Governance

PPSE will address the main principles of Good Governance (Accountability; Transparency; Non-discrimination; Participation; and Efficiency) at different levels of the private sector, both at firm and the sector level, intending to improve internal firm organization as well as sector organization. Specific consideration will be given to the inclusion and nondiscrimination of minorities in the sector interventions. Contacts will be established per intervention with the relevant private sector actors along the value chain including other clusters of actors in the North and South of Kosovo to promote inclusiveness of all communities living in Kosovo. Business models that offer intrinsic selfmotivation for the actors to increase participation and avoid any ethnic and gender related discrimination will be promoted. However, if such constraints are identified, specific consideration will be given to activities and interventions addressing them.The overall sector governance strengths and weaknesses are presented in the table.

	Key features	Key strengths/ Opportunities	Key weaknesses/ threats	Major trends
Context beyond the sector	- Subject to rules and regulations - Subject to disciplining effect of free trade regime	- The sector is receiving higher degree of political attention	- Weak/loosely defined relationships - Lack of coordination among actors in the value chain - Lack of skills and knowledge - Lack of clustering efforts (share of technologies and know-how) - Other business enabling obstacles	- Opportunity for reform because of perception changes at political level.
Actors, interests and incentives	- Various actors with different power and incentive structures	- Several layers of actors apart from political and core public institutions	- Resistance for change among key actors - Possible diverging/ conflicting interests among actors	- Opportunity for reform because of promising mix of actors.
		- They are subjected to different check and balance and disciplining relationships - Many drivers of change		
Governance/ accountability relations	- Apart from formal hierarchical relations, the sector actors are characterised by informal (loosely defined) relations	- Good mix of actors	- Weak check and balance organisations	- Institutional reforms (e.g. increasing capacities to properly implement free trade agreements); - Other business enabling environment reforms with donor support

Minorities

The PPSE project will target minority communities in Kosovo, i.e. the Serb minority in areas in the north and southern regions of Kosovo. Mainstreaming, i.e. targeting Serb communities in outcomes 1-3, will be the principal vehicle. Based on analysis, PPSE, assumes this will be possible for the Serb minorities in the South of Kosovo, which face similar market challenges (e.g. weak value chain linkages, access to finance, small markets), as well as Albanian businesses.

Collection centres in southern Kosovo will be approached for testing the model of cooperation, which can be expanded to the market actors in the north. Farmers in southern Kosovo will be encouraged to establish closer links with food processing plants. A number of potential suppliers of ‘homemade food products’ like dairy products and non-wood forest products will be included into interventions.

PPSE is an equal opportunity employer. PPSE is against discrimination and racism. PPSE project employees are obliged to maintain a non-political profile in their dealings in official and public matters.

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