

CAPEX

CAPITALIZATION OF EXPERIENCES



DEVELOPING MARKETS THROUGH BUSINESS LINKAGES

The case of the
bedding plant industry
in Kosovo

DECEMBER 2004

Swiss Project for Horticultural Promotion - **KOSOVO**

Time Frame	2001- today
Implementation	SPHP-K/ Intercooperation
Partners	Swisscontact, PUM
Financing	Swiss Agency for Development and Cooperation SDC
Localization	Kosovo
Target Population	Pilot farmers, farmer groups/ associations/ enterprises

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INTRODUCTION

The production of seasonal annual plants used to be very small in Kosovo during the former Yugoslavia. Bedding plants as well as ornamental trees and shrubs were mainly produced by state- owned companies that maintained public parks, possessed flower shops, and exchanged products with different Yugoslavian enterprises.

After the war a private sector started emerging and was from 2001 supported by SPHP-K. In 2004, the domestic production of bedding plants accounted for approximately € 250,000 and around 28% of the total bedding plants sold were produced in Kosovo. Production of the flower and decorative plants in Kosovo are significant in the segments of:

- Bedding plants for gardens, balconies, and parks.
- Ornamental trees and shrubs, but only to a limited degree, for private and municipal planting.

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The domestic production is spread in whole territory of Kosovo.

In 2001, assessment of the subsector has revealed that there were only two private nurseries in Kosovo producing bedding plants and other types of ornamentals. Additionally, there was no locally produced substrate available and nurseries were producing a relatively poor quality substrate by themselves.

Today, around ten new producers have started to produce seasonal annual plants for gardens, balconies, and parks and two of them made an initial start with indoor pot grown plants and cut flowers. It is worth noting that, two of the new producers – Labi, Agrounion- are also established importers. And two companies supported by SPHP-K started the production of worm compost and industrial compost.

The assessment of subsector's constraints and opportunities revealed important potential for strengthening the domestic bedding plant industry.

Three opportunities to develop a viable bedding plant sub sector facilitating business linkages were identified and subsequently addressed:

1. The current business capacities for bedding plants needs to be increased:
 - On the supply side, the flow of value-added products can be improved. Typically, well equipped commercial nurseries may supply growers with high quality seedlings and domestic compost factories may supply nurseries and growers with a more economic substrate. There are good opportunities for small producers (including women and minorities - generally less equipped) to commercialize the growing-on of bedding plants to point of sale. Finally, there is the opportunity for importers and retailers knowing the market and having capital assets to develop their production capacities
 - On the demand side, there is an opportunity to broaden the range of domestically produced bedding plants, to introduced new varieties and to develop new specialized markets e.g. cut flower, landscaping and herbaceous perennials.
2. The current quality standards for ornamentals need to be improved. There is an opportunity for ornamental growers organized in a network to improve the quality of the final product (bedding plant) through the use of plastic containers, etiquettes and compost based substrate in order to better compete with imported products.
3. Skills and knowledge (know how) within the ornamental sub sector needs to be improved. For example, the lack of expertise causes important losses during the germination phase (this has reached an average of 60%). Linkages with other players who can offer ideas expertise, connections and markets may stimulate producers to develop new processes and/or improve production. There is an opportunity to establish business linkages between experienced seedling producers and newly establish growers and to update commercial enterprises with the newest technology and with the latest market development in Western Europe production practices.





INTERVENTION OF SPHP-K

Since 2001, within these framework conditions, SPHP-K has facilitated the development of the subsector and supported different actors with the overall aim to develop the market of bedding plants in Kosovo and therefore generate more income in the rural areas. The successive steps undertaken are described in table 1.

During the first year the project carried on field and market survey and took the decision to support the ornamental plant sector. At the end of the year, the project organized a study trip in Switzerland and created a nursery network to encourage interlinks between private nurseries, and help producers identifying new business ideas and opportunities.

During the second and third year, opportunities for interventions were identified and seven Participatory Technological Development (PTD) agreements were implemented for the introduction of new species of pot grown bedding plants, the establishment of three mini garden centers, the setting up of a small factory for worm compost production, and the establishment of a local company for industrial compost production. As a first crop, a small amount of Pelargonium and Impatiens (10,000 plants) was successfully marketed locally and raised the interest of new producers.

From the end of the third year onward, emphasis has been given to explore opportunities for leveraged interventions for further expansion of the ornamental programme. On the supply side, two PTD agreements including capacity building and new technologies were implemented with well established horticultural enterprises to develop the production and commercialization of high quality seedlings. On the demand side, a group of thirteen growers, often with little flower production experience were linked through the ornamental interest group and implemented PTD agreement to develop their capacities of growing bedding plants. At the beginning of 2004, 50,000 high quality seedlings of 15 different species of spring/ summer bedding plants were purchased at a 50% reduced price from the two newly established commercial seedlings producers.

During the same period, a PTD was implemented with the newly established industrial compost factory to improve the quality management of the compost and develop a substrate adapted to the needs of the bedding plant industry. As a promotion tool, small quantities of this new product were distributed directly together with the seedlings by the nurserymen.

At the end of 2004, more than 30,000 seedlings were ordered directly to the nurseries, and more than 150T of compost were sold without project's intervention.

These actions had different expected results:

- Develop the domestic production of high quality bedding plant seedlings and introduce them into the market (the growers)
- Develop the domestic production of a bedding plant substrate and introduce it into the market (horticultural enterprises)
- Increase quantity of domestic produced bedding plants and improve their quality
- Introduction of new crops and species into the market
- Create business to business linkages for exchange of experiences and transfer of knowledge

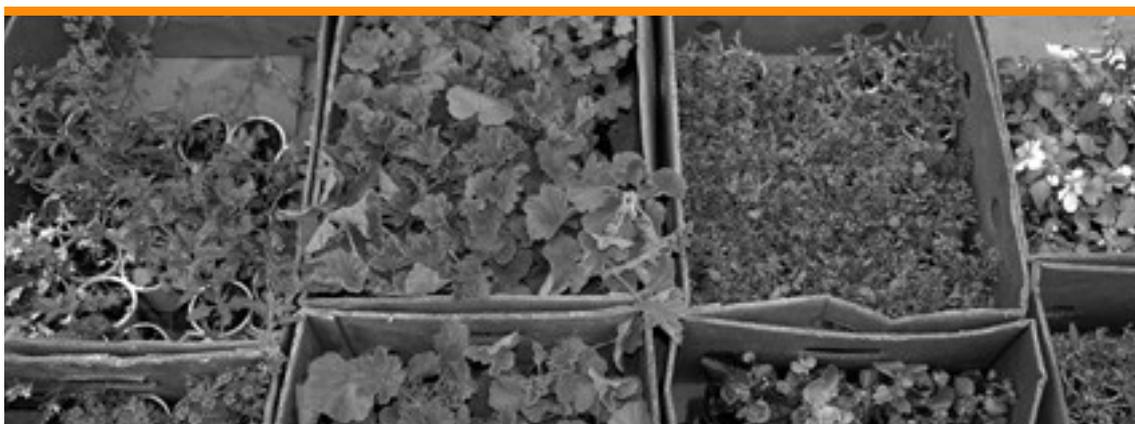


Table 1: Recapitulation of the actions fulfilled and main Accomplishment

	ACTIONS FULFILLED DURING THE INTERVENTION	SUMMARY OF ACCOMPLISHMENT
Year 1 2001	<u>Step 1:</u> Investigation through farms and market surveys	1. Decision of the project to support the nursery sector
	<u>Step 2:</u> Situational analysis through the nursery clients	1. Selection of clients (ornamental plants and compost) 2. Definition of activities within the Nursery Network
	<u>Step 3:</u> Participatory planning of activities	1. Study Trip to CH and identification of activities
Years 2-3 2002- 2003	<u>Step 4:</u> Start up of activity including training and co financing of activities	1. Implementation of activities within the Nursery Network (Compost manufacturing, container growing plants, garden center)
	<u>Step 5:</u> Monitoring and assessment	1. Technical assistance 2. Assessment of the technological and market potential
	<u>Step 6:</u> Participatory evaluation and planning of activities (2002-04)	1. Demonstration to other farmers 2. Selection of the ornamental sector for Project's intervention with 13 clients
	<u>Further expansion of the Ornamental Programme</u>	1. Ornamental interest group with 13 members 2. Two nurseries selected to produce seedlings 3. Introduction of 15 species amongst 13 growers 4. Compost development and assessment 5. Promotion of quality standards 6. Assessment of the new species and varieties 7. Capacity building
Year 4 2004-	<u>Scaling up –replication</u>	1. Focus on seedling production. 2. Promote joint marketing 3. Development of new products 4. New crops (herbaceous, perennials, cut flowers) 5. Capacity building (landscaping, techniques, marketing, management)

During the Project's intervention, ornamental producers have requested various types of business services. In addition to the technical, methodological, marketing support received from SPHP-K, pilot farmers received services and support from private sector, other NGOs, donors, government, family and banks (Table 2).

Table 2: Business Services received, by Ornamental plant producers and facilitated by SPHP-K during the period 2001-2004

BUSINESS SERVICES CATEGORIES	PROVIDER	CLIENTS	FUNDING	FORM
Training and technical assistance		W = Women M = Men		
<i>Trainings and technical assistance for bedding plant producers, and compost producers (3,000€)</i>	<i>SPHP-K, consultants, senior expert</i>	<i>5W, 8M 2 compost companies</i>	<i>SPHPK, Swisscontact, PUM</i>	<i>Subsidized</i>
<i>Advice to bedding plant producers</i>	<i>Nurseries</i>	<i>5W, 8M</i>	<i>Clients</i>	<i>Embedded services</i>
Product Development				
<i>Introduction of new species and technologies (9,000€)</i>	<i>SPHPK, nurseries, prod.</i>	<i>5W, 8M</i>	<i>SPHPK</i>	<i>Co-financed</i>
<i>Compost and substrate development (29,000€)</i>	<i>SPHPK, consultant, Institute of Agriculture</i>	<i>2 companies</i>	<i>SPHPK</i>	<i>Co financed</i>
Market Access				
<i>Promotion of Garden Centre (5.000€)</i>	<i>SPHPK, nurseries</i>	<i>3M</i>	<i>SPHPK</i>	<i>Co financed</i>
<i>Development of packages for compost, bedding plants (3.000€)</i>	<i>SPHPK, designer</i>	<i>6W, 17M</i>	<i>SPHPK</i>	<i>Subsidized</i>
<i>Trade fairs, open days and advertising (2.000€)</i>	<i>SPHPK, fair organizer, TV, newspapers</i>	<i>5W, 8M</i>	<i>SPHPK</i>	<i>Co financed</i>
Organization and management				
<i>Farm Management Trainings & Workshops (1.000€)</i>	<i>SPHPK</i>	<i>5W, 10M</i>	<i>SPHPK</i>	<i>Subsidized</i>
Input Supply				
<i>Linking nurseries, compost producers with growers</i>	<i>SPHPK, nurseries</i>	<i>5W, 10M</i>	<i>SPHPK</i>	<i>Non Subsidized</i>
Financial				
<i>Credits</i>	<i>Bank, family members</i>	<i>1F, 3M</i>	<i>Clients</i>	<i>Non Subsidized</i>

Direct financial support from SPHPK for years 2001-04 were 52,000€ (56% for compost and 44% for bedding plants). These figures do not include financial costs due to staff support and technical advice provided by Swisscontact and PUM.



RESULTS & ACHIEVEMENTS

There are 3 important results to be mentioned:

1. Increased business capacity
2. Increased competitiveness
3. Higher income and improved know-how

1. INCREASED BUSINESS CAPACITIES

■ Improved business linkages

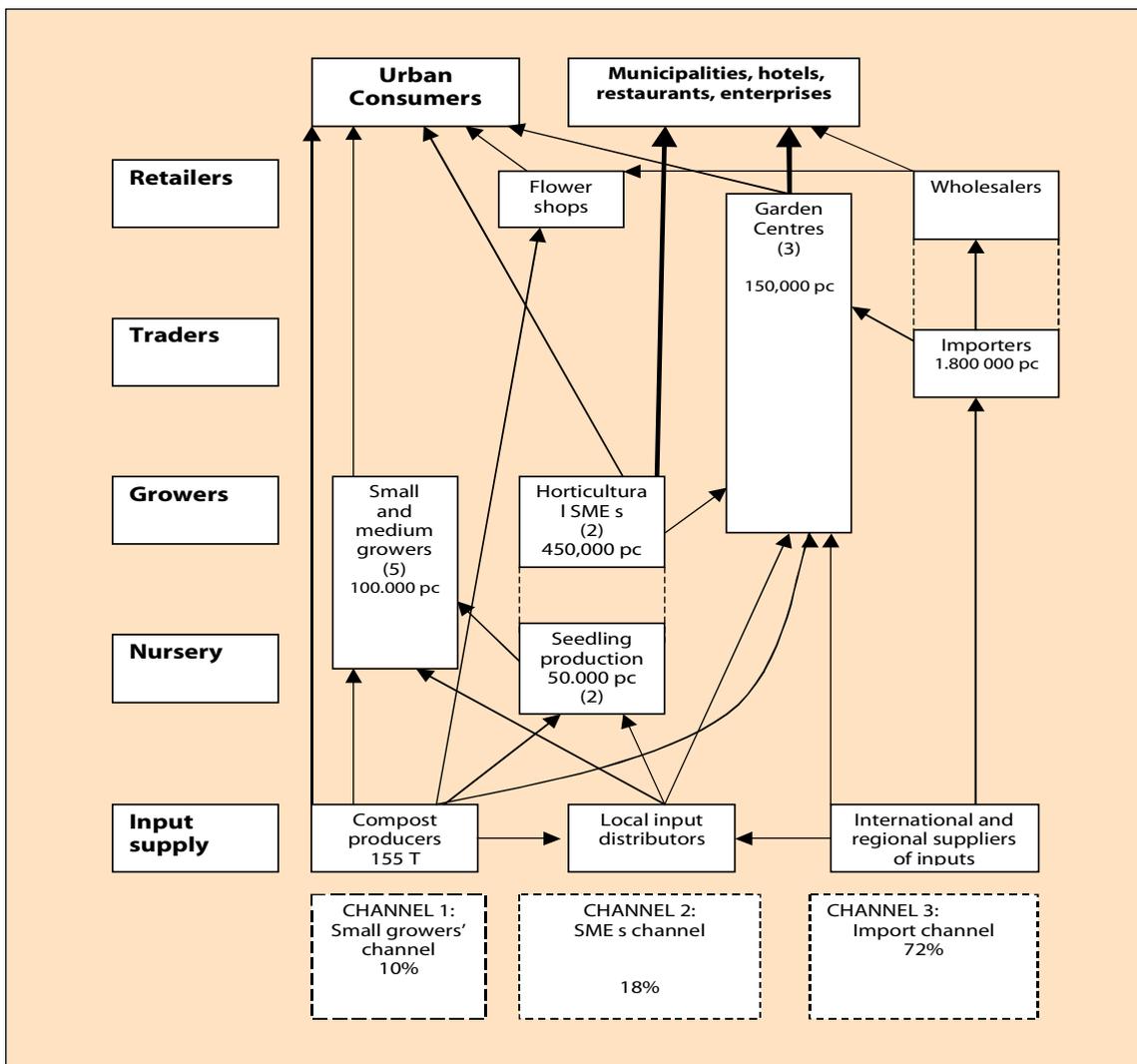
The project facilitated the establishment of new business linkages within the Value Chain for small growers and SMEs.

Small growers' channel and nurseries: In this channel, small and medium growers (including two widow led families) obtain their inputs from local providers (including domestic produced compost) and purchase part of the seedlings from local nurseries. Input suppliers generally provide embedded advice/ technical support together with their product. Commercialization is done either through local and weekly markets or directly from the farm.

SMEs channel: contains commercial producers mainly targeting hotel, restaurant, business facilities and municipalities besides selling directly from their enterprises. This channel is the strongest one in terms of capacity produced. It is important for this type of enterprises to develop strong business linkages with their suppliers (local and international) and with their clients (municipalities, hotels and enterprises).

The two market channels represent today around 25 % of the local market of bedding plants; the rest is still imported. (See fig 1)

Figure 1: Soft fruits marketing channels in the Southwest Kosovo



■ **Increased production capacities**

The domestic production in 2004⁶ was approximately 500,000 bedding plants; for 2003 and 2002 there were 210,000 and 125,000 plants grown respectively. These figures show that production capacities have been multiplying by 4 during the last three years. Main factors enhancing the positive development have been new investments; new enterprises entering the market and a growing domestic demand for outdoor landscaping and for private balconies and garden.

Concerning compost, out of a market volume of around 700 tons/ year imported yearly in 2002, two companies supported by SPHP-K started the production of worm compost and industrial compost in 2003 with around 35t and have increased to 155t their production capacities in 2004.

Table 3: Development of the annual seasonal plants and compost industry in Kosovo

	Unity	2002	2003	2004
Annual seasonal seedlings ⁷	Seedlings	nd	10,000	50,000
Compost (Industrial and Worm) ⁸	tons		35	155
Annual seasonal plants ⁹	Plants	125,000	210,000	500,000

Table 4: Locally Produce Ornamentals - Presence in the market in 2004

	Feb	Marc	April	May	June	July	Aug.	Sept.	Oct	Nov
Bedding Plants Seedlings		X	XX	XX						
Bedding plants				XX	XX	X	X			

X= beginning/end of season

XX= peak of production

■ **Diversification of the production**

Broadening of the range of local produced bedding plants, has been a main objective of Project's interventions. In Kosovo, top locally produced bedding plants are traditionally Petunia, Pelargonium, Ice Begonia and Viola. In 2003 and 2004, the project supported the introduction of less known crops like Ageratum, Tagetes, Salvia, Dianthus, Zinnia, Senecio, Dahlia, Fuchsia and Verbena.

6. It is difficult to compile data on, or even to estimate, total domestic production of annual seasonal plants since there are many unregistered individual producers who do not report their sales to anyone. Nevertheless, the Project estimated that the data that are coming from members of the ornamental interest group represents around 70% of the domestic production.

7. Production quantity average commercialized: no data for year 1, 10,000 for year 2, 50,000 for year 3.

8. Average production: 30 tons for year 1, and 150 tons for year 2 for industrial compost and 5t/year for worm compost.

9. Production quantity for locally grown plants is the same with the locally grown seedlings.

A major constraint for the development of the bedding plant industry is its high seasonality. Bedding plants are traditionally sold almost exclusively from March to June with prices and sales fluctuating throughout the year. Prices are high in March and low in June.

The introduction of different species - spring/summer and autumn/ winter bedding plants and the increasing use of improved crop management techniques like growth rooms, heating systems and fleeces made possible an extension of the calendar of commercialization presented in table 4.

2. INCREASED COMPETITIVENESS

■ **Cost of production**

The biggest economic problem addressed by the Project for bedding plant producers is the high production cost related to relatively small production

units and number of intermediaries. They often use low- quality seeds, substrates and operate with a low level of technology. Facilitating linkages between input suppliers, nurseries and growers, the Project contributed to reduce production costs from 0.38 cents to 0.28 cents per plant and therefore increase productivity.

■ **Quality characteristics**

The domestically produced bedding plants, if produced properly, last longer because they are grown under prevailing conditions and are acclimatized. On the other side, importers are buying small range of lower quality bedding plants to achieve a competitive price, which may attract buyers; consequently domestic bedding plants are usually better quality than imported ones.

3. HIGHER INCOME AND IMPROVED KNOW-HOW

The plants (seedlings and seasonal annual plants) and the compost sold during the 2004 season by members of the ornamentals interest group have generated around 127,350 € of revenue. Compared to two years before, the sales were more than triplicated.

Table 5: Evolution of revenues from the cultivation of bedding plants in Kosovo 2002-04

	2002	2003	2004
Bedding Plant seedlings	-	2,200*	6,500
Price/pc	0.30	0.30	0.2
Production cost	0.08	0.08	0.07
Qty commercialized		10,000	50,000
Compost (Industrial and Worm)		5,250	10,850
Price/litter		0.25	0.15
Production cost		0.1	0.08
Unit per year /litters		35,000	155,000
Bedding Plant growing till the point of sale	40,000	46,200	110,000
Price/pc	0.70	0.60	0.50
Production cost	0.38	0.38	0.28
Qty grown locally (average)	125,000	210,000	500,000
Total revenues	40,000	53,650	127,350

* Figures in EURO (€)

■ **Development of Business services**

A functioning bedding plant industry needs to offer key actors the opportunity to have access to various types of business services like training and technical assistance, product development, market access, organization and networking, input supply and financial services. During the period of intervention, the project has had a mixed role involved in both, direct provision of services (e.g. training, technical advice, networking, product development) and facilitation of market access, and financial services.

It is important to distinguish subsidised from non-subsidised services. Services under the non-subsidised category have been given in an embedded manner (advice) or commercially (input supply and credits). Other services like trainings, product development, and market access have been co-financed. It appears that producers are able to share part of the risks related to innovative activities.



KEY LESSONS TO BE LEARNED

Understand the market context and linkages. In economic sub sector like the bedding plant industry in Kosovo there are different levels of businesses supplying others. Producers don't exist in isolation; **they are part of bigger systems and this systemic context needs to be understood.** First, they buy from input providers (compost producers and seedling producers) and sell on their turn to retailers or/ and directly to consumers. Therefore, horticultural enterprises are both buyers and sellers. Having a bigger impact requires that projects intervene on this whole market system (both demand and supply side). In the case of the bedding plant industry, the supply of bedding plant seedlings has been improved in terms of quality and quantities, and the demand side (growers) has been stimulated by subsidizing for a limited period of time agreed quantities of compost and seedlings.

Producers often access knowledge and information from other producers. Traditional farmers, often not exposed to new market trends and/ or technologies may have little example for doing things differently and for pursuing new opportunities. Or linking them to other actors, who can offer ideas and connections, new processes and new products, can be developed to offer something new to consumers. In the case of the bedding plant interest group, numerous exchanges took place and business relations were created. As examples, experienced nurserymen provided new growers with advice, a compost producer received recommendations from key growers to improve his product and garden centers provided the group with market information.

Businesses like relationships with project's clients are more likely to produce desired impact than directional ones (more conventional). Interventions with individual producers need to be clear about what they should give and what they should get, and how this translates in wider change- beyond direct "beneficiaries". For the bedding plant sub sector, the project subsidized inputs at the level of the nursery, but the deal was that the nursery offered limited duration "discounts" for the new products that it supplies, stimulating new growers to test these new products.

Disadvantaged people within a sub sector often access markets and knowledge from "well off" market actors. The position of disadvantaged people needs to be analyzed subsector wide and opportunities for intervention been identified. For the Kosovo example, new business linkages have been facilitated. Firstly, commercial nurseries developed linkages with new growers - including 2 widow led families. Secondly, a garden center started collaboration with a Kosovo-Serbian family enterprise (with limited access to the market) purchasing its production.



KEY POINT

for sustainability and scaling up

The main challenge for a further development of the sub sector is how after the Project end appropriate services and information will be provided in the future. There are number of possible sources;

- **Specialized fee based services;** it is expected that for commercial horticultural enterprises general business services will be supplied by local providers like accountants and specialized consultants.
- **Embedded services;** it is likely that input suppliers and market actors (distributors, retailers) will increasingly provide better advice to growers on techniques and product development strengthening their relationship with them.
- **Financial services;** as more farmers are turning into entrepreneurs, banks will increase interest into the sector and make available more credit lines for the agricultural sector.
- **Producer association;** as the subsector develops, business collaboration or organization will increasingly be important for producers to defend their interests, sell their products and purchase inputs.
- **Government/ NGOs;** it is unlikely that NGOs will continue to provide direct technical advice on the medium and longer term. However, they still have a role to play for Government and NGOs in offering relevant information on market trends, research, standards and regulation.

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Information about a range of SPHP-K publications can be found under www.intercoopkos.org

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