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FRUITS VALUE CHAIN AND DISTRIBUTION CHANNELS IN KOSOVO

EKREM GJOKAJ[1]; KAPLLAN HALIMI*[1,2]; VALON XHABALI; DRINI IMAMI[3]; MUJE GJONBALAJ[4]
[1] *University of Pristina, Faculty of Agriculture and Veterinary, Agriculture Economics Department, 10 000 Pristina, Kosovo*
[2] *Leibniz Institute for Agricultural Development in Transformation Economies (IAMO), 06120 Halle, Germany*
[3] *Agricultural University of Tirana, Faculty of Economics and Agribusiness, Koder – Kamez, 1029 Tirana, Albania*
[4] *University of Pristina, Faculty of Agriculture and Veterinary, 10 000 Pristina, Kosovo*

Abstract

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The objective of this study is to analyse, for the first time, raspberry and strawberry value chain information in Kosovo. The study aims to address a series of research objectives and questions related to the value chain organization and than using series of datasets (both secondary sources and primary data), instruments, methods and set of indicators to provide analytical information about the selected value chain trends. The primary data consists of a structured farm survey (sample = 200) conducted during December 2015 – January 2016, and semi-structured interviews carried out with value chain stakeholders. The paper analysis the value chains structure and actors' profile and it describes the main channels of distributions. It analyses nature of relations between actors, governance in the agro-food value chain, particularly, implications for market access. The paper combines quantitative analysis (eg. statistical analysis of the structured farm survey using SPSS) with qualitative analysis (eg. findings from semi-structured interviews). We analyse opportunities, constraints and challenges that characterise this value chain, and provide recommendations how they can be tackled by policy-makers and private sector actors.

Key words: value chain coordination; distribution channels; strawberries; raspberries; Kosovo

Introduction

Economic and agrifood sector development is changing rapidly in developing and transition countries. Dixie (1989) suggests that as countries experience economic growth, their rate of urbanization and food demand tends to increase substantially. These changes affect agricultural production and the marketing systems.

Kosovo, emerging as an independent country from a planned economy after going through the war, has been facing the challenges of strengthening institutions, adapting to free market economy demands, and attracting investments. The agri-food sector as a whole is facing problems with creating market institutions, establishing marketing and distribution chains, meeting EU food safety and quality, complying with veterinary and phitosanitary standards, and building the administrative capacity to support these processes. The agrifood value chain is expected to change substantially in the coming years as the share of supermarket in the retail sector is expected to increase like to other transition and developing countries significantly similar. Supermarket chains are typically very demanding towards suppliers in terms of volume, consistency, quality, costs, and commercial practices, emphasizing long term relations and contracts with suppliers.

Agriculture is still one of the main economic sectors of Kosovo in terms of contribution to GDP and has always been a key sector for the economy of Kosovo. Referring to Ministry of Agriculture, Forestry and Rural Development (MAFRD), horticulture production is very important for Kosovo's

**Corresponding author*: kapllanhalimii@gmail.com

agriculture accounting for approximately 40% of the total agricultural output. In addition, the fruit sector in Kosovo is one of the sectors with the highest priorities within agriculture. The recent developments show that the fruit sector is developing fast. The factors that contributed to this are the good agro-ecological conditions for fruit production and the available labour force. However, the sector faces several obstacles such as the lack of investments, old orchards and low quality of varieties. Nevertheless, the fruit production areas under orchards were 8,342 ha in 2013, representing 2.81% of total agricultural land. Within this area, traditionally apples (24.3%) and plums (22.1%) are predominant. The total area under apples, plums, strawberry, blackberry, and raspberry) covers 60% of all planted fruits (MAFRD, 2015). Henceforth, fruits comprise an important share of horticultural production - strawberries and raspberries have modest shares and are produced in small scale – however they represent an important market opportunity, and thereby there has been a special attention by policy-makers.

Coordination is a key indicator affecting value chain performance, in order to understand the relationships within the value chain for fruit and fruit products in Kosovo, there is a need to investigate the relationships among various actors and to present a description of their direct and indirect influence on the whole chain performance. Nonetheless, the processing industry in Kosovo requires considerable amounts of fresh fruit, in addition to fruit concentrates, especially from fruits that do not grow in Kosovo. The local companies usually process the fruits from the local farmers or from their own orchards.

The objective of this study is to analyse, for the first time, the evolution and performance of the value chain of fruits, with focus on berries (raspberry and strawberry), in Kosovo. We analyse opportunities, constraints and challenges that characterise this value chain, and provide recommendations how they can be tackled by policy-makers and private sector actors.

The paper analysis the value chains structure and actors' profile and it describes the main channels of distributions, sales and marketing for the selected products. There is a special focus on the nature of relations between actors, governance in the agro-food value chain, particularly, implications for market access (very important for smaller agriculture holdings).

Theoretical Background and Literature Review

Agriculture is characterized by high level of uncertainty/risks; while in transition countries farmers face additional challenges. The transition can be described by considerable uncertainties which are caused mainly by inefficient agriculture policy, low access to services, weak market structure and economic recession. The absence of enforceable contracts to set up any kind of vertical coordination has become difficult. Under these conditions, it is expected that spot markets dominate over other type of market coordination mechanisms.

Contractual governance refers to any agreements reached by parties to reduce risk and uncertainty in exchange relationships (Hughes, 1994). The formal contract, as a mechanism of such governance mode, represents pledges and promises to perform specific actions in the future (Macneil, 1978), protecting firms from opportunistic behaviour of their partners (Williamson, 1975). Contracts serve as a coordinating instrument also. For instance, the contract clarifies mutual expectations and establishes a basis for shared common ground by defining rules, roles and responsibilities (Dixie, 1989).

Formal arrangements tend to reduce the uncertainty that gives rise to high transaction costs (Poole et al., 1998) but do not represent the only instrument available. Contract farming is a significant institutional arrangement in the agriculture sector that facilitates market access for smallholders, especially when the transaction costs of direct market participation for producers and/or traders and uncertainty is high (Costales and Catelo, 2008). The empirical evidence suggests also that larger farms prefer formal contracts, whereas informal contracts are more accommodating to the needs of smallholders (Fafchamps and Lund, 2003).

Recently there has been a growing literature focusing on various coordination/governance structures of agriculture in transition countries employing different frameworks e.g. (Rudolph, 1999; Gow et al., 2000; Dries and Swinnen, 2004; Gorton et al., 2006; Fertő and Szabó, 2002). There has been a special interest in the role of contracting in transition agriculture (Boger, 2001; Boger and Beckmann, 2004; Szabó and Bárdos, 2006; Imami et al., 2011; Gerdoci et al., 2015). Improved vertical coordination (often based on contracts) is necessary to enable traceability in the food sector. There is gap of research on agrifood value chain coordination and its implications in Kosovo.

Methodology

The value chain study builds up on previous relevant research work conducted in Kosovo. Desk research which was conducted in the early stage of the study provides insight into Berries Value Chains developments, and furthermore it served as a basis for preparing the primary data collection to address information gaps. Another component of the desk research was the analysis of statistical databases possessed/provided by MAFRD, KAS as well as international databases such as UNSTAT, FAOSTAT, EUROSTAT.

The interviews and focus groups are developed according to a protocol, which has been developed in consultations with various experts and has been tested and refined at several stages.

More specifically, the paper aims at addressing the following research questions:

● Which are the distribution channels of fresh berries to the final market and how have they evolved over the last years?

● Which are the prevailing forms of coordination (spot market versus contracting) (eg. depending on the end markets)?

● How are the standards set and complied along the value chain in context of growing domestic market awareness about food safety standards?

For each of the above research questions, there corresponds a specific section in the farm structured survey questionnaire. The paper combines quantitative analysis (eg. statistical analysis of the structured farm survey using SPSS) with qualitative analysis (eg. findings from semi-structured interviews). In addition, Table 1 below shows the distribution of semi-structured interviews.

Table 1
Semi-structured interviews carried out with VC actors during phase 1

Category	Frequencies
Farmers	9
Processors	1
Wholesaler	3
Retail	3
Experts	1
Total	**17**

Source: Field survey

There were interviewed and 201 fruit (berries) farmers of which 100 specialized in raspberries and 101 in strawberries (Table 2). 92 percent of interviewees were farm managers.

Table 2
Farm sample structure

Product	Frequency	Percent
Raspberry	100	49.8
Strawberry	101	50.2
Total	**201**	**100**

Source: Field survey

Average size of farm households is relatively high, namely 8 members – that is related to the higher birth rates in rural areas as compared to urban areas, and also the tradition of extended generations families (e.g. elders live with children and grandchildren). More than ¼ of the sample households' members are up to 18 years old. Farm manager (who typically are defined as households heads) have significant experience dealing with agriculture in general, and with the chosen (specialized) product specifically (Table 3).

Table 3
Farm household socio-demographic characteristics

Farm household characteristics	Mean	Std. Dev.
No of hh members	7.0	2.7
No of hh members above 18 years	4.8	2.1
Experience of farm manager (HH head) (years)	15.4	10.7
No. years of cult. berries on your farm	3.9	3.4

Source: Field survey and own calculations

Value Chain Structure, Distribution Channels and Vertical Coordination

Our analysis shows that the situation in the fruit VC is very complex, currently in the fruit value chains the needs of fresh fruit producers and traders do not coincide well with the needs of fruit processors.

The processing industry in Kosovo requires considerable amounts of fresh fruit, which is not always obtainable on local markets and covers their need by imports.

In many cases, local processing companies process the fruits originated from their own orchards. One of the main reasons of such a situation is a mismatch between price and quality expectations between fruit producers and fruit processors.

The relations between fruit farmers and fruit processors are typically not as good as between fruit producers and fresh fruit traders (MAFRD&ADE, 2016).

Value chain structure, distribution channels

The *horticultural processing capacity* comprises of at least 10 processing companies. Following the privatisation of large former-Yugoslavian factories, the current overall capacity is more than abundant for the processing needs of the domestic production but still largely unexploited, as the majority of local processors are still relatively small and able to cover a minor part of the processed vegetable demand.

Nowadays the horticultural product lines comprise pickles, juice, canned vegetables, jam, marmalade, ajvar. In the case of strawberries, modest levels of production of juice are reported.

The traders in Kosovo's value chain fruits (berries) consist of wholesalers and retail outlets. In the case of fresh products

Box 1: HITFLORES

HITFLORES is one of the main wholesale centers in Kosovo with 10 years of experience. It is located in Dragash and is the only one operating in Prizren region.
Berries comprise one of the key products collected by the center and are mostly obtained from local farmers of the region, from both small and large ones through pre-contracting and contracting.
Additionally, the company has some surfaces of land planted with raspberry and from 2014 it is experimenting with 1ha of wild strawberries.
The main destination of the raspberries is export to European market which is usually carried out directly by the company without intermediaries.
Strawberries on the other hand are mostly destined for the internal market.
One of the important components of company's activities is to provide advisory and technical support to farmers through trainings related mostly to quality standards and by providing packaging materials for farmers.
The staff is qualified and certified by HELVETAS and USAID.
Furthermore, the company is an initiator for the establishment of Raspberry Farmers Association in Dragash. Since 2008, the company is certified to produce also bio-products, which are viewed to have large potential due to higher prices.
Source: Field interview

for processing, it is more common that farmers sell directly to processors, but there often sales are done also via wholesalers.

The main issue is that fresh fruits growers sell to fruit processors only the fruits that cannot find another market.

Fruits and vegetable produced for fresh consumption are sold directly to wholesalers and retailers directly. There are collection centers and cold stores in the main regions of production of raspberry (e.g. Podujevo, Shterpce) (Box 1).

Retail market consists of several locally owned expanding supermarket chains, small convenience shops and green markets. Despite the growth of the supermarket chains, it is still common that consumers buy fresh fruits and vegetable in the green markets and convenience shops.

Also direct buying from producers are reported (that can take place in green markets where also farmers sell their produce) (for more see the following section on distribution channels).

Table 4
Main distribution channels by sector

Category	Raspberry		Strawberry	
	Frequency	Percent	Frequency	Percent
Wholesaler	98	98.0	30	30.0
Processor	1	1.0	3	3.0
Retailer	0	0.0	57	57.0
Direct sales to HH	1	1.0	10	10.0
Total	100	100.0	100	100.0

Source: Field survey

Table 4 below presents the main distribution channels.

Wholesalers are reported to be almost the only channel to which raspberries are distributed, reported by 98% of the interviewed raspberry producers.

The main destination of raspberries is for export to European markets, and it is therefore logical that the exports are carried out by wholesale companies.

Strawberries on the other hand are mostly traded in the domestic market in Kosovo.

As shown in the results, about 57% of the interviewed strawberry producers report to distribute their products to retailers, followed by 30% that report to distribute their products to wholesalers (Table 5).

It is obvious that for larger farms (which were the target of our study), direct sales to households are not of significant importance as compared to some smaller farmers who are more likely to engage in direct sales.

Focus group interviews with farmers, for example, point out that farmers generally distribute their produce to the same wholesaler and processor that operate in the area.

A distinction in terms of fruits needs however is to be noted.

A narrative illustration of these distribution channels is presented in Box 2 and Figure 1, below.

Table 5. Distribution channels for Fruits

Category	Raspberry			Strawberry		
	N	Mean	Std. Dev.	N	Mean	Std. Dev.
Self-consumption	101	1.45	4.19	100	.7338	1.23575
On farm processing	101	0.21	1.99	100	.1200	.85611
Sell processor	101	0.98	9.85	100	3.0500	12.72425
Sell directly to HH	101	0.54	4.98	100	5.7200	15.02865
Wholesaler	101	95.00	17.06	100	25.2020	38.18694
Retail outlets	101	0.64	2.69	100	55.3200	40.17610

Source: Field survey and own calculations

Box 2: Distribution channels for raspberry and strawberry
According to interviewed farmers, the current trend in fruit cultivation is inclined mostly towards raspberry production due to its higher profitability as compared to strawberries and because of the guaranteed market. One of the farmers explains his distribution channel in the following way: *"Generally, I sell 80% of raspberry production to the collection centers (wholesaler) in the area, whereas the remaining 20%, I sell it to the shops. The produce is usually picked up at my farm by the wholesaler representatives"*.
Other farmers report similar shares, with the smaller share sold directly to shops, to bakery stores to be used for sweets and ice-cream or sold directly to households. For farmers, raspberries do not have guaranteed sales to be taken every day to the market. According to them, although a weekly market in the city exists, it is not profitable to take the produce from the village to the city because of the high costs involved.
Wholesalers report that raspberries are usually exported to European markets and very little is distributed to the internal market in Kosovo. The main route for exports goes via Serbia, but there are cases, when wholesalers have direct exports to the EU market.
Most of the raspberries, according to wholesale representatives, are collected from farmers in the nearby villages, without making a differentiation between small, medium, or large farmers, although larger farmers normally dominate the supply because of the larger production.
Apart from higher profits and guaranteed market, another reason why raspberries are not commonly distributed to the internal market – as reported by respondents of the different groups – is related to the lack of tradition for daily consumption of raspberries as fresh fruits.
Strawberries, on the other hand, appear to follow a slightly different distribution channel/destination.
While farmers are the main supplier for wholesalers, retail outlets and processing companies, wholesalers are also another important supplier for retail outlets and processing companies.
Most of the supply chain actors' downstream report that the majority strawberries are supplied by farmers (up to 80%), imported strawberries from neighbouring countries, especially Serbia, is reported to be another source of supply.
Specifically, the imported strawberries from other countries are considered by farmers as the reason why the strawberry cultivation does not appear attractive anymore. Farmers complain that the prices for strawberries have gone down and the market is no longer guaranteed (which could have resulted from the increased area under cultivation in the recent past, in Kosovo and elsewhere in the region).
Additionally, while wholesalers, farmers and retail outlets market the strawberries within Kosovo, processing companies often export part of the final product (strawberry jam, strawberry juice, etc.) also abroad, although in small shares.

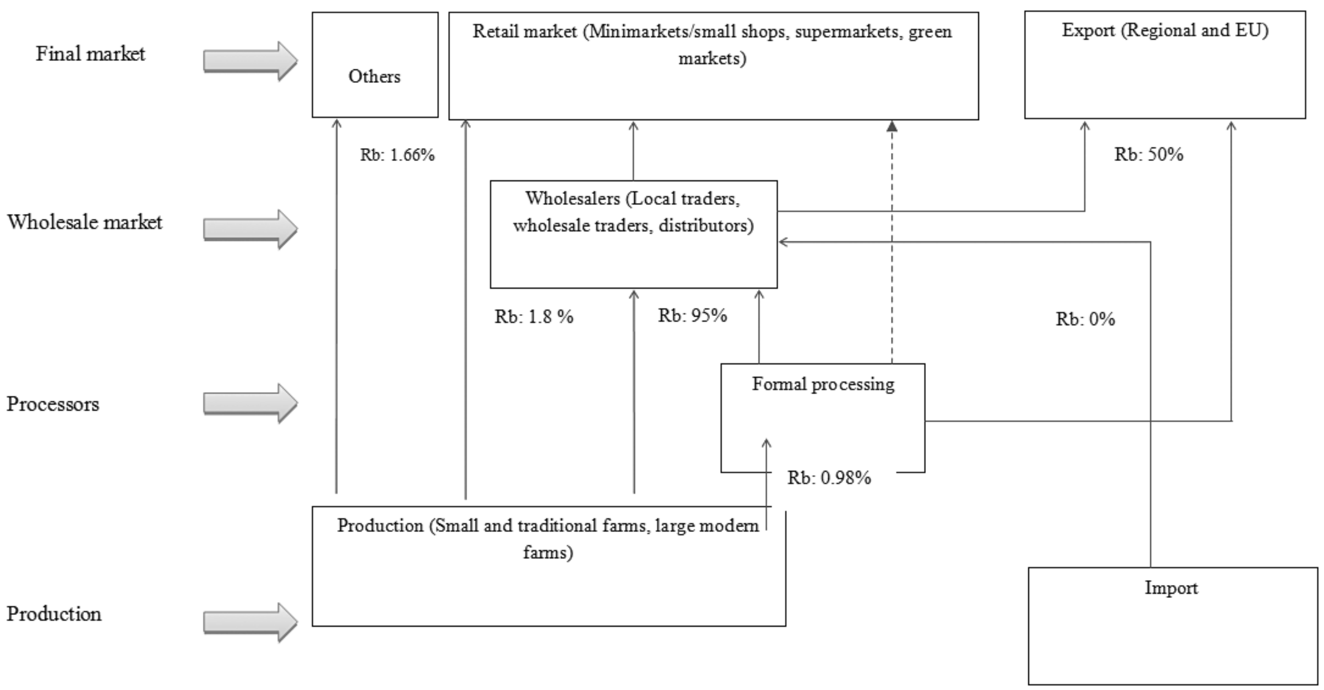

Fig. 1. Fruits (Berries) Value Chain Kosovo

Value chain relations and governance

While the above subsection was focused on explaining the distribution channels, this section will analyse the relations and governance mechanism that regulate the distribution of products across the value chain for the three sectors. As Table 6 shows, market relations are mostly regulated through verbal agreements.

Table 6
Farm relations with main buyers

	Frequency	Percent
Relations with main buyers (contract)		
Written contract	34	17.0
Verbal agreement	131	65.5
No agreement	35	17.5
Total	200	100.0
Relations with main buyers (timespan)		
Daily	57	36.3
Several weeks	15	9.6
Several months	48	30.6
More than a year	37	23.6
Total	157	100.0

Source: Field survey and own calculations

Verbal agreement is reported to be the most common arrangement with 65.5% of the cases, whereas the market arrangements regulated through written contracts and no agreement are reported in 17% and 17.5% of the cases, respectively.

Apart from simple goods exchange, i.e. products vs., money, for a transaction to take place and to be repeated in the future, some quality assessment of the products need to be ensured to avoid any opportunistic behaviour from the seller (in this case, the farmer) (Table 7).

Table 7
Payment mode for the three sectors

Category	Frequency	Percent
Cash	170	84.6
Bank	31	15.4
Total	201	100.0

Source: Own survey

Only 2 interviewed farmers are certified with Global Gap while no farmer is reported to be certified organically - the majority of them are not familiar with these certification schemes.

The logical expectation from the findings discussed so far would be that the product is checked and assessed at the time of the exchange since most of the vertical value chain coordination takes place on the spot and is predominantly based on verbal arrangements (Table 8).

Table 8
Time of product ordering for three sectors

Category	Frequency	Percent
On the spot	170	87.6
Weeks	10	5.2
Months	14	7.2
Total	194	100.0

Source: Field survey

Such an expectation is confirmed also by the results illustrated in Table 9, below. The limitation, is that lack of traceability and internationally recognized certification, can represent a barrier for export market.

Table 9
Quality assessment from buyers for three sectors

Category	Frequency	Percent
Preliminary visit on the field	28	13.9
Product inspection before/during purchase (on the spot)	155	77.1
Lab analysis	5	2.5
Guarantee through intermediates	0	0
Personal trust	13	6.5
Total	201	100.0

Source: Field survey

Carrying out laboratory analysis for product quality and personal trust between the exchanging parties are reported in very few cases. Development of personal trust is especially related with the frequency of market exchange. As transaction costs theory suggest, in the case of recurrent transactions, transaction partners become more familiar with each other (i.e. the importance of trust) and with the products transacted, creating routines. This directly results in a decrease of the transaction costs and will also moderate the tendency to behave opportunistically (Ménard, 1996; Williamson, 1975). The results of this study show that almost 60% of the farmers sell to the main buyer (Table 10).

Table 10
Trading partners

	Frequency	Percent
Same buyers	120	59.7
Different buyers	81	40.3
Total	201	100.0

Source: Field survey

Conclusions and Recommendations

Although the agro-ecological conditions for fruit production are relatively good and labour is available, the sector faces several impediments, e.g. old orchards and varieties of poor quality, lack of opportunities for irrigation, lack of storage for preservation of fruits, poor equipment on classification and packaging for trading the fruits. The quality of fruit seedlings is low.

The lack of adequate irrigation and fertilization results in low yields. Many farmers still do not have the required skills and knowledge for the appropriate technology and do not know how to use the tools for the protection of trees.

The treatment of trees after harvest is inadequate. The market requires continuous and homogeneous amounts of fruits and of high quality.

In the fruit sector, the relation between fruit farmers and fruit processors is not as good as between fruit farmers and fresh fruit traders.

The main issue is that the price received for fresh fruits and therefore the profits of fruit growers are much higher if the product is sold to fresh fruit traders in comparison with selling the same product to processors.

In extreme cases, fruit producers even do not sell to processors as the harvesting or transport costs are higher than the expected revenues. In Kosovo, all fruit is produced for the fresh market even if some berries go straight into deep freezing.

There is no fruit grown exclusively for the processing industry. The latter can be seen as the last resort for farmers to sell their products (surplus or lower quality) and is definitely not the favourite partner of the fruit farmer.

Below are the key findings of the study:

● Horticulture sector is largely dominated by spot market and informal contracts in relations between farmers and buyers – there are gaps in quality and safety standards enforcement/implementation. Spot market does not provide traceability, while internationally recognized certifications such as organic, GlobalGAP etc are not common.

● Strawberries are intended for the domestic market; to contrast a declining production trend and stagnant demand, actions to revive domestic production have been taken by development projects. Domestic demand of strawberries has been increasingly covered by imports that score about 40% of total supply.

● Regional producers of strawberries are quite competitive. This environment is quite challenging for domestic producers. Also, producers presently see raspberry as a better option.

● Raspberry cultivation was recently introduced by development projects, primarily intended for export. Production is small, but increasing and so far succeeded in find markets. Producers are interested because of good market opportunities offered so far by the product. Should production substantially increase, Kosovo operators would meet problems in scaling up operations, with relevant need of processing capacity (for a share of the product), increasingly complex logistics and harsh competition from lead players, such as Serbia and Poland.

Competing at domestic market and accessing export market is and will become even more difficult for local producers, especially for smaller farms. Consequently, local producers should implement strategies that enhance access to market and efficiency.

Important aspects in this context are establishing:

a) Long term relations and contracts with buyers (improving vertical coordination, including also farm contracting), and

b) Cooperation/collective action (improving horizontal coordination).

c) The financial/state support should foresee additional measures aiming at supporting diverse cooperation activities between various types of producers and processors, for instance fruit farmers and fruit processors along the value chains.

d) Better linkage means more communication and transparency. Should such a support come to effect, it would enhance planning on both sides of value chains: the farmer would know prices in advance and processors could be in a better position to plan raw material supply, utilization of owned capacities, and necessary future investments.

These aspects are highly interrelated as often the only way for small farmers to have long term relations and contracts with buyers is through participation in cooperatives – farmers bargaining power in the contracting process can be strengthened if they are grouped and cooperate. Standards, including traceability, can be achieved, improved and maintained only through efficent vertical and horizontal coordination.

Following EU rural development policies, several initiatives to develop local markets and efficient food supply chains have already been put in place to support and benefit farmers, distributors or consumers. Some specific strategies that can be implemented by policymakers include:

● Improvement of the regulatory framework on food safety

● Incentives to farmers aimed at fostering the adoption of international standards such as FAO GAP, or Global GAP or implementation of a fully equivalent national standard.

● Adoption of a national legal framework for quality schemes.

● Promotion of horizontal cooperation, eg agriculture cooperatives, and on the other hand, improvement of vertical coordination.

● Promotion of vertical cooperation, eg integration between fruit producers and fruit processors does almost not exist. Prices are rarely fixed by contracts between farmers and processors due to strong price fluctuations. This also prevents the establishment of long-term agreements between farmers and processors, having a negative impact on the raw material available for processing.

Finally, the subsector of frozen fruits is developing more recently. It involves mainly berries, which are produced to become deep frozen, packaged for final consumers in smaller retail packages and also in big cardboard boxes for the food industry.

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