# KOSOVO WOOD SECTOR ASSESSMENT

## 2015 OPPORTUNITIES AND CHALLENGES UPDATE

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This report follows on previous assessments of the Kosovo wood products sector conducted in past years by the Government of Kosovo, USAID, UNDP, and others. It reviews and updates the description of the industry, its opportunities, and its challenges and obstacles, as of mid-2015.

# 1. Kosovo Wood Sector – General Description

Based on the 2012/13 National Forest Inventory, forests cover as much as 45% of the surface area of Kosovo, and represent a resource of special importance for the Kosovo economy. Statistics are incomplete and unreliable, but it can be estimated that the forestry and wood industry contributes at least €150MM in annual sales to the Kosovo economy and over 10,000 workers.[1]

The Kosovo wood processing sector is considered in all competitiveness analyses – including the USAID EMPOWER *Sector Assessment and Selection Report* of 2014, the SME strategy of the GoK, UNDP sector assessments produced in 2014, and others – to be one of Kosovo's strategic sectors, with most development potential. In ex-Yugoslavia, the Kosovo wood sector exported widely, including to the US and EU. The breakup of Yugoslavia and subsequent Kosovo-Serbia conflict decimated these buyer connections and much of the industry's infrastructure. Now most production is for the domestic market, though several companies are successful exporters, and there is good potential in their further expansion.

Kosovo currently produces doors, windows, cabinetry, solid wood furniture, and other exterior and interior construction elements. As for raw material, a number of sawmills produce a variety of mixed grade lumber from locally harvested sawlogs.

In recent years the rate of growth export of wood products has increased sharply. Of the companies surveyed for this report, 15% are exporters to regional markets and the EU, and their exports increased by over 20% in 2014.

Wood producers note the absence of growth finance, high transportation costs, and limited opportunities to establish links with international buyers as key obstacles to their growth, especially for exports.

## 1.1 Firms and Employment

The Business Registration Agency at the Ministry of Trade and Industry has some 1500 enterprises registered in the forestry and wood processing sector. However, a number of these may be duplicates or inactive. Of these, 92% are microenterprises (9 or less employees), 7-8% small (10 to 49 employees), and 0.5% medium or larger (50 or more employees). [2]

Tax Administration of Kosovo (TAK) statistics list 22,000 registered taxpaying companies at end-2012, of which 565 were actively operated in the wood processing sector. About 100 of these

[1] A number of studies, assessments, and reports have been prepared on the Kosovo wood and furniture sectors by GoK agencies, donor projects, and other organizations. Data in those documents are plentiful but contradictory due to the absence of company and industry-level statistics produced by Kosovo statistical agencies.

[2] A number of studies, assessments, and reports have been prepared on the Kosovo wood and furniture sectors by GoK agencies, donor projects, and other organizations. Data in those documents are plentiful and occasionally contradictory due to the absence of company and industry-level statistics produced by Kosovo statistical agencies. Reference dates and sources of information vary. This report provides ranges from former studies, complemented by results of the author's own survey.

registered taxpayers would be classified as larger (small or medium-sized), which approximately matches the Business Registry data for number of companies in this size category. There are many microenterprises operating in the sector, many of which are not taxpayers.

2015 TAK statistics show about 8,500 people employed in the sector. The true number of employees could be 2-3 times higher, due to widespread under-reporting of employees. The Association of Wood Processors of Kosovo (AWPK) has some 100 of the most important companies as members, who report more than 4,500 workers.

The Ferizaj/Uroševac region has the largest concentration of registered taxpaying wood sector companies, with about 150, with additional concentrations in Prishtinë/Priština, Gjilan/Gnjilane, and Prizren, and others spread among Pejë/Peć, Gjakovë/Đakovica and Mitrovicë/Mitrovica.

According to TAK statistics, in 2012 the average number of employees throughout the industry was 15, ranging from a large number of microenterprises averaging around 5 employees each and annual sales of €40,000, to a few medium/large-sized businesses averaging around 100 staff and €1.5 million in sales. 90% of companies sold their final products only locally.

### 1.2 Products and Operations

Kosovo wood processing companies produce solid wood furniture, softwood joinery products, and veneered fiberboard cabinetry. Some are vertically integrated with sawmills using locally harvested wood. Others purchase wood from local sawmills, and there is a large amount of hardwood (beech and oak) cut lumber that is imported in kiln dried or green form from neighboring countries. All veneer and fiberboard is imported.

The potential supply of (legally-harvested) high-quality local lumber has been significantly reduced in recent years (other than in North Kosovo) due to the incorporation of some of the traditionally best yielding and higher quality forest units into official national park areas. The Law on National Parks that designated these boundaries apparently was not vetted with the Agency for Forestry within the Ministry of Agriculture Forestry and Rural Development, and as a result was passed without language allowing for normal commercial activities in defined low-risk zones, in contrast with normal international practices. In sum, the majority of wood raw material is imported.

Thanks to donor (including USAID's KBS and KPEP projects) and limited GoK support for the development of the wood sector over the past 10 years, it has improved its organization and competitiveness, including widening its product range, increasing product quality, and expanding into foreign markets. Currently, for example, Kosovo wood processors supply doors and windows in to Macedonian and Albanian markets, and home and hotel furniture to companies in Germany, the Netherlands, Switzerland, as well as other neighboring markets.

Based on TAK statistics, about 45% of businesses manufacture furniture (including cabinetry), 40% construction carpentry and joinery, *and solid wood)*, and the rest are in sawmilling and wood preparation.

### 1.3 Sales and Growth

According to TAK data, in 2012 over two-thirds of the businesses in the sector had an average annual turnover of less than €50,000. At the other end, the few largest companies reached as much as €5 million. Average sales of micro businesses *was* €41,000, of small ones €150,000, and of large businesses €1.5.

10-15% of TAK-registered companies exported in 2012, but their foreign sales have been growing rapidly from a small base. Meanwhile, import-competing production of furniture is rising, so that the trade balance of the wood sector, though still in deficit, is improving.

# 2. Survey and Findings

## 2.1 Survey Methodology

For purposes of this report, the following sources of information were used:

- Existing studies: Review of existing documentation and consultations with EMPOWER staff and other local experts as to the status of the Kosovo wood processing sector. These included publications of the Kosovo Ministry of Finance, the Kosovo Tax Administration (TAK), the Ministry of Trade and Industry, and studies/reports prepared by other donor organizations present and working in Kosovo (see references list). Most of these covered the period 2010-2013, with a few extending to 2014-15.
- Firm-level interviews: Nine wood processors were visited, their production facilities reviewed, and their management interviewed, all during April-May 2015. Most but not all were the companies that have the strongest market opportunities and the greatest potential for substantial job creation. The companies were selected from whole territory of Kosovo, including North Kosovo (NK) (though the only wood processors there are micro enterprises).[3] The interviews were face-to-face with management using a guide that recorded basic quantitative and qualitative information, on basic company data, inputs, certifications, products, markets, sales, exports, workforce, finance, and affiliation with business association(s). Companies' facilities were toured to gain insight as the status/sophistication of companies' product development, production technologies, production organization, and quality management.
- Other stakeholder interviews, including the Association of Wood Processors of Kosovo (AWPK), the Kosovo Investment and Export Support Agency (KIESA), the Kosovo Forest Agency (KFA), furniture retailers and trading companies, and input suppliers.

These interviewees are listed at the end of this document.

The following sections provide our findings from the survey, interviews, and review of materials.

## 2.2 Forestry

- Forests cover about 45% percent of the national territory, suggesting a key national resource, grounds for the competitiveness and growth of the wood sector. In fact, however, present needs for lumber are mostly satisfied through imports from other countries of the region. According to the Kosovo Forestry Agency (KFA), the best "high forests" are contained in the National Parks – Sharri and Bjeshket e Nemuna - both being established by separate law passed in December 2012, which did not adequately provide for commercial/industrial activities in their low-impact zones. The National Parks are governed by the Environmental Protection Agency, in the Ministry for Environment and Spatial Planning.

[3] The only medium-sized company in NK, previously with 150 employees, a daughter company of Simpo Vranje (Serbia) was closed, said to be "temporarily out of business".

- As reported by the KFA director, the law that would provide the Ministry of Agriculture, Forests and Rural Development (MAFRD) responsibility over sustainable forestry in the National Parks has been prepared and is supposedly scheduled for Parliamentary consideration and adoption.. This would help reduce illegal activities in Kosovo forests, improve management, and provide more industrial logs for the wood industry.
- According to the 2013 National Forest Inventory, Kosovo forests are threatened by under-management, illegal logging, and corrupt practices. Principal findings of the survey:
    - Coppice forests (low(er) quality deciduous – commonly not fit for industrial use) dominate with 84% share.
    - The annual increment is estimated at 1.55 $mm^3$ – 1.32 $mm^3$ deciduous, and 0.23 $mm^3$ coniferous. Therefore, the optimal long term harvesting should certainly not exceed 1.2 $mm^3$, versus the current estimated present harvesting of 1.6 $mm^3$. Overharvesting of course degrades the forest.
    - Only small fraction of the harvesting (7%) is carried out according to prevailing forest legislation – i.e., 93% is informally or illegally harvested, which if true is a serious threat to the wood products manufacturing industry.
    - As much as 90% of coniferous and mixed coniferous/ broadleaves forest are located in National Parks, but the Law on National Parks restricts harvesting there for industry. Of course, this does not mean that wood is not in fact cut in the parks.
    - A significant 14.5% of the growing stock is estimated to be damaged in some way (fire, insects, disease). Nearly all forests (99%) show some kind of human influence.
- The traditional and ongoing harvesting of timber as fire wood for heating is estimated to exceed 1 $mm^3$ per year – at least two-thirds of the total annual increment – further reducing the availability of class I and II logs for industry.
- These facts create skepticism on the part of KFA management at national and local levels as to the prospect for achieving FSC Forest Management certification any time soon, even though national standards have been developed and two FSC FM pilot areas identified and said to be ready. The passage of the Law on National Parks put these activities on hold.
- The European Commission (EC) has imposed the EU Timber Regulation (EUTR) that prevents purchasing/importing wooden products that are not legally harvested. Buyers of wood and wood products in the EU are responsible for setting up systems to ensure respect of the EUTR in their supply chains. This will begin to feed into standard contract forms provided by EU buyers to their suppliers, requiring them to submit proof that the wood in their products is legally harvested. Unless the issues of sustainable forest management certification and the elimination of corrupt and illegal practices in forestry are prioritized by government at the highest level, this will eventually block all exports of products using Kosovo-harvested wood from the EU market. Kosovo producers with EU customers will have to rely entirely on imported wood for their production, denying forestry jobs to Kosovo citizens and increasing the trade deficit.

### 2.3 Findings – Lumber Processing

- Locally felled sawlogs are processed in several small sawmills serving mostly micro- and small wood processors. Only one major solid wood furniture manufacturer interviewed is using lumber from local sawmills, and in limited quantities – 300 to 500 m3 a year. Medium-sized furniture companies typically do not have their own sawmills, and their drying capacities (kilns) have small capacities (30 to 50 m3). Minor quantities of logs are imported from Serbia to North Kosovo and processed. There are also sawmill-owned private forests. In general, however, sawmills will not be able to take their share in ever growing demand until State forest management and themselves obtain adequate FSC certificates.

### 2.4 Value-Added Manufacturing

- Solid wood furniture is one of the most labor intensive value chains, with high value added, requiring the best quality inputs, high technologies (computer-controlled drying, CNC machining, skilled work assembly and finishing), and trained and experienced workmanship. Some small number of wood processors that have reached this capability. Many micro businesses are producing the solid wood tables, chairs, garden tables and benches, cabinets etc. in unit/single piece or small batch quantities. Production of construction joinery (doors and windows) is also an important part of the value-added products of Kosovo's wood industry. Half of the members of AWPK are furniture manufacturers, and the other half construction joinery companies.
- Processors mainly sell locally, and if they export this is mainly to close regional markets – Albania, Macedonia, Serbia – with a few having business in Germany and Switzerland.
- Major/medium size companies operate at privatized ex-YU facilities (Lesna, Palma, Tefik Changa), or as greenfield investments (Binni, Elnor, Sela-Impex).
- The larger companies have reasonably up-to-date equipment for their current level of operations, but need to continue to invest in the most modern technologies/machinery that would improve their productivity and the product quality. Most claim that they have access to bank loans, but that these are insufficient to fund rapid growth, for which they rely on owner capital and the cash from operations. Smaller producers in NK very much depend on donor grants.
- Workforce availability and skills are important issues for most larger businesses. Vocational programs are inadequate to the need and do not provide adequate opportunities for practical training. Industrial centers that do not have vocational schools have a problem with poor mobility of the workforce. Most wood processors train their own new hires. Some businesses in traditionally WP areas take advantage in hiring experienced workers discharged from distressed or bankrupt State-owned companies.
- New technologies require CNC programmers and operators as well as skilled carpenters and upholsters, including other skills profiles that on the medium to long run requires VET system improvements, and in the short term the qualification and requalification informal training courses tailored to the industry needs. Businesses are generally receptive and looking forward to changes of the present poor VET system, even offering use of their workshops for practical training of the vocational trainees and requalification candidates.

### 2.5 Products and Capacities

- The set of companies visited during the preparation of this report (listed in an appendix), along with the members of AWPK, have a wide product offer, which can be organized into five main groups/categories, as follows:
    a) Furniture (cabinetry, upholstered, solid wood, combined with glass and/or metal)
    b) Construction joinery (doors and windows)
    c) Other finished B2C wood products (stairs, treads, wooden accessories and toys, etc.)
    d) Semi-finished B2B products (window elements. laminated profiles, glued SW panels, furniture parts, etc.)
    e) Primary products (cut lumber, kiln dried or green; impregnated and/or planed).
- This product range represents a comprehensive selection of products needed in the local market for all B2C and B2B customers – construction, households, offices, and further value added processors. Local market demand is much higher than that what local industry can currently offer, both in quantity and particularly in higher-end design and quality.
- This is confirmed by customs statistics, which show very high imports in all of the above categories. The only exception is construction joinery (d), but demand in this category is in any case shifting away from wood, to PVC and aluminum.
- Imports in category (e), primary wood products (lumber), are elevated due to the problems in forest management outlined above.
- For export readiness, design must be customized to the needs of EU markets. For example, sofas need to be designed more in the Natuzzi or Caligaris style, rather than local or Turkish/oriental fashion. Several major companies already have their designers and architects working in this way, and others need to engage designers to move in that direction.
- Product quality in the low-to-medium quality range is acceptable. For the medium-to-high range furniture, perceived quality is generally not at the required level, due to imperfect finishing, such as in the stitching of upholstered furniture. These issues must be addressed through a combination of better technology/machinery and trained and experienced workmanship.
- Overall production capacities of the Kosovo wood products sector are not yet adequate for the full import substitution potential, and certainly not for export potential. Capacities are being gradually expanded and modernized, through investment of owner funds, bank finance, and growth finance provided mainly by donors (including USAID EMPOWER and the EU). All nine visited companies have plans or are already in course of purchasing and putting in operation of new, modern CNC production machinery/ equipment.
- Most companies presently seem to work in one shift, possibly with 50% overtime for the bottleneck machinery. Production could be expanded with a second or even third shift, but then the limiting factor for seamless growth of production and sales becomes the lack of enough capable workers.

### 2.6 Market Opportunities

- The most larger interviewed companies have good positions in domestic and regional markets, especially those that are part of bigger conglomerates (e.g. Lesna and OXA group) and supply the the construction component of the same group. Some furniture companies are seeing great success in moving from trading to domestic import-substituting production, such as Palma from Gjilan. These companies, through trade, already have very good sales at the domestic and export markets, and know exactly what kind of products they need to produce to serve the needs of their already stable customer bases.
- Further opportunities for the Kosovo wood industry are realistically very good, both in domestic and export markets. As mentioned above, Ministry of Finance customs statistics support this conclusion. In 2013, imports of primary wood products (tariff group 44) amounted €53 million, and furniture (tariff group 94) over €46MM, for a sector total of nearly €100MM. Meanwhile, quoted exports of the same goods amounted to less than €1MM – clearly, not a believable figure. Data published by AWPK as far back as 2008 show exports 4 times higher, but still considerable very low. Still, even with the AWPK data, sector coverage of imports with exports is under 4%. The potential for better export business can be compared to Bosnia, which exports over €400MM in furniture and parts annually, and has a large trade surplus in wood products.
- The Kosovo domestic market amounts to at least €130MM, of which some €100MM is imported – 50-50 lumber and furniture. At least two thirds of furniture imports have the potential to be replaced by domestic production, and half of the lumber imports. The speed depends on the ability of domestic producers to add to physical capacity and find qualified workers, and, for lumber, on solving the forestry issues identified above.
- Currently many furniture showrooms sell exclusively imported middle-to-high end furniture rather than local production, allegedly because of unsatisfactory quality, no recognized brand names, and consumer perception that foreign is better. Reflecting this, one interviewed upholstered furniture producer, at the request of the retailer customer, does not include "Made in Kosovo" labeling, allowing the showroom to label it with an Italian or German-sounding brand name.
- As for distribution channels, companies have different practices depending on their size, production program and markets – local, regional or EU/Western Europe. Larger furniture producers usually have their own showrooms attached to their production facilities, along with additional sales points in larger cities (Pristina, Peja, Prizren, Mitrovica). One interviewed furniture companies, in addition to its own showroom, is selling to or through 25 independent outlets in Kosovo, Albania, and Macedonia.
- For exports to Western Europe – most often in Switzerland, Germany, and Luxemburg with their large Kosovan-Albanian diaspora – the bigger companies sell through informal agent networks, mainly consisting of family members. Few if any use independent producer sales agents. Relying on family agents is an efficient and reliable model, but is limiting for expansion into attractive markets where there are no diaspora contacts.
- Opportunity in EU markets can reasonably be appraised as virtually endless, particularly in the furniture segment. The depth of EU furniture markets is over €150 billion annually, with open

doors for all competitive suppliers, including Kosovo. Kosovo's share in those markets is miniscule, so capable furniture producers can smoothly penetrate these markets without having to push out any existing suppliers. There are opportunities for smaller companies to collaborate in marketing a wider complementary joint product range. Current agents can be shared.

- Despite the clear potential, there is no adopted government/industry strategy for supporting wood sector exports. Such a strategy would include (i) Identification of the target markets, (ii) product design and productivity improvement, (iii) enhanced marketing and sales activities including wider/deeper distribution channels and independent sales agents, (iv) product standards certifications, including use of sustainably and legally harvested wood, (v) adequate growth finance, and (vi) coordination, leadership, and management of jointly beneficial activities.

### 2.7 Access to Production Materials

- Aggravated by the forestry issues, many necessary inputs are to a great extent imported by specialized traders (e.g. Marles from Pristina/Mitrovica), including:
  - Chipboard, OSB and fiberboards (MDF) from Italy and Serbia
  - Length and side glued (fingerjoint) panels from Bosnia (BiH)
  - Long span construction laminated beams from Austria and BiH
  - Hardwood (beech and oak) and softwood (pine, spruce/fir) lumber from BiH, Slovenia and Croatia.
- Other than MDF, these imports normally have FSC Chain of Custody (CoC) certification.
- Inputs from CEFTA countries are without the import duties, while those from Austria, Slovenia and Croatia have suffered a 27.6% customs fee on top of VAT (16%). However, this is being reduced or eliminated for valid production inputs.
- Marles has twelve different suppliers in BiH, with goods in stock, and off-stock items can be had in eight days from order, except for long span laminated beams (over 18 meters span/length) that require 30 to 40 days delivery term.
- Quantities are not limited by any kind of quota, so the wood industry has easy access to the imports, including auxiliary materials like glues, varnishes, accessories, etc.
- There is a plenty of room for substitution of imported inputs, particularly furniture elements, glued (fingerjoint) panels, and EU laminated profiles for windows. These items have a very good prices in both local and export markets, even when produced from imported lumber. Several companies are already considering investing in these technologies and should be encouraged and supported to go ahead.

### 2.8 Workforce Skills

- The lack of access to a skilled workforce is a clear obstacle pointed out by most interviewed companies. It will become an even bigger problem with the ambitious plans of the sector and its growth over the medium term. The two main workforce categories needed for further business expansion are middle management and shop floor workers.

- For both categories there are two ways to deal with the problem: informal / in-company training for the short term, and formal VET in the long term. Currently companies are addressing needs by engaging family members in middle management, and doing their own training of new hires. Long-term solutions will have to involve public educational institutions, particularly vocational schools and training centers, for both formal and informal education, including qualification and re-qualification of adults.

### 2.9 Other issues

- Even without FSC FM certification, exporters need FSC CoC certification, but at present only one of the interviewed companies has plans to obtain it. Preparation/consulting and certification costs can be supported by local governments and donors.. Well managed companies, particularly those with valid ISO 9001 certificates (which most significant companies now have), can easily obtain FSC CoC certificates for €3-4,000.
- The AWPK is an important association established in 2004, whose role and activities are appreciated by the majority of its members. Donor (USAID) support for direct financing of its activities ended when the KPEP project finished. With the appearance of the EMPOWER project, the Executive Director position is now again fulltime. The action plan proposed in this report will need considerable engagement of AWPK, and considerable strengthening of the organization is needed, so that it becomes truly sustainable. Members have high expectations, but more realistic dues and collections for special activities are needed.
- Support of the wood sector from KIESA, the Kosovo Chamber of Commerce, and other GoK ministries for export promotion, referential international trade fair attendance (IMM Cologne, MOW Bad Salzuflen, Swissbau, etc.), B2B meetings, and purchasing missions is inadequate.
- Two microenterprises were visited, but it is known that there are hundreds of micro businesses in the wood sector employing from 1 to 9 employees. These are unregistered craftsmanship workshops, unable individually to afford the hiring of professional management, designers, marketing specialists, or financial consultants. Clustering for joint / coordinated production and marketing is not organized.

## 3. Recommendations

Based on above findings, the following recommendations are put forward:

### 3.1 Forestry and Primary Processing

Summary of Findings: Despite the fact that the substantial portion of the national territory is forested, the contribution of Kosovo forestry to the wood processing industry is quite limited. Only a small portion of harvested timber is used as industrial sawlogs – the largest part by far goes to cordwood for heating. Most of the cutting is illegal or unregulated. Lumber production is underdeveloped because of the poorly-managed, limited sawlog supply. Locally harvested sawlogs are mainly consumed by small sawmills serving mostly micro-to small furniture and joinery producers. There is no drive within government for elimination of illegal / unregulated cutting or for forest management certification. As a result, the industry depends mainly on imported lumber, increasing the trade deficit and obstructing domestic finished goods production.

Recommendations: The GoK should prioritize (i) reduction of illegal / unregulated wood harvesting and (ii) FSC forest management certification. (iii) The industry should strongly advocate as a group for these reforms, through AWPK. (iv) Meanwhile, larger furniture producers should obtain FSC Chain of Custody (CoC) certification for their use of imported wood from FSC Management-certified forests.

### 3.2 Wood Products Manufacturing Industry

Summary of Findings: The semi- and finished wood products manufacturing industry in Kosovo consists of fewer than 15 medium-to-larger sized lead companies, and several hundred smaller companies and microenterprises. Market opportunities, both local and foreign, are great, but not simple to realize. Their major obstacles are (i) inadequate access to growth finance for expansion and to replace outdated equipment; (ii) underdeveloped market connections to markets, especially for exports; weak export market knowledge and research; (iii) lack of capacity to fill local market demand, resulting in excessive imports; (iv) inadequate workforce, in number, training, and reliability; (v) undersupply of locally-sourced sawlogs requiring importation of most raw material; (vi) lack of sector economic development strategy with support from government; and (vii) lack of cohesion / collaboration among firms in the industry for advocacy and cooperative operational and marketing activities.

Recommendations: In general, stakeholders and government need to collaborate in preparing and adopting a national strategy for development of this promising industry. Industry should invest in design and technologies for higher-quality, higher-volume production, collaborate with the VET sector to advance workforce skills, and upgrade approaches to export marketing. Private companies should help strengthen AWPK so that it can serve the industry effectively in advocacy and competitiveness improving activities. Recommendations by sub-topics follow.

- *Product range and capacities*
    - Companies should expand their operations up the value chain, to increase total value added.
    - Secondary and waste materials should be (re)used to increase overall efficiency.
    - Companies should continue and even intensify investing in modern and productive technologies/equipment if they want to penetrate the most demanding and rewarding EU markets.
    - In future planning of their operations with considerably increased volumes, particularly for expensive equipment the companies should organize two full working shifts, with the third shift available for times of overflow.
- *Product design and quality*
    - Capable, proven designers should be engaged and connected with the best performing companies.
    - Product quality should be permanently improved and maintained through certified Factory Production Control (FPC) systems, and true, functional ISO9001 systems, with the emphasis on production operations, which satisfy the requirements of the EU Construction Products Regulation (CPR). Consultants and company personnel need to be trained in these areas.
    - GoK national and municipal agencies, supported by donors, should establish a trade standards certification fund, to help companies defray the costs of obtaining them. Three

funds across Kosovo whose funding is maintained at €50,000-100,000 each could provide from 80 to 160 certificates per year on average.

- *Marketing and sales*
    - The companies have to build their reputation based on design, quality, price, and delivery terms for all categories of products. They should not exhibit at international fairs before these areas are adequately addressed.
    - MTI/KIESA, AWPK, and private companies should develop and implement a comprehensive export strategy and action plan.
    - Market research and feedback information collection should be organized professionally, elaborated, and distributed to the companies. This can be overseen by and costs covered through AWPK initially with GoK / donor support, and subsequently sustained by member dues.
    - Kosovo companies have exhibited at one domestic wood products fair and a few regional ones, but not at the EU referential trade fairs. They need to be represented at IMM Cologne, MOW Bad Salzuflen, Milano Satellite, etc., in joint national stands of moderate size (120 to 150 $m^2$) and attractive design, with costs shared by companies, AWPK, and GoK/donor support.
    - Producers have not engaged independent/professional producer sales agents or agencies (PSAs) for business development in EU markets. These need to be established with due diligence, initially with 50-50 co-financing between Kosovo beneficiaries (GoK/donor supported) for a maximum of two years, followed by sustainable commission-based remuneration. Producers currently export their products to certain countries in EU and Switzerland using exclusively family/diaspora business connections. Though limiting for exports to countries where they do not have family, this can be effective, and those that are operating successfully could be scaled up as PSAs.
    - Kosovo companies are not using Internet sales portals, which have been shown to be highly effective channels for other countries in the region, including reduction of large price markups for EU markets. Several interviewed managers in market leaders are considering this option, though it is logistically demanding for organizing distribution. AWPK should investigate providing the service jointly.
- *Access to production materials*
    - Access to wood of local origin, particularly for solid wood furniture and joinery, is constrained by the problems in forest management outlined above. Domestic-origin logs are not FSC-certified, which will eventually affect exports to the EU markets. Furthermore, the EUTR regulation issue mentioned above will eventually require proof that wood used in exported products is legally harvested. Therefore, (i) EUTR awareness seminar(s) with participation of EU experts should be organized to assess the threat EUTR is posing, provide guidance, and draft the action plan for both forestry management and wood processors, and (ii) Kosovo authorities, backed by the international community, should convene a regularly-meeting high-level working group to combat corruption and illegality in forestry, as has been effectively done in neighboring countries.

### 3.3 Workforce development

Summary of Findings: The availability of a skilled workforce is a key obstacles pointed out by the majority of the interviewed companies, who generally must organize internal training after hiring. Two main categories of employees are needed: middle management and shop floor workers. Both formal and informal education and training are not providing suitable staff or skills profiles needed by the industry. Vocational schools' curricula do not adequately match the needs of the companies, and few students get adequate practical experience. This problem will worsen with the sector's ambitious plans for growth.

Recommendations:

- Regular dialog mechanisms bringing together private employers, education and training institutions, and municipal government officials should be set up in important regional centers, networking in previous donor and government supported programs such as the GIZ Centers of Competence program implemented with MEST.
- The issue should be addressed with both short- and long-term approaches, using both formal education and and informal trainings. Qualification and re-qualification courses should last between two and six months with a high share of practical/hands-on training. Those courses should be approved by MEST and should be entered in working booklets as acquired competences.

### 3.4 Joint Action and AWPK

Summary of Findings: The AWPK is an important business association, whose role and activities are appreciated by majority of its members. Nevertheless, for some three years until recently, it had no full-time Executive Director or other employed staff, reducing its ability to organize meetings and activities.

Recommendations:

- The number and intensity of joint activities in the proposed workplan attached to this report will require considerable engagement of AWPK, requiring the services of a fulltime Executive Director and perhaps additional administrative support.
- AWPK member companies cannot realistically expect a serious workplan to be conducted if the sole financing comes from their largely symbolic membership fees. Membership fees should be increased, and occasional assessments for special projects collected.
- Donor and GoK support for co-financing of AWPK-organized joint activities will also continue to be necessary. This is normal for an organization that supports economic development in broadly.

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## Key Informant Interviews

*Companies*

| Name | Location | Main Products | Size |
| --- | --- | --- | --- |
| Lesna | Pristina | Construction joinery, wood and PVC | Small |
| Binni | Vushtrri | Cabinet furniture & PVC construction joinery | Medium |
| Shehu | Drenas | Wood external doors, stairs | Small |
| Elnor | Pristina | Solid wood chairs and tables, kitchen cabinetry, int. doors | Medium |
| Tefik Changa | Ferizaj | Solid wood chairs, sofas, living and bedroom furniture, contracting | Medium/ Large |
| Sela Impex | Ferizaj | Upholstered furniture - sofas | Medium |
| Palma | Gjilan | Furniture import, re-export and trade. Starting production of cabinetry furniture | Medium/ Large |
| Godži | Zvečan | Wooden constr. joinery, intern. furnishing, cabinetry, SW furn. | Micro/ Small |
| Marković | Zubin potok | Internal and external joinery, solid wood furniture | Micro |

*Institutions*

| Organization/ Stakeholder | Person/representative interviewed | Brief description |
| --- | --- | --- |
| AWPK | Arieta (Vula) Pozhegu, Executive Director | Association of 108 WP/FM companies and stakeholders |
| KIESA | Remzi Ahmeti, Head of Export Promotion Sector | Agency within MTI |
| Kosovo Forest Agency (KFA) | Faruk Boiaxhi, Director | Agency of the Ministry of Agriculture Forestry and Rural Development |
| Ferizaj Regional KFA | Bekim Topali, Regional Office Director | |
| Marles | Zenel Muja, Owner and CEO | Wood lumber, particle/fiberboard elements importer / input supplier. Plans to expand into manufacturing of glued board structural elements. |
| AMRE | Rrezearta Sekimi, Sales Manager | Hi-end imported furniture showroom in Pristina-Lipjan |
| Hajdini | Ilirijah Hajdini, Manager | Furniture showroom in Pristina-Lipjan |
| Wolker | Shemsi Begolli, Owner and CEO | Imported furniture showroom in Pristina-Lipjan |