Background information to the Dialogue on – Investing in locally controlled forestry in South East Europe

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Definitions and terms

SEE sub-region and the Western Balkans

Countries
• **Locally controlled forestry:** actions of smallholders, local groups, communities, SMEs linked to forestry and decision making power! **In Europe:** small-scale forestry.

• **Investments:** actions enhancing LCF assets – financial and human resources, practical systems...etc

• Investment as TFD issue is being discussed for the 4th time (Brussels, Panama, Nepal)

• South East Europe, Western Balkans
Definitions and terms

SEE sub-region and the Western Balkans

Forests

Source: European Forest Institute, 2001
• Alb, BiH, Bul, Cro, Cyp, Gr, MNE, Mold, Rom, SRB, FYRM, Tur

• Forest area is ca. 33 mio ha + 16 mio ha OWL – about 1/3 of the land area is woods

• Increasing tendency of the forest area and growing stock (but SRB and Alb)

• Broadleaved forests increase, mixed ones decrease

• Wood supply: 82% on the total forest area

• 50% of the NAI is harvested ca. 40 mio m3 (but Alb 3-5x overuse)

• Basic silvicultural methods:
  – Natural regeneration
  – Coppicing

• Endangered forest tree species and extinction of forest trees: SRb, Alb
Forestry as economic sector is not playing a role: GDP share ≈1% (but Alb higher)

Added value is produced by harvesting and forestry – primary production prevailing, industry: wood processing

Most employment in Europe in logging and forestry and also regarding area unit – 800,000 jobs in forestry and downstream industries - efficiency? (Macedonia – increased trend in forestry employment !!!)

NWFP – local, rural and international markets supplied with mushroom, medical plants, honey

SEE as net exporter of wood products with increasing trend since the 1990s

Change of ownership conditions on forests: Alb, BUL, Rom, Ser, Cro – more private forests !!!!!
Small-scale forestry and its challenges in SEE

- Human intervention into nature since ancient times - Heritage of the Ottoman Empire – WWII – socialism/communist regimes – Private property disappeared or was made unfunctional!
- Since the 1990’s restitution processes – emerging new private, communal and church forests
- Low level of growing stocks: communal and private forests are mainly - coppice forests, degraded forests (Alb)?
- “Private forests are on average small areas with a low production of timber.”
- Growing stocks: \( \approx 82 \) m³/ha (M),
  \( \approx 138 \) m³/ha (SRB)
- “…characterized by high fragmentation of properties, a large number of parcels and owners and insufficient forest management. (Milijic 2008)”
## Private forest ownership in Western Balkan countries, 2004-2008

<table>
<thead>
<tr>
<th>Country</th>
<th>Forest area (10³ ha)</th>
<th>Private forests (10³ ha)</th>
<th>Private forests’ share (%)</th>
<th>Number of PFOs (10³)</th>
<th>Average size of private forest property (ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania*</td>
<td>942</td>
<td>19</td>
<td>2</td>
<td>15</td>
<td>1.1</td>
</tr>
<tr>
<td>BiH</td>
<td>2.710</td>
<td>523</td>
<td>19</td>
<td>500</td>
<td>1,00</td>
</tr>
<tr>
<td>Croatia</td>
<td>2.487</td>
<td>473</td>
<td>19</td>
<td>600</td>
<td>0,77</td>
</tr>
<tr>
<td>Macedonia</td>
<td>997</td>
<td>96</td>
<td>10</td>
<td>240</td>
<td>0,40</td>
</tr>
<tr>
<td>Montenegro</td>
<td>770</td>
<td>244</td>
<td>33</td>
<td>?</td>
<td>?</td>
</tr>
<tr>
<td>Serbia</td>
<td>2.200</td>
<td>1.148</td>
<td>52</td>
<td>500-800</td>
<td>1.8-2.2</td>
</tr>
</tbody>
</table>

* Figure refers to stocked forests only, without the so-called open forests, which cover some 557,000 ha (National Forest Inventory, 2004).

> **2 mio ha, > 2 mio forest owners – fragmentation!**
Although private forest owners manage their forests, the public forest enterprises are entrusted with performing some basic technical tasks in private forest management. Ô

Private forest owners have the following obligations:

1. Management according to a forest management plan;
2. Tree marking before felling performed by private forest service;
3. Obligatory compensation for logging which the owner pays to a private forest service of PE;
4. Obligatory timber and fuel wood stamping and license for transport done by the Public Forest Enterprise.

Technical tasks in private forests relate to:

1. Issuing licenses for logging to forest owners,
2. Tree marking in private forests,
3. Issuing timber and fuel wood transport licenses for FOs,
4. Organizing activities on forest protection in private forests.

FO who performs logging in his forest is obligated to pay service fees of 3% of the commercial value of the traded logs. The fee is to be paid to the Public Forest Enterprises acting as Forest Authority to the same.
Challenges to private forest management (selection):

- Low productivity combined with fragmentation
- Property identification and demarcation on ground - Cadaster and ownership security problems
- Regulatory contradictions
- Management overadministered and directly influenced by state authorities
- Conflicts of interests of state authorities being at the same time state management units
- Lack or low-level of political will to complete reforms of the state forestry sector
- Low-level of market oriented production and linked investments, "weak business activities"
- MOTIVATION FOR ACTIVE MANAGEMENT?
(Reform) activities to private forestry (selection):

- NFP or NFS processes addressing private forestry
- Capacity building actions – training of forestry inspectors and extension experts resulting in Extension Plans for authorities
- Training of forest owners
- SME pilot projects (Serbia)
- New forest owner associations
- New forest laws in Macedonia (in force) and in Serbia (under process) addressing many PF issues

- MOTIVATION FOR ACTIVE MANAGEMENT CAN BE INFLUENCED!
Macedonia and Serbia investment cases

enterprises and investment issues

-Necessity of development of SMEs in SEE
- Entrepreneurship Stimulation Programme in Macedonia

-Macedonia 2250 SMEs, Serbia 3000 SMEs
(small and micro enterprises mainly)

-SMEs related to forestry (ca 400 in Serbia, 480 in Mac)
- Harvesting linked operations (logging, dragging, transport);
  1. Primary and wood processing industry (sawmills, panels);
  2. Gathering and processing of NFWP (charcoal, herbs, wild fruits, mushrooms, medical plants);
  3. Services in tourism and recreation;
  4. Hunting and fishing

- Strong competition, small and family based enterprises:
- Legality issues, unqualified workforce, work safety?
1. Difficulties in accessing commercial financial capital of e.g. banks for upgraded technologies and information technology for SMEs;

2. Disadvantages towards SMEs:
   - Fragmentation grade in Serbian forests with no organised small producers;
   - Cadastral problems;
   - Lack of proper management plans;
   - Low entrepreneurship capacity and low education – barriers for access to bank credits or loans;
   - Few products to base business on, BUT examples are there for: timber, charcoal, NWFP, wood processing

3. Several credit and grant programs from EU for registered rural organizations or companies – Rural Development Department - little known

PPP not really working, information flow is weak
Macedonia and Serbia investment cases

enterprises and investment issues

MACEDONIA

INVEST IN MACEDONIA
New Business Heaven in Europe

LOWEST FLAT TAX ON PROFIT
10%*

LOWEST FLAT TAX ON INCOME
10%*

TAX ON REINVESTED PROFIT
0%

FAST COMPANY REGISTRATION
3 days

ABUNDANT & COMPETITIVE LABOR
€370/mo average gross salary

FREE ACCESS TO LARGE MARKET
650 million customers**

MACROECONOMIC STABILITY
3.1% inflation

EXCELLENT INFRASTRUCTURE
Wi-Fi country

EU & NATO CANDIDATE COUNTRY

www.investinmacedonia.com
Difficulties in accessing commercial financial capital of banks e.g.

- Risk analysis estimates: too high risks of SMEs
- Lack of collateral of SMEs
- Low rate of returned credits by SMEs due to high operating expenses
- Lack of trained management and entrepreneurial skills
- Poor financial reports
- Adverse bank credit strategies that are not in accordance with the needs of SMEs.

Disadvantages towards SMEs in forestry:

- scattered parcels (0,5 ha average size),
- cadastral problems (ongoing process),
- lack of regulative framework related to NWFP and multifunctional services

NWFP – a real business

- Mio USD business in the country (2-5 mio USD/year)
- Fruits and nuts
Weaknesses

a) the lack of opportunity for business self-financing due to low-level operational capital available,
b) limited investment activities of the financial sector into forestry businesses,
c) the lack of information on those existing financial opportunities.

Strengths

a) established cooperation with state forest management companies:
   Å stable demand and market on the local level;
   Å significant participation in the creation of the value chains of wood or non-wood forest products
b) market changes as agenda in EU
SWOT

Macedonia and Serbia investment cases

- frequent changes in business conditions (regulation, taxes, fees, trade)
- Unstable exchange rates
- lack of a compelling development policy
- unfair competition from the "gray"/illegal economy
- expensive and inaccessible investment capital

Opportunities

a) product diversification
b) resources available
c) large share of society concerned
d) New market options (energy...?)
Summary

Forestry based or linked SMEs exist mainly in sawmilling, briquetting and NWFP processing and logging/transport operations.

The business link to those SMEs of SEE’s private and communal forestry is however largely missing.

Macedonia and Serbia investment cases

enterprises and investment issues

- non state forestry less developed
- not-enabling policy and financial framework for its proper functioning
- unfavorable financial situation with expensive commercial loans
- lack of incentives for modernization and SME development funds,
- poor infrastructure
- unqualified labour force
- difficult access to capital and financial assistance programmes
The needs of the forest based SMEs are:

- Improved access to financing;
- Capacity building for business development and market analysis;
- Support to service providers to improve their equipment through financing options and information, training support;
- Establishment of advisory services to ensure sustainable supplies of raw material and smooth regulation implementation;
- Providing information on existing and potential new markets, improving equipment and understanding how to register and run their businesses.

Investment needs and options:

- Technological development
- Human capacity linked to business development
- Financial constructions for SMEs (microfinancing)
Conclusions and outlook

Small-scale forestry in SEE is in need for coordinated reforms of:

- Legal regulation and property rights
  - A small-scale forestry approach in SEE is in need for coordinated reforms of:
  - Income opportunities for the forest owner
  - Capacity building
    - SSF as weak policy incentive in past, but today “new private property on forests” and “modern forest policy planning” - NFP, NFS approaches
    - Capacity building on business activities and knowledge on SMEs seems to be crucial - special skills
  - Stakeholder and participatory approach (NFPS)
  - Complex reforms are needed - CoI

- Financial and technological development
  - A framework for modern forest development
  - A stakeholder and participatory approach
  - Complex reforms are needed

- Capacity building on business activities and knowledge on SMEs seems to be crucial - special skills

- Priority setting: address the organised forest owner!

- Practicable property right → active forest management
Thank you for the attention!

- Gracias por Su atención!
- Blagodaram mnogu!
- Puno hvala!
- Faleminderit per vemendjen!
NWFP as business