

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



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(enterprises and investment issues)
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## Definitions and terms

SEE sub-region  
and the  
Western  
Balkans

Countries



### CENTRAL BALKAN REGION





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European Family Forestry

## Definitions and terms

- **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





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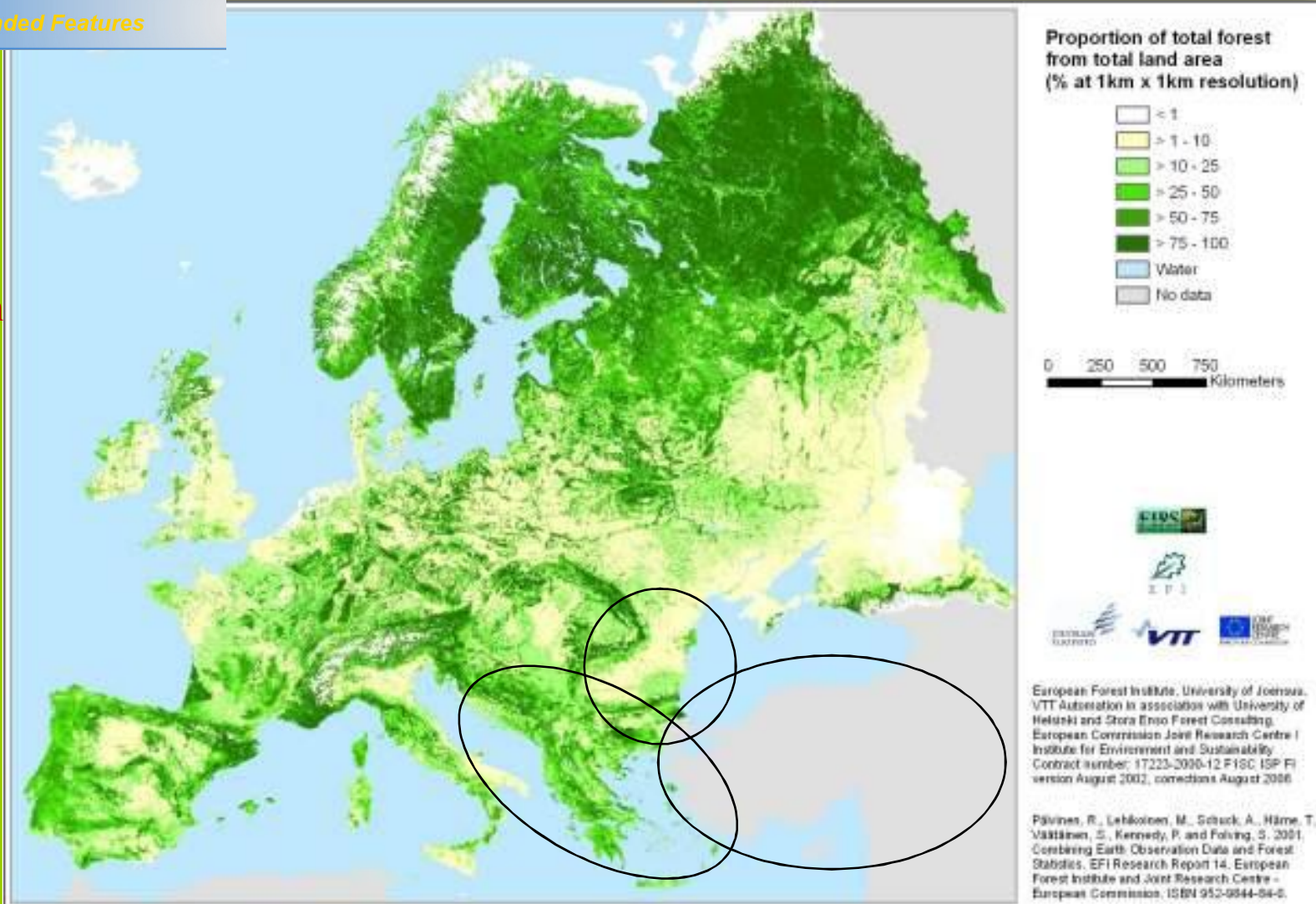
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## Definitions and terms

SEE sub-region  
and the  
Western  
Balkans

Forests

## European Family Forestry



Source: European Forest Institute, 2001



**SEE  
situation  
on  
forests  
and  
forestry**

**overall  
data and  
sub-  
regional  
trends:  
Forests**

- 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 m<sup>3</sup> (but Alb 3-5x overuse)
- Basic silvicultural methods :
  - Natural regeneration
  - Coppicing
- Endangered forest tree species and extinction of forest trees: SRB , Alb



**SEE  
situation  
on  
forests  
and  
forestry**

**overall  
data and  
sub-  
regional  
trends:  
Forestry**

- Forestry as economic sector is not playing a role: GDP share  $\approx 1\%$  (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' **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:     $\approx 82 \text{ m}^3/\text{ha}$  (M) ,  
                                      $\approx 138 \text{ m}^3/\text{ha}$  (SRB)
- „...characterized by high fragmentation of properties, a large number of parcels and owners and insufficient forest management. (Milijic 2008)“



## T 1: Private forest ownership in Western Balkan countries, 2004-2008

Country	Forest area (10 <sup>3</sup> ha)	Private forests (10 <sup>3</sup> ha)	Private forests' share (%)	Number of PFOs (10 <sup>3</sup> )	Average size of private forest property (ha)
Albania*	942	19	2	15	1.1
BiH	2.710	523	19	500	1,00
Croatia	2.487	473	19	600	0,77
Macedonia	997	96	10	240	0,40
Montenegro	770	244	33	?	?
Serbia	2.200	1.148	52	500-800	1.8-2.2

\* 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!**



## Small-scale forestry and its challenges in SEE

Although private forest owners manage their forests, the public forest enterprises are entrusted with performing some basic technical tasks in private forest management. +

- “ Private forest owners have the following obligations:
  - . Management according to a forest management plan;
  - . tree marking before felling performed by private forest service;
  - . obligatory compensation for logging which the owner pays to a private forest service of PE;
  - . 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.



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## Small-scale forestry and its challenges in SEE

### 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 ?**



## Small-scale forestry and its challenges in SEE

### **(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

- " Forest Development Strategy of the Republic of Serbia (2006)
- " Strategy of small and medium-sized enterprises and entrepreneurship of Serbia (2003-2008)
- " Entrepreneurship Stimulation Programme in Macedonia
- " Programme for the Development of Entrepreneurship, Competitiveness and Innovation of the Small and Medium Enterprises in Macedonia (2007-2010).

#### -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?



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### Macedonia and Serbia investment cases

### enterprises and investment issues

### SERBIA

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



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## Macedonia and Serbia investment cases

enterprises  
and  
investment  
issues

## MACEDONIA

### European Family Forestry

## INVEST IN MACEDONIA

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10%\*

**LOWEST FLAT TAX ON INCOME**  
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0%

**FAST COMPANY REGISTRATION**  
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**ABUNDANT & COMPETITIVE LABOR**  
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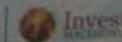
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[www.investinmacedonia.com](http://www.investinmacedonia.com)





## Macedonia and Serbia investment cases

## enterprises and investment issues

## MACEDONIA

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







## Macedonia and Serbia investment cases

### enterprises and investment issues

### SWOT

#### 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:
  - “ stable demand and market on the local level;
  - “ significant participation in the creation of the value chains of wood or non-wood forest products
- b) market changes as agenda in EU



## Macedonia and Serbia investment cases

### enterprises and investment issues

### SWOT

#### Threats

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

#### Opportunities

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



## Macedonia and Serbia investment cases

## enterprises and investment issues

## Summary

- 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

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**

## **Summary**

### **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 implementaiton
- “ 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:
  - “ Framework conditions and policy setting
  - “ **Legal regulation and property rights**
  - “ Financial and technological development – **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
- “ Stakeholder and participatory approach (NFPs)
- “ Complex reforms are needed – CoI
- “ Capacity building on business activities and know-how on SMEs seems to be crucial – special skills
- “ **Priority setting: address the organised forest owner!**
  - “ **organisational capacity building!**
  - “ **advisory and business services!**
  - “ **Practicable property right → active forest management**



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



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**NWFP as  
business**

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