Republika e Kosovës
Republika Kosova - Republic of Kosovo
Qeveria - Vlada - Government

MINISTRIA E TREGTISË DHE INDUSTRISË
MINISTARSTVO ZA TRGOVINU I INDUSTRIJU
MINISTRY OF TRADE AND INDUSTRY

SECTOR PROFILE OF
WOOD PROCESSING INDUSTRY

March 2014

SECTOR PROFILE OF WOOD PROCESSING INDUSTRY

March 2014

Acknowledgements

This report is financed by the Ministry for Foreign Affairs of Finland, in the framework of the "Aid for Trade" project , implemented by the United Nations Development Programme (UNDP).

MINISTRY FOR FOREIGN AFFAIRS OF FINLAND

Special contributions to writing this report have been provided by:

Ministry of Trade and Industry
The Cabinet of the Minister
Department of Industry
Department for European Integration and Policy Coordination
Kosovo Investment and Enterprise Support Agency

Field work conducted by TNS Index Kosova, a social research, media and marketing agency

Quality Assurance:
United Nations Development Programme (UNDP) Kosovo
Policy, Research, Gender and Communications Unit
Inclusive Growth Unit
"Aid for Trade" Project
Petrit Gashi, Phd – External Consultant

Author
Ardiana Gashi

Design: "XHAD Studio", Prishtinë
Printing: "Grafika Rezniqi" Prishtinë

A special gratitude goes also to all the respondents of the survey.

The views expressed in this report are those of the authors and do not represent the official position of the Ministry of Trade and Industry, United Nations Development Programme (UNDP) and the Ministry for Foreign Affairs of Finland.

Copyright © 2014. All rights reserved.

Contents

Acknowledgements 2
List of abbreviations 4

1. Introduction 5

2. Basic data for the wood sector 7
   2.1. Distribution of companies by size 7
   2.2. Regional distribution of firms in the sector 8
   2.3. Distribution of businesses by activity 8
   2.4. Ownership structure of firms in the industry 9
   2.5. Legal structure and age of firms in the industry 9
   2.6. Age, gender, and ethnicity of the owner of the company 10

3. Firm/industry input and output 12
   3.1. Total cost of raw materials, intermediate goods and other costs and the supply of inputs 12
   3.2. Outputs: value and structure of outputs 14
   3.3. The level of capacity utilisation 16
   3.4. Turnover and local versus international distribution/sales channels 16

4. Exports: industry balance, value at the firm level and barriers to export 19
   4.1. Trade balance of the industry 19
   4.2. Export actvity at the firm level 19
   4.3. Barriers to exporting 21

5. Firm/industry employment, human capacities and workforce development 23
   5.1. Employment structure by gender, age and educational background 23
   5.2. Perceptions of businesses on the skill level of the workforce 25
   5.3. Workforce development 26

6. Firm/industry assets, investments and innovations 27
   6.1. Total firm assets 27
   6.2. Total firm investments, innovations and organisational changes 28
   6.3. Business perceptions on new product/service development and protection of industrial property in Kosovo 28

7. Business environment 30
   7.1. Incentives for businesses operating in the industry 30
   7.2. Business perceptions on the level of taxes in Kosovo 30
   7.3. Business perceptions on the performance of TAK and Kosovo Customs 31
   7.4. Business perceptions about the cost of finance in Kosovo 31

8. Conclusions 33

Appendices 35

List of abbreviations

ATP	Autonomous Trade Preference
B2B	Business to Business
CEFTA	Central European Free Trade Agreement
KBRA	Kosovo Business Registration Agency
KSA	Kosovo Standardisation Agency
TAK	Tax Administration of Kosovo
VAT	Value Added Tax

1. Introduction

This sector profile provides information on the current situation of the wood sector in Kosovo, focusing mainly on wood processing activities. The report consists of the following: an outline of basic data for the sector; findings on firm input and output information on exports and imports at the sector and firm level; employment data, firm assets, investments and innovations; and finally, findings on businesses' perceptions on impediments for business development. The reference period is 2012, and for some main questions, information was also collected for 2011.

This sector profile draws from official data sources and an enterprise survey conducted by United Nations Development Programme (UNDP) for the purpose of this report. The overall sector characteristics, including the size and composition of the sector, draws on data by the Tax Administration of Kosovo (TAK) and the Agency for Registration of Businesses in Kosovo (ARBK). The trade balance of the sector is based on the Kosovo Customs. Firm-level indicators on the characteristics and the performance of the sector draw on survey data collected by UNDP during November and December 2013. The sample for this survey consists of 204 out of the 595 active firms in the database of the Tax Administration of Kosovo under SIC codes 2010, 2020, 2030, 2040, 2051, 3611, 3612, 3613, and 3614 as of 2012. It is of importance to note that part of 595 companies are also micro businesses belonging to the activity code 2030 'Manufacture builders' carpentry & joinery' but which excluded from the sample frame. The rationale for this exclusion is that these businesses are usually small shops mainly conducting repairs rather than manufacturing which is the primary focus of this study. Considering that the sector predominantly consists of micro-level firms, the survey attempted to cover all small, medium and large enterprises and a random sample of micro enterprises. Excluding enterprises under code 2030 the sample ultimately consisted of 165 out of the 293 micro enterprises and 39 out of the45 small, medium and large enterprises.

The wood sector is considered to be one of Kosovo's strategic sectors with great potential for development. According to TAK, the wood sector accounts for 2% of active businesses and 1% of registered employees. The majority of businesses are microenterprises, but a number of medium-sized businesses also exist. The main activity of wood sector businesses is the manufacturing of kitchens and furniture. Ferizaj/ Uroševac is the region with the largest concentration of wood sector companies.

In 2012, the average estimated turnover of micro businesses was €41,000. For small businessess it was €150,000, and the turnover of medium-sized businesses was €1.5 million on average. In 2012, the average number of employees per firm in the wood sector was 15, a substantial increase from 7 workers per firm in 2011. In 2012, 91% of companies sold final products locally, and this accounted for 95% of total domestic sales.

More than 90% of the surveyed businesses reported to own machinery and equipment, while 80% own land and buildings. In comparison to 2011, the value of buildings in 2012 increased by 22% and the value of machinery increased by 77%. In 2012, companies in the wood sector reported that they utilised about two thirds of their capacity, also an increase from 2011 to 2012.

Findings from the survey show that 95% of companies manufacture final products, 18% intermediate products and 10% raw material. On average, 76% of total costs come from the purchase of raw material and intermediate goods, whereas wages account for about 16% of total costs. A majority of companies import intermediate products and raw material; these are then processed further into final products.

According to the Kosovo Agency of Statistics (KAS), from 2010 to 2011, the export volume of the wood sector increased by 11%; from 2011 to 2012, by 19%; and based on estimations for 2013, exports of the wood sector will increase by 50%. From the survey, it was found that nearly 15% of the wood sector businesses export to markets in the Balkan region and throughout wider Europe.

All the surveyed medium-sized companies claimed that they export their products. This figure is one-third for the small firms, and as would be expected, a much smaller percentage of micro companies export. Main exported products are windows, doors, kitchens and furniture.

From 2011 to 2012, export volume at the firm level increased by an average of 23%. Exporters stated that the most substantial barrier they encounter while exporting is high transportation costs, and the second main barrier is the limited opportunity to establish links with international business networks.

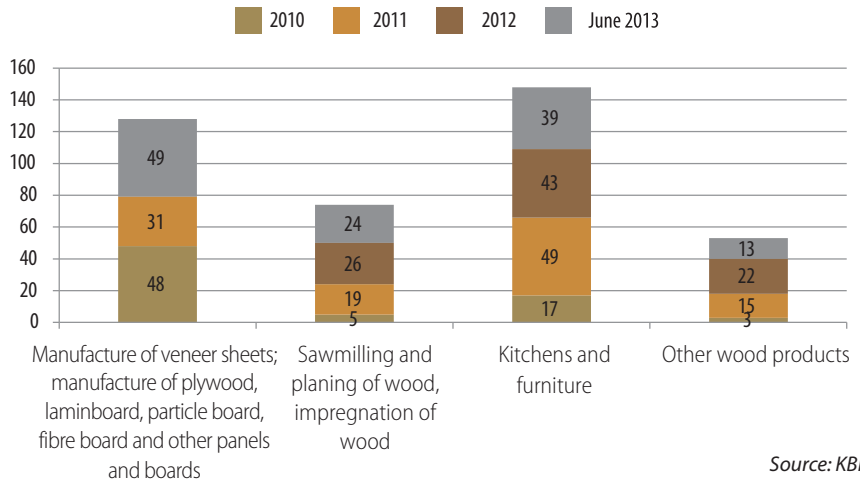
Around 15% of companies in the wood sector have undergone some innovative activities, which mainly include up-to-date technology acquisition and new software application. In addition, approximately 90% of companies hold a registered patent, and they do feel that the procedures for doing so are not problematic.

Based on data for 2011 and 2012, all firm level indicators point towards growth in the wood sector: positive changes in turnover, production value, employment figures and exports. Businesses in the wood sector invest in both new products and workforce development. Businesses do not perceive taxes as being high, but one major impediment to business development continues to prevail: high interest rates on bank loans.

2. Basic data for the wood sector

From 2010 to June 2013, 400 new businesses were registered in the wood sector, an average of 100 newly registered businesses per year (Figure 1). Manufacturing of kitchens and furniture is the most commonly registered activity--50% of newly registered businesses in the sector (Figure 1).

Figure 1: *Number of registered businesses by activity*

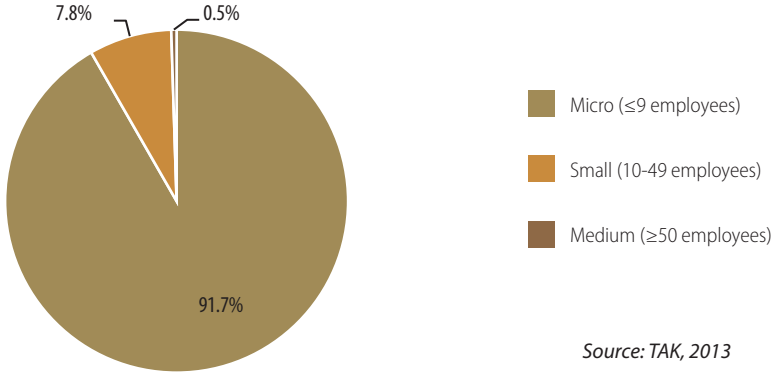


Source: KBRA, 2013

2.1. Distribution of companies by size

According to TAK, in the end of 2012 out of 21,615 total registered businesses in Kosovo, 565 operated in the wood sector. Wood processing is predominantly dominated by micro and small businesses (Figure 2).

Figure 2: *Distribution of businesses by size*

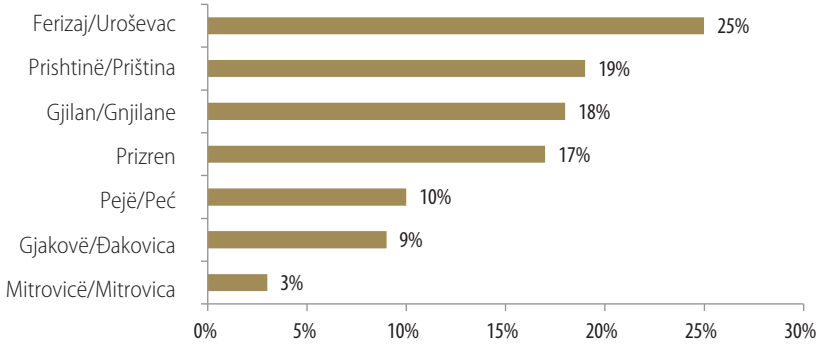


Source: TAK, 2013

2.2. Regional distribution of firms in the sector

Breakdown of data by region shows that one fourth of businesses is concentrated in the Ferizaj/Uroševac region (141 businesses out of 565), 19% are located in Prishtinë/Priština, 18% in Gjilan/Gnjilane, 17% in Prizren whereas the remaining 22% are located in Pejë/Peć, Gjakovë/Đakovica and Mitrovicë/Mitrovica (Figure 3).

Figure 3: *Distribution of businesses by region*



Source: TAK, 2013

2.3. Distribution of businesses by activity

According to the TAK database, 44% of businesses manufacture kitchens, furniture and other wood products (35% manufacture kitechens and furniture and 9% manufacture other wood products, Figure 4). More than 40% of wood sector companies manufacture builder's carpentry and joinery whereas the sawmilling and planing of wood and impregnation of wood is a less common activity among wood sector companies.

Figure 4: Distribution of businesses by main activity

Source: TAK, 2013

2.4. Ownership structure of firms in the industry

The majority of firms (91%) in the wood sector industry have only one owner. In 2.5% of cases, the firm's main owner holds less than 50% of shares. Across the sample, the average share of a firm's main owner is 91% (Table 1).

Table 1: *Ownership structure*

Share of the main owner	% of firms
Below 50%	2.5%
50%	2.0%
Between 50-100%	4.9%
100%	90.7%
Average share of all	**90.7%**

Source: UNDP survey, 2013

Companies in the wood sector are almost entirely domestically owned. Only one out of 204 interviewed companies reported to have foreign owners that own 75% of the company. Around 13.2% of the firms reported that they're owned by other private companies (Table 2).

Table 2: *Ownership by companies*

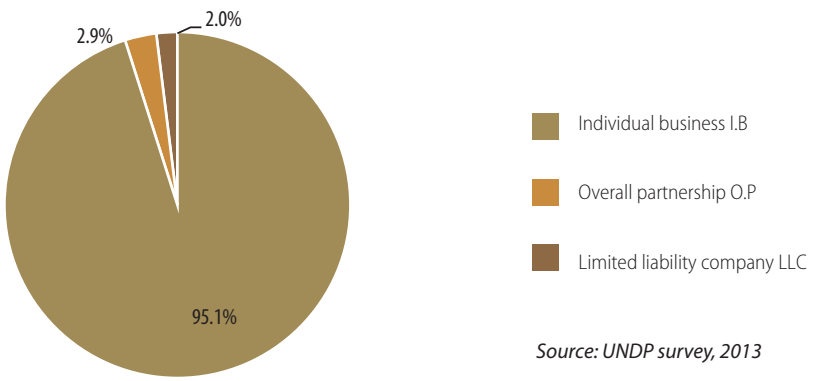
	% of companies	Average share
Ownership of private companies	13.2%	94.6%
Ownership of foreign companies	0.5% (1 company)	75%

Source: UNDP survey, 2013

2.5. Legal structure and age of firms in the industry

Results of the survey reveal that 95% of companies are individual businesses, 2% are registered as overall partnerships, and 3% are registered as limited liability companies (Figure 5).

Figure 5: *Legal status of companies (in %)*

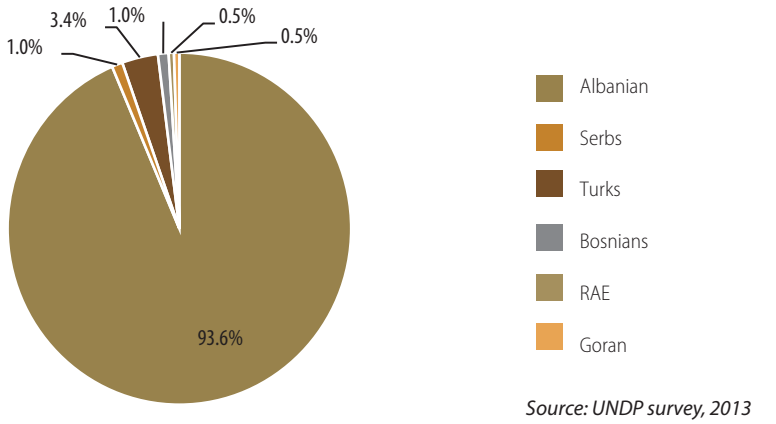


Source: UNDP survey, 2013

2.6. Age, gender, and ethnicity of the owner of the company

The average age of company owners is 43 years old. Half of all owners are younger than 40 years old, with the youngest being 24. Among surveyed companies, 94% of owners are Albanians, 3.4% are Turks, 1% Serbs and the remainder belong to the Bosniak, Goran and the Roma, Ashkali and Egyptian communities (Figure 6). The wood sector is a largely male-dominated sector, as 94% of firm owners are men.

Figure 6: *Ownership by ethnicity*



Source: UNDP survey, 2013

The main owners of firms reported to have completed an average of 12 years of education, equivalent to a secondary school education. More specifically, 76.5% of owners have completed secondary education, and the remaining ones have more than 12 years of education. Among main owners, the average years of education attained by women is higher (13 years) compared to the overall average.

Box 1: Profile of a successful business operating in Kosovo

Located in the north of Kosovo, Binni is one of the largest wood manufacturing companies in Kosovo. It is a family-run business that started with one employee back in 1989, and now it employs around 80 workers. Five brothers own and manage this company, some of whom returned from Europe and turned Binni into a success story.

In the beginning, the company's capital was modest, but the company managed to grow rapidly. In particular, Binni has realized an average growth rate of 60% during the last three years. According to the company's owners, this growth can be attributed to the good image that the company has built through its high quality products and commitment to customer satisfaction. The company is a specialty producer, meaning they only manufacture custom-made products.

Although interest rates are seen as high compared to international standards, Binni considers that loans they got from Kosovo banks have been key for company's growth, especially given its limited initial capital.

Qualified staff as well as the use of up-to date technology are also noted as great contributors to the success of the company. Recently, the company installed the newest UV lamp painting machine that cannot be found in any of the other companies in the region. Additionally, Binni utilizes quality raw material that is imported mainly from Germany, Croatia, Italy and other European countries.

Despite its operation in a very competitive sector, Binni's development has been almost entirely based on domestic demand.

The company does export to Switzerland, but these exports represent a small share of Binni's overall revenues. Kosovo market remains the most important and promising one for the company. Given the up-to-date technology, quality raw material and commitment to customer satisfaction, Binni is convinced of its further development.

The company's owners stated that the level of taxes in Kosovo is very reasonable, especially compared with those that they experienced working in Germany. One impediment that they noted is the customs duties and VAT that must be paid on imports before revenue derived from them can be collected. The possibility of opening a customs warehouse was mentioned as an option that they might pursue to avoid paying custom duties before revenue is collected. Exporting procedures are considered very simple, and given that their exports are subject to low taxes when imported to foreign countries (7% for Switzerland), the company has opted to extend its exports. However, identification of and contact with potential buyers from international markets remains a challenge for Binni.

3. Firm/industry input and output

3.1. Total cost of raw materials, intermediate goods and other costs and the supply of inputs

The surveyed firms reported that on average 75% of total companies' costs are incurred from the purchase of raw material and intermediate goods, whereas wages account for about 16% of total costs on average (Table 3). The ratio of wage costs to total costs is the lowest for micro companies. The share of wage costs is the highest in companies manufacturing veneer sheets, plywood and boards.

Table 3: *Average monthly input costs by company size (in €)*

	Raw material and intermediate products	Wage costs	Energy	Water	Fuel	Other
Micro (1-9 employees)	9,431	1,357	176	11	423	167
Small (10-49 employees)	18,211	6,324	885	24	1,226	967
Medium (50-249 employees)	136,667	28,050	2,300	113	2,025	850
Total	**13,220**	**2,756**	**337**	**15**	**594**	**387**

Source: UNDP Survey, 2013

The origin of raw material and intermediate products is quite diverse (Table 4). Around one-third of companies in the wood sector use their own raw material and intermediate goods, and 68% of companies obtain supplies from the domestic markets. Raw material and intermediate goods are mainly supplied by domestic traders (in 38% of cases), and less are purchased from foreign traders and directly from manufacturers (17% and 13% of companies, respectively). This may suggest that domestic companies play an important supply role for wood companies engaged in manufacturing. This can also imply that there is a developed supply chain for the wood processing sector in Kosovo (i.e. manufacturing wood sector companies can find raw material from suppliers located within Kosovo). It is interesting to note that companies which supply their own raw material and intermediate goods are able to cover an average of 76% of their needs. In addition, domestic traders were found to be important for companies that use imported raw material and intermediate goods, as nearly two thirds of their needs are met by the abovementioned.

Table 4: *Supply sources of raw material and intermediate goods (local versus international)*

	Supply of raw material and intermediate goods	
	% of companies	Average share of raw material and intermediate goods
From domestic market		
Produced from the company	34%	76%
From domestic suppliers	68%	33%
Imported		
From domestic traders	38%	63%
From foreign traders	17%	52%
Directly imported from the manufacturer	13%	31%

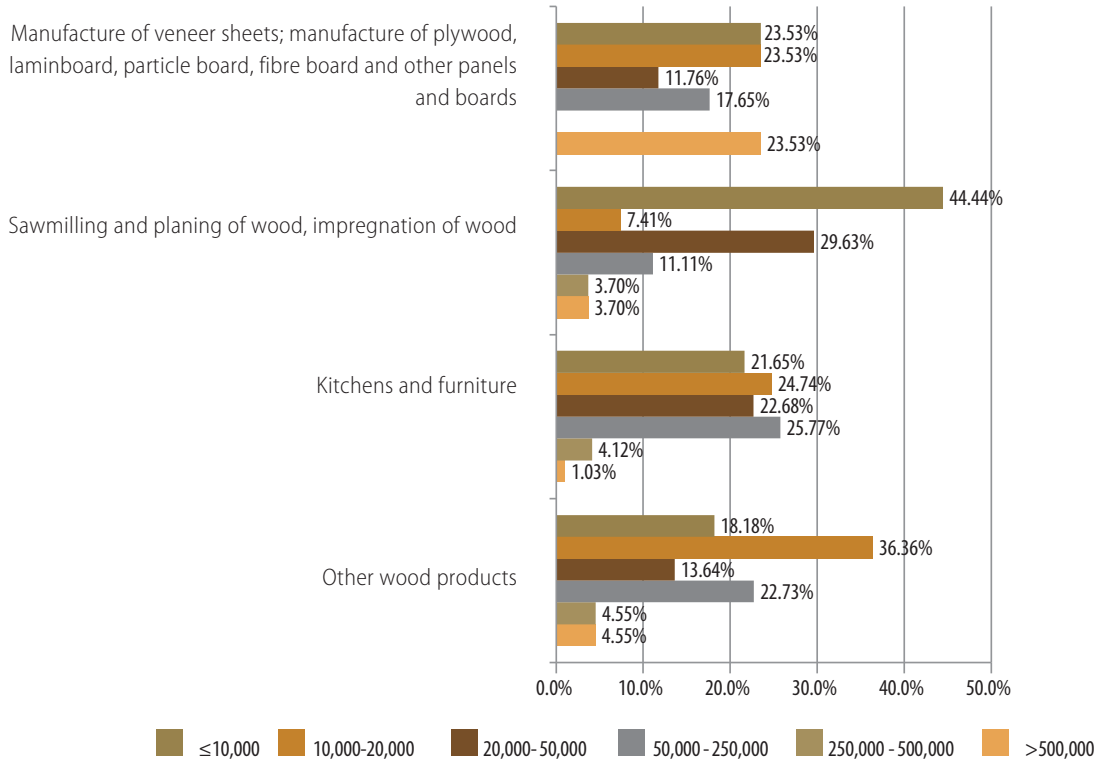
Source: UNDP Survey, 2013

As the table above illustrates the majority of companies import raw material and intermediate products that are further processed and into final products. Only 20% of companies import ready-made final products. With regard to the origin of imports, around one fifth of companies import from Turkey; 18% from Montenegro; and 13% of companies import from Germany. Other countries from which companies import are Norway, Hungary, Bulgaria, Bosnia and Herzegovina, and so forth.

3.2. Outputs: value and structure of outputs

Firms' reported production value is greater than €25,000 for nearly 50% of businesses. The annual production value of businesses manufacturing kitchens and furniture is €2.5-5 million. Companies reporting higher production values increased across all activities during 2011-2012 (Figure 7 and Figure 7a). On average, the production value in 2011 was estimated to be €90,000 per firm, whereas the value in 2012 was €107,000 on average. This represents an 18% increase in average production value over two years.

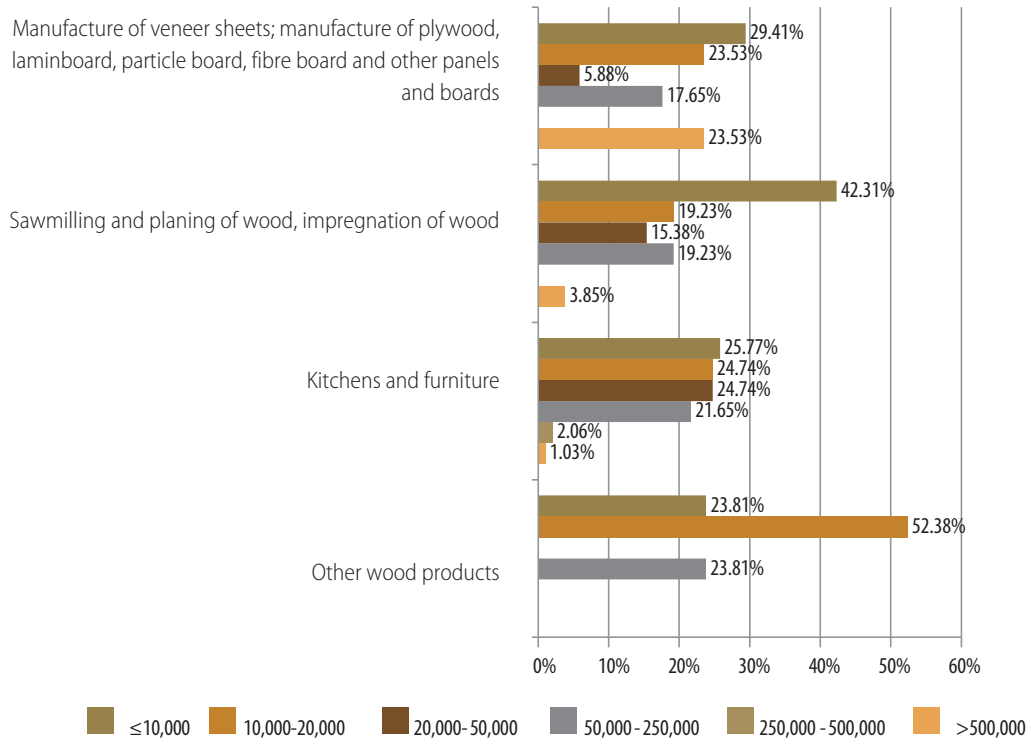
Figure 7: *Annual production value:*
***A**: Output value in 2012 (in €)*



Source: UNDP Survey, 2013[1]

1 Calculations/percentages include only businesses that responded to this question.

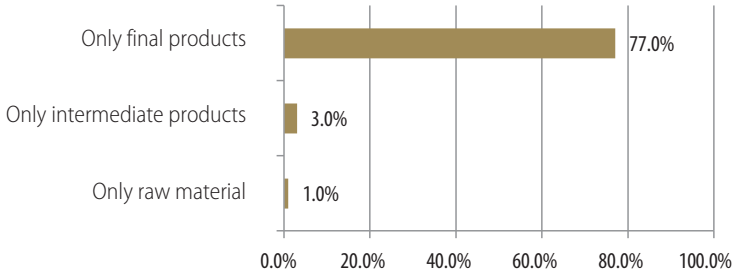
B: *Output value in 2011 (in €)*



Source: UNDP Survey, 2013[2]

Findings show that 95% of the surveyed companies manufacture final products, 18% manufacture intermediate products and 10% raw material. The firms that produce final products reported that these comprise on average 94% of their total production, while intermediate products and raw material were reported to comprise one-third and 15%, respectively, of total production of the firms that produce them. Figure 8 shows that 77% of the surveyed firms produce only final products, 3% produce exclusively intermediate products, 1% produce only raw material and the remaining 19% produce a mix of these products (Figure 8).

Figure 8: *Percentage of firms engaged in production of only one type of good*



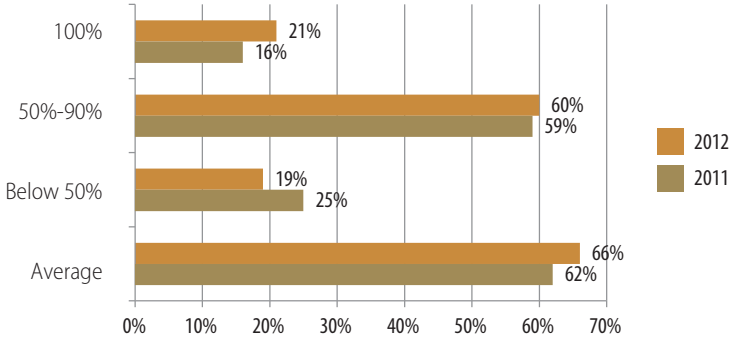
Source: UNDP Survey, 2013

2 Calculations/percentages include only businesses that responded to this question.

3.3. The level of capacity utilisation

Companies in the wood sector report to utilise about two thirds of their capacity and that capacity utilisation increased in 2012 (Figure 9). Also in 2012, the percentage of companies that realized full capacity-utilisation was 21%, a figure that was five percentage points lower in 2011. The number of companies that reported to utilize less than 50% of their capacities decreased by 6 percentage points between 2011 and 2012, from 25% to 19%.

Figure 9: *Capacity utilisations, 2011 and 2012*

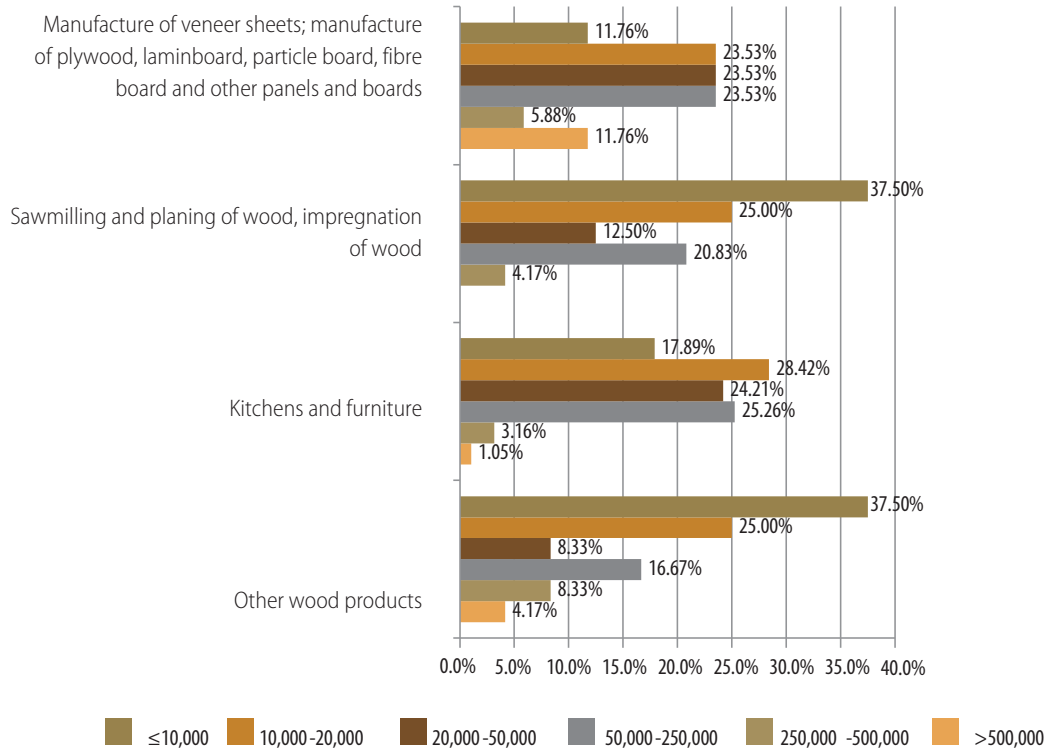


Source: UNDP Survey, 2013

3.4. Turnover and local versus international distribution/sales channels

In 2012, nearly one-third of businesses had an average annual turnover above €50,000 (Figure 10). The annual turnover of businesses manufacturing kitchens and furniture reached na average of €5 million. Average sectoral turnover increased by 7% from 2011 to 2012. This growth was highest among businesses manufacturing office and shop furniture. Average sales of micro businesses were €41,000, €150,000 for small ones and €1.5 million for medium-sized businesses.

Figure 10: *Sales by main activity, 2012*



Source: UNDP Survey, 2013

As such, companies operating in the wood sector sell mainly to the domestic market, with less than 15% of companies selling abroad in 2011 and 2012 (Table 5). More than 80% of companies sell their products only in Kosovo, and less than one percent collect revenues solely from international markets. This may suggest that Kosovo represents an important market for wood sector companies. Looking at average sales by market, it can be noted that 95% of turnover is collected from domestic markets for companies that declared selling in Kosovo (91%). Although few companies are active in international markets, they reported that one-fifth of their sales come from exporting.

Table 5: *Domestic versus international sales*

	% of companies	
	2011	**2012**
Domestic sales	96%	99.5%
Sales in international market	12%	13.3%
Only in domestic market	**84%**	**83%**
Only international market	**0.5%**	**0.5%**
	2011	**2012**
Average sales domestically	95%	95%
Average sold internationally	20%	20%

Source: UNDP Survey, 2013

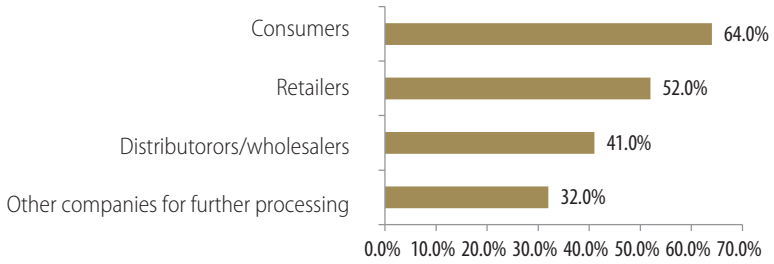
Even though a small share of companies currently export, nearly one-third of them plan to do so in the future. About 77% of companies sell their products to retailers and 66% of them sell their products directly to final consumers. Only 15% of companies sell their products to other companies for further processing.

Figure 11: *Selling/distribution channels*

Source: UNDP Survey, 2013

In terms of the volume sold, for companies declaring to sell directly to consumers, the average turnover collected from this channel is 64%, the average turnover collected from retailers is 52%, whereas from distributors/wholesalers 41% (Figure 12).

Figure 12: *Share of sales by type of buyers*



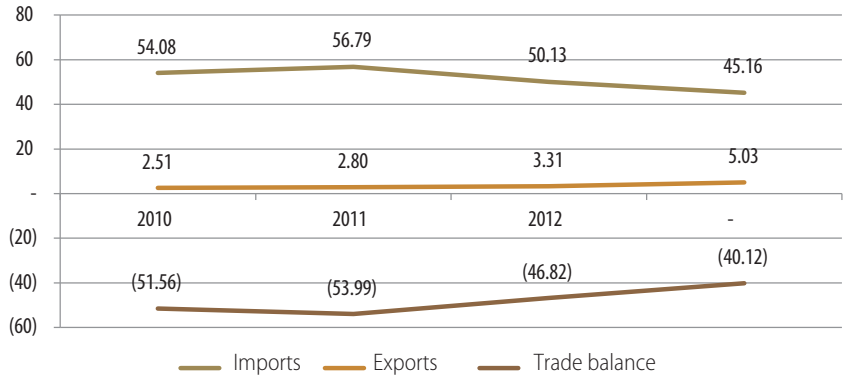
Source: UNDP Survey, 2013

4. Exports: industry balance, value at the firm level and barriers to export

4.1. Trade balance of the industry

From 2010 to 2011, export volume of wood products increased by 11%; from 2011 to 2012, by 19%; and based on estimations for 2013, exports will increase by 50% (Figure 13). On average, the imported volume of manufactured wood products declined during 2010-2012. As a result, the trade balance improved over this period.

Figure 13: *Trade balance of wood sector manufactured products (thousands of €)*

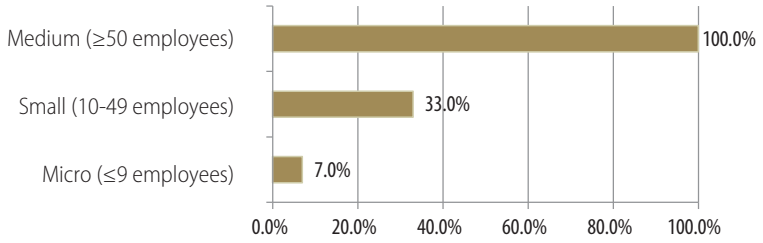


Source: Kosovo Customs, 2013

4.2. Export actvity at the firm level

As noted above, results from the survey reveal that 13.3% of wood procesing businesses export their products. Disaggregating these data by company size shows that all medium-sized companies export, one-third of small ones export, and as would be expected, a much smaller percentage of micro companies export (Figure 14).

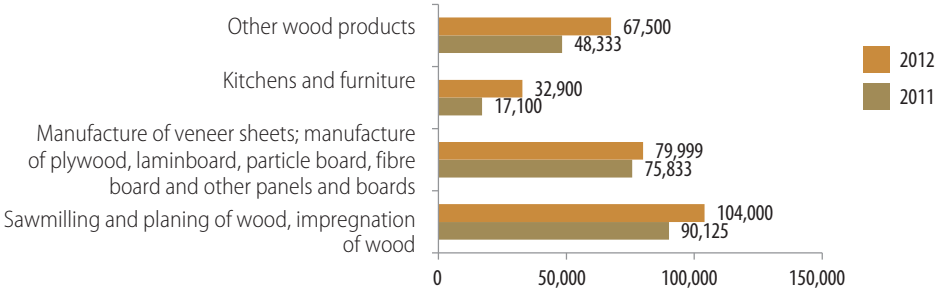
Figure 14: *Export activity by firm size*



Source: UNDP Survey, 2013

Main exported products are windows and doors, kitchens and furniture. On average, the value of exports increased by 23% from 2011 to 2012 (Figure 15). Although this average ranged between €50,000 and €60,000, a few companies exported more than €200,000 annually.

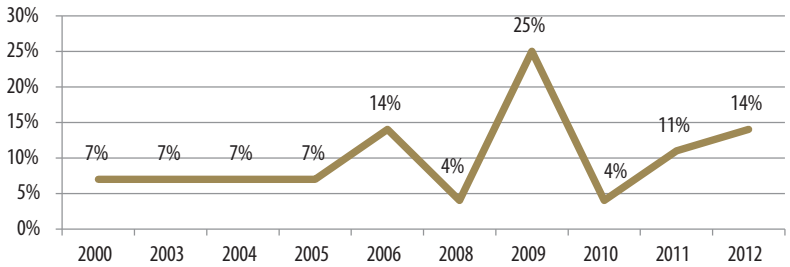
Figure 15: *Export volume by activity of businesses (in €)*



Source: UNDP Survey, 2013

In relative terms, the increase in export volume was highest for kitchens and furniture. Main destination countries for wood sector products are Albania, Montenegro and Switzerland. Destinations for future exports are believed to include mainly European countries, such as Germany, Austria, and Switzerland. Again, as noted above, among businesses that export, 20% of their turnover comes from this activity. Year 2009 marked a significant increase in the number of exporting businesses (Figure 16). A smaller share of companies started their export activities in 2010, and this may be related to the global crisis. However, after 2010, more and more companies joined the international markets.

Figure 16: *Year when companies started exporting (% of total surveyed)*



Source: UNDP Survey, 2013

4.3. Barriers to exporting

Companies that export were asked to rate the strength of several barriers which which they were faced when exporting. The ranking scale was from 0-10 where 0 implies that the listed issue is not a barrier at all and 10 meaning that it is a heavy barrier. The question was also split into first and the second main barrier. Findings reveal that exporting companies consider high transportation costs as their main barrier to exporting, followed by customs procedures (Table 6). Almost one third of companies identified barriers linked to visa, custom duties and relations with Serbia. An interesting finding is that nearly 40% of companies could not name the barrier that they are faced with during export activities.

When asked on the second main barrier nearly two thirds stated that they do not know whereas the main barrier was related to the quality control, phytosanitary and visa issues.

Table 6: *Barriers faced during export (only exporting companies)*

	First main barrier (% of companies)
Transportation costs	17.9%
Customs procedures	7.1%
Limited opportunities to establish links with international business networks	3.6%
Other reasons (visas; custom duties; relations with Serbia)	32.1%
Do not know	39.3%

	Second main barrier (% of companies)
Efficiency of customs administration in transit countries	3.7%
Efficiency of customs agents	3.7%
Political relations with importing country	3.7%
Limited opportunities to establish links with international business networks	7.4%
Other (quality control; phytosanitary; visas)	18.5%
Do not know	62.9%

Source: UNDP Survey, 2013

The surveyed companies were also asked to grade the significance of certain barriers (scale: 0 – not a barrier to 10 – large barrier), and the largest impediments to exporting were noted to be poor efficiency of customs in transit and importing countries, high costs of bank guarantees and political relations with importing countries (Table 7).

Table 7: *Barriers to exporting, average scale (only exporting companies)*

	Average scale
Efficiency of customs in transit or importing countries	6.04
High costs of bank guarantees	5.77
Limited opportunities to establish links with international business networks	5.73
Political relations with importing country	5.54
Poor efficiency of agents/intermediaries	5.23
Custom procedures	5.19
Lack of finance	4.92
Transportation costs	4.62
International quality standards (sanitary, phytosanitary and other industrial standards)	4.08
Infrastructure in transit or importing country	3.77

Source: UNDP Survey, 2013.

Additional barriers to exporting were those related to the lack of quality assurance certificates, inefficient management, lack of willingness from business owners to extend production and poor energy supply.

It is important to note that the cost of transportation and the time and (transaction) costs of completing customs procedures are being addressed by the Kosovo Government. The cost of transportation is expected to decrease with the completion of the Highway R7 that will connect Kosovo to Albania and Serbia and Highway R6 to Macedonia--the construction of which is expected to begin in 2014. On the other hand, the regulatory framework for trading across borders has recently been reformed, and the number of documents required to export has been greatly reduced, reducing the cost of trade by 20%[3] .

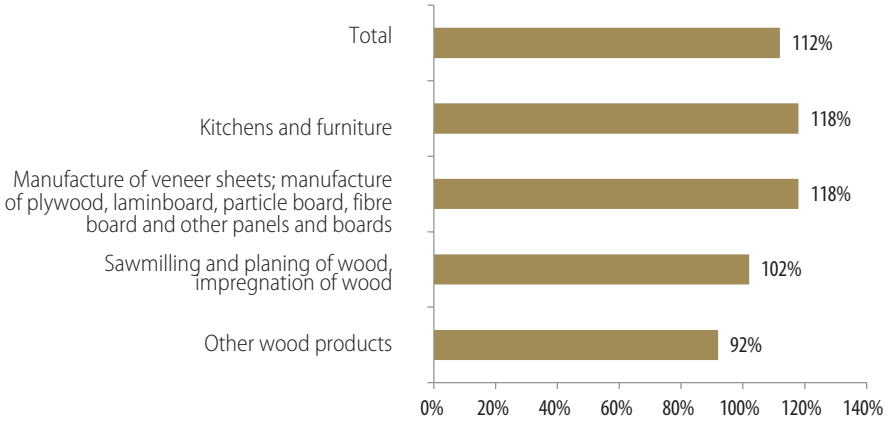
3 MTI webpage, extracted from http://www.mti-ks.org/sq/Reformat-e-te-berit-biznes

5. Firm/industry employment, human capacities and workforce development

5.1. Employment structure by gender, age and educational background

According to TAK, the wood sector accounted for 1% of Kosovar employees in 2012. Additionally, findings from the survey show that the average number of employees per firm was 15 in 2012, a substantial increase from 7 workers per firm in 2011. On average, employment increased by 112% from 2011 to 2012 (Figure 17). Firms that produce furniture and kitchens are among those that experienced the highest growth in terms of employment, 118%. At the firm level in 2012 employment of women increased by 30% whereas considering for the total number of women employed, the number of women employed in the wood sector increased by 200% (from 122 to 354).

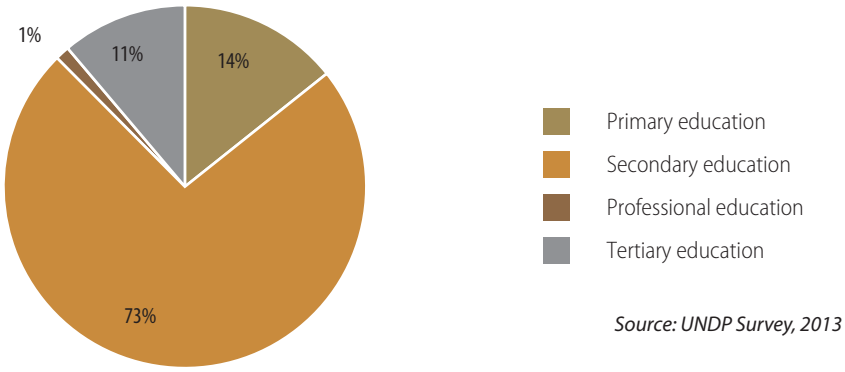
Figure 17: *Firm growth (growth rate by number of employees)*



Source: UNDP Survey, 2013

For approximately 70% of employees, secondary education is their highest level of educational attainment. While 11% of employees are reported to have completed tertiary education, the respondents of the survey claimed that only 1% of their employees have completed professional education, while 14% have completed primary education (Figure 18).

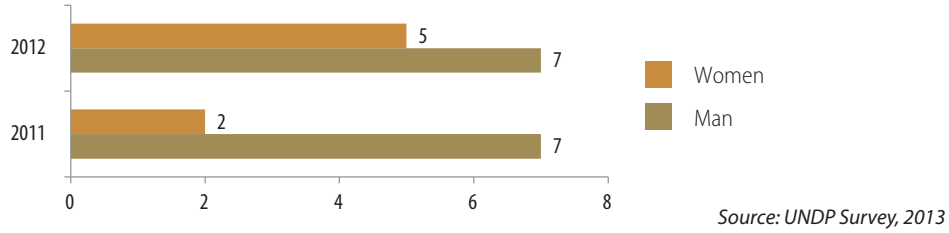
Figure 18: *Employees' educational attainment*



Source: UNDP Survey, 2013

Wood processing is a men-dominated sector. Only one-fourth of companies employ women. As such, the average number of men employees per firm is higher than that of women (2 women and 7 men in 2011 and 5 women and 7 men in 2012); however, this discrepancy declined from 2011 to 2012 (Figure 19).

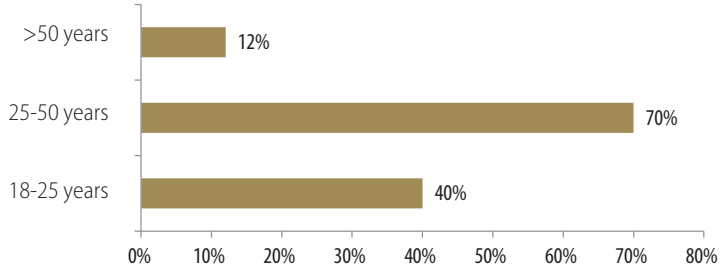
Figure 19: *Gender composition of employees*



Source: UNDP Survey, 2013

This sector is characterised by employment of middle-aged employees: on average, 70% of employees belong to the 25-50 years age group (Figure 20). However, it seems that the wood sector is also attractive for young people, as youth account for 40% of the employee base of the sector.

Figure 20: *Age structure of employees*



Source: UNDP Survey, 2013

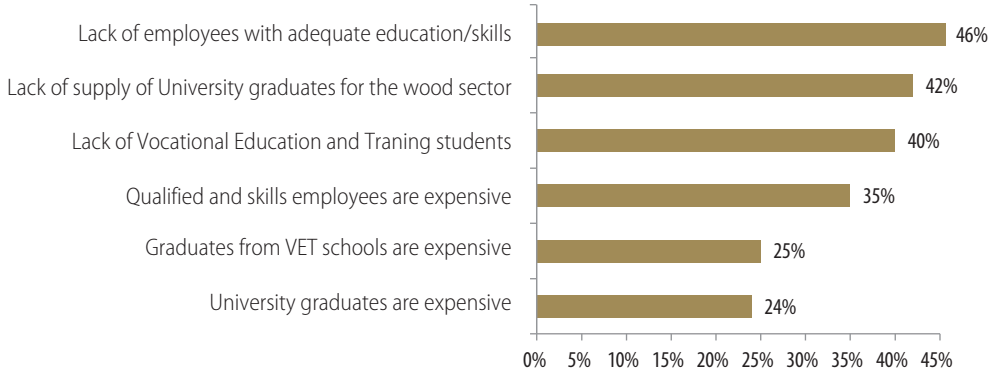
Moreover, this sector is an important contributor to sustainable employment: almost all companies in the wood sector employ full-time staff, and the share of full-time employment accounts for 90% of total employment in the sector. Only 3% of companies employ staff on a part-time basis, and their share in the total number of workers employed in these companies is only 27%. Less than 15% of companies hire seasonal workers, representing 15% of these companies' employees.

Nearly 10% of companies employ non-Albanians, and in those firms, their average number is around 2. The largest share of non-Albanian employees belong to the Roma, Ashkali, Egyptian and Turkish ethnicities.

5.2. Perceptions of businesses on the skill level of the workforce

Findings from the survey suggest that companies regard the lack of skilled employees a greater concern than the labour costs of such qualified workers (Figure 21). As may be observed in the figure below, lack of employees with adequate education/skills is considered to be a major problem by 46% of the surveyed firms, followed by 42% who claimed that there is a lack of supply of University graduates for the wood sector and 40% who reported that there is a problem with lack of employees with professional (vocational), sector-related education. Nearly one fourth of wood sector companies stated that university and VET school graduates are expensive and 35% claim that qualified employees are expensive.

Figure 21[4] : *Supply and cost of skilled employees*



Source: UNDP Survey, 2013

4 Note: Responses were Yes, No, at some level and Do not know. In this graph only % of companies that responded Yes are reported.

5.3. Workforce development

The survey results show that nearly one-fifth of wood sector companies provide training to their employees. Three quarters (75%) of medium and 100% of large companies reported to provide trainings, while only 13.4% and 37.1% of small and micro companies do so, respectively.

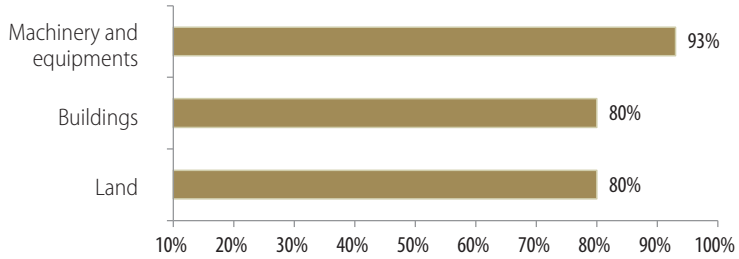
Knowing that the greater share of employees in the wood sector are men, a greater share of companies stated that training was provided to men rather than women. Only 13% of women were trained compared to 21% of men employees. Most of the training were organised in the workplace and were related to enhancing workers' skills in manufacturing. However, only 5 out of 204 surveyed companies in the wood sector also reported to invest in improving managerial and presentation skills of their employees.

6. Firm/industry assets, investments and innovations

6.1. Total firm assets

The majority of firms' assets are owned by the surveyed businesses, while only a small share are rented: 93% of businesses own machinery and equipment; 80% of businesses own land and buildings (Figure 22). For 2012, the total value of assets of surveyed businesses is estimated to have been €46 million: the average value of land was €120,000; buildings €180,000 and machinery and equipment €115,000. Comparing these figures to 2011, the survey data show that the value of buildings increased by 22% and machinery by 77% in 2012. However, the value of land was estimated to be more than 20% lower, but this may be attributed to changes in the market for land.

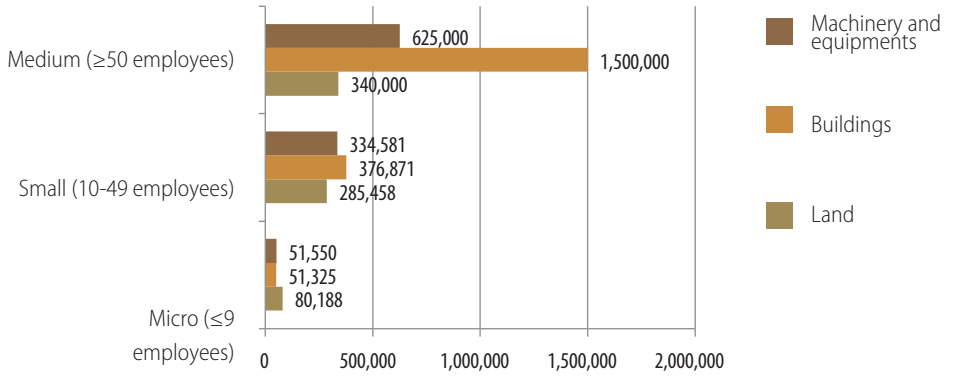
Figure 22: *Possession of assets*



Source: UNDP Survey, 2013

Buildings represent a larger share of total assets for medium-sized businesses compared to firms of other sizes (Figure 23). The average value of buildings for medium-sized companies is €1.5 million, whereas the value of machinery is estimated at €625,000. In micro companies land accounts for 44% of assets whereas buildings and machinery and equipments contribute equally to remaining 56% of asset value. In small companies buildings account for the greatest share of assets (38%) followed by machinery and equipment (34%) and the smallest contribution to asset value comes from land with 29%.

Figure 23: *Assets value by firm size*



Source: UNDP Survey, 2013

6.2. Total firm investments, innovations and organisational changes

More than 20% of companies in the wood sector invested in a new product in 2012, and the average total of all investments in companies that invested amounted to €90,000. Remittances are an important source for investments in the wood sector: 30% of companies that invested in a new product used remittances as a financial source. The average amount of remittances put toward firm investments was €50,000. Around 15% of companies in the wood sector have undergone some innovative activities, which mainly include up-to-date technology acquisition and new software application. Nearly 10% of companies have implemented innovative marketing strategies, largely related to new product designs. Only 4% of companies introduced innovative organizational changes.

The average capital intensity ratio (machinery and equipment/turnover) is 2.6.[5] Capital intensity is lower among medium-sized businesses (1.73) than for micro (2.7) and small businesses (2.2).

6.3. Business perceptions on new product/service development and protection of industrial property in Kosovo

Some wood processing companies feel that the existing degree of property rights protection in Kosovo negatively impacts the sector, either with regards to development of new products/services (21% of firms) or to transferring activities of international companies (10% of firms) (Table 8). Copying of products and unfair competition are considered the main consequences of the poor implementation of property rights.

5 The original interval variable "turnover" was transformed into a continuous variable by assigning midpoint values to each interval.

Table 8: *Perceptions on protection of property rights*

Does the actual level of property rights protection impact companies in the wood sector?	% of companies
No	38%
Yes, it prevents companies to develop products/services	21%
Yes, it prevents companies in transferring activities of international companies	10%
I do not know	31%

Source: UNDP Survey, 2013

Survey data show that 87% of companies hold a registered patent, and 86% of these have been obtained since 2000. Moreover, companies do not feel that procedures for registering patents are problematic (Table 9).

Table 9: *Patent registrations and perceptions on procedures for registration*

	% of companies
Company has a registered patent	87%
Difficulties in registering a license deters business development	8%

Source: UNDP Survey, 2013

7. Business environment

7.1. Incentives for businesses operating in the industry

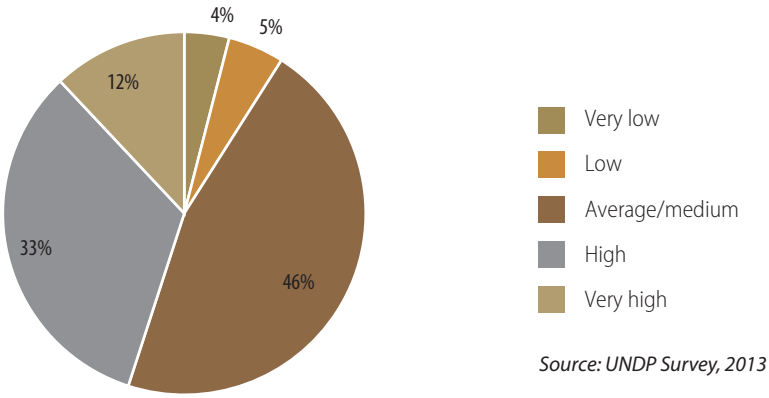
Box 2: Incentives for businesses operating in the industry

- No customs duties on imports of technology.
- Through authorisation of a customs warehouse, a possibility for businesses to suspend payment of VAT on raw material until goods are treated exist, and in cases where imported goods are re-exported, no taxes are paid at all.
- Possibility to defer payment of VAT on imports of selected plant and machinery for up to 6 months (to allow plant and machinery to be put into operation before VAT on its cost has to be paid).
- Authorization for of temporary export, import and for outward processing : this enables businesses to defer payment of taxes for some time or in cases that the goods are re-exported, no taxes are paid at all.

7.2. Business perceptions on the level of taxes in Kosovo

Nearly half of all companies operating in the wood sector stated that the level of taxes in Kosovo is 'average'--i.e. not high and not low (Figure 24). About one-third consider taxes to be 'high,' and 12% feel they are 'very high'. An interesting finding is that 8% of companies see the level of taxes as 'low' or 'very low,' (Figure 24).

Figure 24: *Business perceptions on the level of taxes in Kosovo*



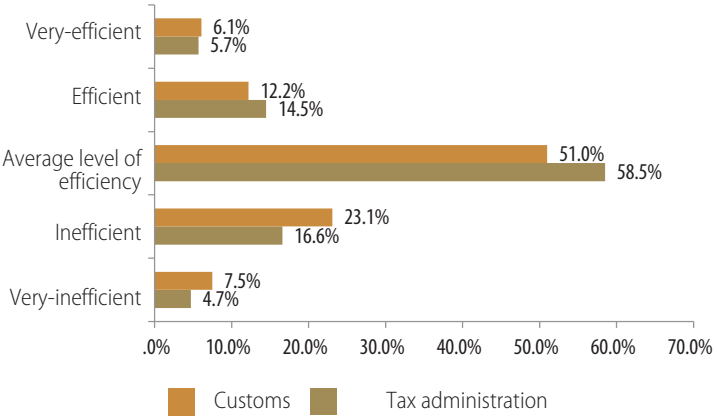
Source: UNDP Survey, 2013

Among those companies that consider the level of taxes is 'high,' most remarked that the level is viewed to be high due to the low profit margins that companies earn. VAT was noted to be one of the higher taxes.

7.3. Business perceptions on the performance of TAK and Kosovo Customs

Overall, firms in the sector perceive the tax and customs administrations as relatively efficient (Figure 25). Around 80% of companies stated that TAK operates at an 'average' level of efficiency, that it is 'efficient' or 'very efficient.' Around 70% of the surveyed companies share the same perception with regard to efficiency of Kosovo Customs.

Figure 25: *Business perceptions on performance of tax administration and custom*

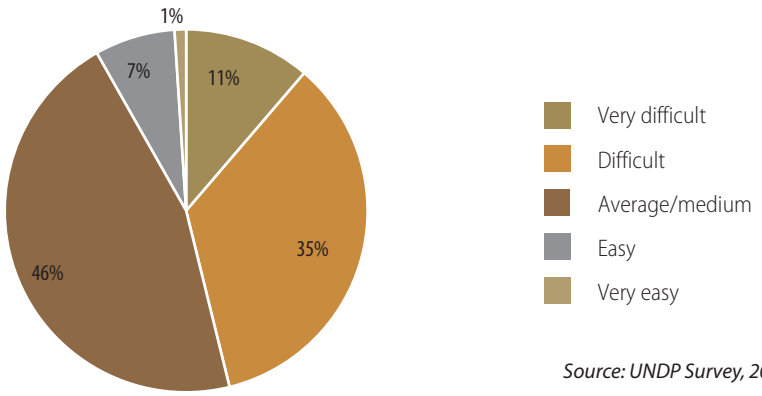


Source: UNDP Survey, 2013

7.4. Business perceptions about the cost of finance in Kosovo

More than half of wood processing companies claimed that obtaining financing is 'difficult' or 'very difficult,' and only 8% stated that it is 'easy' or 'very easy' (Figure 26).

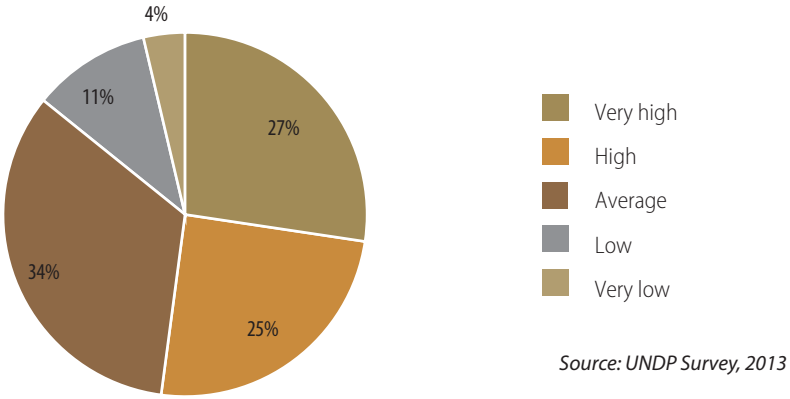
Figure 26: *Business perceptions about ease of obtaining finance in the sector*



Source: UNDP Survey, 2013

The cost of finance is considered rather high by companies. More than half of businesses stated that interest rates are 'high' or 'very high,' while only 15% indicated that interest rates are 'low' or 'very low' (Figure 27).

Figure 27: *Business perceptions on the level of interest rate*



Source: UNDP Survey, 2013

8. Conclusions

This sector profile presents sectoral and firm level data. To provide information at the sectoral level data are used from the Tax Administration and Kosovo Customs. Firm level data are based on the 2013 UNDP survey which included 204 companies comprising of 165 micro companies and 39 small and medium sized companies. Main findings of this sector profile are provided below.

Around 92% of companies in the wood sector are micro, 7.8% are small and only 0.5% are medium sized companies. The main activity of wood sector businesses is the manufacturing of kitchens and furniture. One fourth of wood sector companies are located in the Ferizaji region. A vast majority of companies are owned by Albanian and male owners.

On average 75% of total companies' costs are incurred from the purchase of raw material and intermediate goods, whereas wages account for about 16% of total costs on average. Around one-third of companies in the wood sector use their own raw material and intermediate goods, and 68% of companies obtain supplies from the domestic markets. With regard to the origin of imports, around one fifth of companies import from Turkey; 18% from Montenegro; and 13% of companies import from Germany.

Firms' reported production value is greater than €25,000 for nearly 50% of businesses. The annual production value of businesses manufacturing kitchens and furniture is €2.5-5 million. On average, the production value in 2011 was estimated to be €90,000 per firm, whereas the value in 2012 was €107,000 on average. This represents an 18% increase in average production value over two years. Findings from the survey show that 95% of companies manufacture final products, 18% intermediate products and 10% raw material.

Average sectoral turnover increased by 7% from 2011 to 2012. This growth was highest among businesses manufacturing office and shop furniture. Average sales of micro businesses were €41,000, €150,000 for small ones and €1.5 million for medium-sized businesses. Wood sector companies sell mainly to the domestic market, with less than 15% of companies selling abroad in 2011 and 2012. Although few companies are active in international markets, they reported that one-fifth of their sales come from exporting.

Data from Kosovo Customs show that from 2010 to 2011, export volume of wood products increased by 11%; from 2011 to 2012, by 19%; and based on estimations for 2013, exports will increase by 50%. Data from the survey reveal that 13.3% of wood procesing businesses export their products. Main exported products are windows and doors, kitchens and furniture. From the survey it is found that main destination countries wood sector products are Albania, Montenegro and Switzerland. Destinations for future exports are believed to include mainly European countries, such as Germany, Austria, and Switzerland.

The largest impediments to exporting were noted to be poor efficiency of customs in transit and importing countries, high costs of bank guarantees and political relations with importing countries.

According to TAK, the wood sector accounted for 1% of Kosovar employees in 2012. Findings from the survey show that the average number of employees per firm was 15 in 2012, a substantial increase from 7 workers per firm in 2011. For approximately 70% of employees, secondary education is their highest level of educational attainment. Wood processing is a men-dominated sector. Only one-fourth of companies employ women. Findings from the survey suggest that companies regard the lack of skilled employees a greater concern than the labour costs of such qualified workers. The survey results show that nearly one-fifth of wood sector companies provide training to their employees.

The majority of firms' assets are owned by the surveyed businesses, while only a small share being rented: 93% of businesses own machinery and equipment; 80% of businesses own land and buildings. In 2012, the total value of assets of surveyed businesses is estimated to have been €46 million: the average value of land was €120,000; buildings €180,000; and machinery and equipment €115,000. The average capital intensity ratio (machinery and equipment/turnover) is 2.6.[6] Capital intensity is lower among medium-sized businesses (1.73) than for micro (2.7) and small businesses (2.2).

More than 20% of companies in the wood sector invested in a new product in 2012. Nearly 10% of companies have implemented innovative marketing strategies, largely related to new product designs. Only 4% of companies introduced innovative organizational changes.

Nearly half of all companies operating in the wood sector stated that the level of taxes in Kosovo is 'average'--i.e. not high and not low. Around 80% of companies stated that TAK operates at an 'average' level of efficiency, that it is 'efficient' or 'very efficient.' Around 70% of the surveyed companies share the same perception with regard to efficiency of Kosovo Customs. With regard to access and cost of finance more than half of wood companies claimed that obtaining financing is 'difficult' or 'very difficult,' and more than half of businesses stated that interest rates are 'high' or 'very high.

6 The original interval variable "turnover" was transformed into a continuous variable by assigning midpoint values to each interval

Appendices

Appendix 1: List of institutions relevant for the wood sector

- Ministry of Trade and Industry: business registration (KBRA); information on trade and other business related issues
- Ministry of Finance: information regarding tax policy
- Tax Administration Authority: tax payment
- Municipal "one-stop-shops": business information sources and provision of counselling services
- Kosovo Customs: information on customs duties and procedures
- Investment Promotion Agency: information for foreign investors
- Kosovo Chamber of Commerce: information source- business networks, fairs, trade missions, business-to-business (B2B) meetings, trainings
- Wood Processing Association: business networks, fairs, trade missions, advocacy for the sector

Appendix 2: Legal framework relevant for the wood sector

- Law No.02/L-123 on Business Organizations
- Law no.2004/18 on Internal Trade
- Law No. 02/L-33 on Foreign Investment
- Law No. 02/L-5 on Support to Small and Medium Enterprises
- Law No.04-L-047 on Safeguard Measures on Imports
- Law No. 04/L-006 on amending and supplementing of the Law no.02/L-123 on business organisations
- Law No. 04/L-005 on amending and supplementing the law no. 2004/18 on internal trade
- Law No.03/L –229 on protection of competition
- Law No. 03/L-031 on amendment and supplementation of Law no. 02-L-5 on supporting the small and medium enterprises
- Law on Amending and Supplementing Customs and Excise Code No. 03/L-109 04/L-099
- Law on Tax Administration and Procedures 2004/48
- Law on Value Added Tax 03/L-114
- Law on Personal Income Tax 03/L-161
- Law on Amending and Supplementing the Law on Personal Income Tax No. 03/L-161
- Law on Corporate Income Tax 03/L-162
- Law on Amending and Supplementing the Law No. 03/L-162 on Corporate Income Tax 04/L-103
- Law on Amending and Supplementing the Law No. 03/L – 204 on Property Tax 04/L-100
- Law on Taxes on Immovable Property 03/L-204
- Regulation no. 01/2013 on Technical Requirements for Wood Based Panels
- Law No. 04/L-048 on External Trade
- Regulation on the Autonomous Trade Measures
- Administrative instruction no. 14 /2013 on Registration, Licensing, and Administrative Enforcement procedures
- Customs and Excise Code of Kosovo: Code No. 03/L-109

Appendix 3: List of taxes, custom duties and pension contributions

Type	Rates and descriptions
Personal Income Tax: Law No.03/L-161 **Law No. 04/L-104**	This type of tax is applied on incomes from wages, business, rent, interest, real estate, etc. Tax rates for personal income from wages are normally progressive based on the level of earned salary and lower rates in the region and countries of EU. The tax rates are: 0% up to 960 €/year; 4% from 960 to 3,000 €/year; 8% between 3,001 and 5,400 €/year; 10% over 5,400 €/year. Amended in 2011: Nine % (9%) of gross incomes by services, professional activities, artisan, entertainment and similar of each trimester, but not less than thirty seven point five (37.5) € for trimester.
Specific Tax code on Depreciation	According to article 15 of the Law on Corporate Income Tax (No.03/L-162), the amount allowed as a depreciation deduction for the tax period is to be determined by applying the following % ages to the capital accounts under the reducing balance method: ■ Category 1: Buildings; five % (5%) ■ Category 2: Vehicles and office equipment; twenty % (20%) ■ Category 3: Machinery and heavy transport vehicles; fifteen % (15%)
Corporate tax Law Nr.03/L- 162	Depending on annual income, domestic legal entities and permanent establishments of foreign legal entities are taxed as follows: Annual income €0-5,000€ =375€/quarter Annual income €5,001-€50,000=3-10% of income Annual income €50,001=10% of profit
Value added tax	Value added tax (Law Nr.03/L- 146) is applied to all importers and businesses with an annual turnover in excess of €50,000. The VAT rate stands at 16% and is levied on all goods and services, with exemption for certain agricultural and capital goods (on which VAT is zero %). Exporters receive full VAT reimbursement for exported goods.
Property taxes	Property tax was introduced in 2003 and is collected at the local government level by Municipal administration. The Municipal Assembly of each municipality defines tax rates on property on an annual basis. The tax rates range between 0.05 % and one % of the market value of the property.
Pension Contribution	Kosovo Pension Savings Fund is responsible for administering and managing the individual pension saving accounts. This tax obliges the employee and the employer to contribute in financing the employee's pension at the rate of 5% from the employee's salary and 5% from the employer.

Appendix 4: List of licences and documents for the wood sector

Permits and certificates

- Business Certificate
- VAT registration
- Registration of employees for the pension scheme with TAK
- Fire protection clearance
- Clearance for water
- Construction permit
- Electricity connection

Import documents

- Single Administrative Document (i.e. customs declaration)
- Commercial Invoice
- Certificate of Origin (for Countries Kosovo has free trade or any other agreement which covers exemptions based on rules of origin).

Export documents

- Single Administrative Document (i.e. customs declaration);
- Commercial Invoice

Appendix 5: Trade regulations and free trade agreements

- Kosovo is part of CEFTA since 2007, and also benefits from Autonomous Trade Preference (ATP) with EU, customs-free trade with the US, and trade connections with Japan, Norway and Turkey.

- CEFTA: Committed to establishing principles for the stable development of a pure market economy since a very early stage of development, Kosovo's government has been working towards facilitating the free movement of goods and services throughout the country's borders. As a result, Kosovo currently enjoys free trade within the Central European Free Trade Agreement - CEFTA - enabling its producers to access the regional market comprising 28 million consumers, free of any customs duties. In 2012 the total export with CEFTA members was 102.6 million and import 844.6 million.

- Autonomous Trade Preference (ATP): In addition, Kosovo benefits from non-reciprocal, customs-free access to the EU market based on the EU Autonomous Trade Preference Regime EU Council Resolution (ATP) (2007/2000). In 2012 the total export to EU was 107.4 million and States: Customs-free access to the US market. In 2011 the total export to USA was 0.25 million and import 46.9 million.

- Japan and Norway: Trade connections with Japan and Norway, quantitative and qualitative restrictions remain in force only for a very limited number of goods. Import from Norway during 2012 was 3.69 million.

- Turkey: Kosovo also has an agreement of free trade with Turkey, which will come into power once it is ratified by the Turkish Parliament.

Appendix 6: Labour Law and other regulations

- Kosovo has a highly flexible labour market with a low tax wedge and low rigidities in terms of hiring and firing of workers. The personal income tax rate system is a progressive tax system with a 0-10% tax rate. In addition to that, only a pension contriution of 5% of the total wage is paid by the employer (whilst another 5% of the wage is paid by the worker). Since 2011 Kosovo has introduced a minimum wage of €170, or €130 for individuals aged under 35. Since 2011 employment relations are regulated by the Law on Labour (No. 03/L-212) which takes into account the ILO Conventions, EU Legislation and the fundamental principles of free labour market and economy. Since 2013, occupational health and safety are regulated by the Law on Occupational Health and Safety (No. 04/L-161).

- Given the greater health and safety risks that workers in the wood sector may face the Law on Health and Safety Law is very important.

Appendix 7: Industrial property and patenting in Kosovo

- Industrial Property Rights are administered and registered at the Industrial Property Agency, within the Ministry of Trade and Industry.

- Trademarks: are regulated by the Law on Trademarks (Law No. 04/L-026). The right holder of a registered trademark will, after registration, have exclusive rights in relation to the goods and services covered by the registration. The holder of trademark shall be entitled to prevent third parties to use without his permission. In particular, these rights are: to use the trademark, to authorize another to use the trademark or to obtain legal remedy for a violation of the trademark. Trademark is registered for a period of 10 years and can be renewed for an unlimited time.

- Industrial design: is regulated by the Law on Industrial Design (Law No.04/L – 028). By industrial design right is protected the design to the extent that is new and has individual character. Protection of industrial design lasts 5 years and can be extended to a maximum of 25 years.

- Patents: are regulated by the Law on Patents (Law No. 04/L-029). A patent shall be granted for any invention, in any field of technology that is new, involves an inventive step and is susceptible in the industry. A patent right is granted for the duration of 20 years.

Surveyed companies consider that procedures for patenting are simple.

Appendix 8: Cost of finance in the wood industry and requirements for loans

As of October 2013, the effective interest rate on new loans was 11.72% (Central Bank of Kosovo, 2013). The effective interest rate on investment loans (with maturity up to five years) is lower at 10.21%. It is important to note that Kosovo has the lowest rate of non-performing loans in the region.

Requirements for loans

- Business Registration Certificate issued by the Ministry of Trade and Industry, VAT Certificate and a document called 'Information about the businesses'
- Financial data for at least 12 months
- List of company's inventory and equipments, a copy of the property survey and 'ownership list' of collateral

MINISTRY OF TRADE AND INDUSTRY

www.mti-ks.org