GOVERNMENT OF KOSOVO
MINISTRY OF TRADE
AND INDUSTRY

VALUE CHAIN ANALYSIS OF THE WOOD BUILDING MATERIAL SUB SECTOR

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icep
Increase of competitiveness and export promotion

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LIST OF ABBREVIATIONS

ARBK	Kosovo Business Registration Agency
BMO	Business Membership Organisation
BDS	Business Development Services
B2B	Business-to-Business
B2C	Business-to-Consumer
CBI	Centre for the Promotion of Imports
CE	Product Certification Mark on Conformity to Health, Safety and environm. Protection
CEFTA	Central European Free Trade Agreement
CIF	Cost-Insurance-Freight
CITES	Convention of international Trade in endangered Species of wild Fauna and Flora
CNC	Computer numeric Control
CSR	Corporate Social Responsibility
DoI	Department of Industry
EU	European Union
EUOK	European Union Office in Kosovo
EUTR	European Union Timber Regulation
EQMS	Export Quality Management Systems
FSC	Forest Stewardship Council
FOB	Free on Board
GIZ	Gesellschaft für Internationale Zusammenarbeit
HR	Human Resources
KSA	Kosovo Agency of Statistics
KBRA	Kosovo Business Registry Agency
KCGF	Kosovo Credit Guarantee Fund
KIESA	Kosovo Investment and Enterprise Support Agency
LLC	Limited Liability Company
LSS	Lean Six Sigma
IDI	International Development Ireland
ISO	International Standards Organization
ICEP	Project: Increased Competition and Export Promotion
MRA	Mutual Recognition Agreement
MTI	Ministry of Trade and Industry
M4P	Market for the Poor
PE	Polyester
PEFC	Program for Endorsement of Forest Certification
PEST	Framework of Macro Economic Factors
PP	Polypropylene
PVC	Polyvenylchloride
QI	Quality Infrastructure
REACH	EU Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals
SAA	Stabilisation and Association Agreement
SME	Small and Medium Enterprise
TAK	Tax Administration of Kosovo
TMW	Thermally Modified Wood
VAT	Value Added Tax
VC	Value Chain
VET	Vocational Education and Training
UNIDO	United Nations Industrial Development Organization
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WPC	Wood Plastic Composites

DISCLAIMER

This document has been produced with the financial assistance of the European Union. Its content is the sole responsibility of the authors and may not necessarily reflect the views of the European Union.

The consultants cannot be held responsible for any consequence arising from using the provided information. The provided information does not cover the subject matters in all possible aspects. The authors opinion is based on data assembled along the furniture value chain. There is no claim to correctness and completeness of the data.

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Field work conducted by NOVUS Consulting, a market research company.

EXECUTIVE SUMMARY

(Activities, Findings and Recommendations)

Activities:

- This report is commissioned for the Department of Industry (DOI) at the Ministry of Trade and Industry (MTI), with the support of Increased Competition and Export Promotion (ICEP) project, which is implemented by International Development Ireland (IDI) and financed by the EU EuropeAid.
- The primary two goals of this Value Chain selection and analysis assignment include the holistic analysis and upgrading recommendations of the overall wood building material sub-sector. Furthermore, it was a training exercise for DoI staff in VC methodology for replication to other key sectors in the future.
- The study follows a VC framework approach, to a large extend based on GIZ ValueLinks methodology, but including elements of other donor concepts as well as own authors elements.
- The sample framework included 17 interviews with producers, in addition to 22 interviews with VC upstream and downstream operators (suppliers and transporters).
- Interview implementation and base-line data collection at VC micro level was executed by a specialized Pristina-based market research company. Meso and macro level analysis was conducted with semi-structured interviews.
- This VC analysis report includes economic, manpower/social and environmental analysis components that lead toward main constraints, opportunities and a set of proposed interventions.

General Findings:

- In 2016, exports amounted to 1.337 million EUR with an increase of 170% since 2011. The steepest rise occurred from 2015 to 2016 by 82%. There are indications that this raise is linked to one company only selling a new building material product to EU markets.
- In terms of main exported product groups, windows and their frames take the first place, doors and frames the second place, and flooring panels the third.
- The majority of firms (87%, n=15) export in 2017 to three or more export countries (Switzerland, Germany, Macedonia being the first three export destinations), and only 14% (n=2) sell to less than three export countries.
- Switzerland is the leading importer with 0.670 million EUR, accompanied by Germany with 0.326 million EUR, and Macedonia with sales of 76 thousand EUR.
- 12% of the companies ship beyond Europe and 65% are considering additional export markets. 23% indicated that they are not considering expanding their export to other regions and their main challenge for exporting to non-EU countries are “high costs”.
- Regarding appreciation of production companies in regard to standards and certificates, 47% of the interviewed companies consider ISO standards useful, 41% the EUR1. Companies don´t widely not recognize the importance and benefit of applying to standards and certifications.
- The building material VC appears only moderately integrated, in both, up- and downstream from the producers´ perspective. Better and more horizontal and vertical linkages and optimized supply chain integration have potential for further development.
- Added Value along the VC could not be correctly determined due to missing data.
- Environmental considerations call for more installed air-filters and ventilation in production companies and wood production waste has potential to be recycled. Only 18% of the companies have air filters and ventilation in their production sites, which has negative health effects to works.
- At supply level, companies complain about time required for customs declarations, sometimes “several days”. In terms of supply and export customs procedures, the current

standard in Kosovo is not competitive compared to neighbouring countries, which has negative effect on just-in-time supply and export delivery time.

- Suppliers consider unfair competition as one of their main constraints. Certain companies practicing unfair competition with tax evasion and other informal practices. Authorities are insufficiently tracing these practices to prevent damage to legally operating companies.
- From producer´s perspective, the most indicated constraints are unavailability of inputs (18%) and high transportation costs (12%). Complaints regarding quality are only noted in 6% of the nominations. 60% do not have any complaints.
- The most frequent means of financing investments are retained earnings with 67%, bank credits or loans at 60% and owners´ savings at 20%.
- Allocation of investments is mainly toward technology and production space enlargement and marketing related investments are low. Investments in space enlargement is only comprehensible for those firms that operate close to 100% utilization, even though none of companies mentioned the option of working in two shifts.
- Horizontal linkages at producers´ level exist, like co-manufacturing or subcontracting. Further linkage promotion and cooperation between (competing) companies has potential for improvement.
- At producers´ level, main competitive benchmarks are related to product quality, innovative design, price, use of specific raw material and short delivery time.
- 59% of the nominations by production companies have in-house design development and almost all clients consider customized design as most preferred approach, which is typical for building material products.
- In terms of innovation measures all are related to products. The most cited innovative practices are innovative products (35%), new products (24%) and additional product features (18%). None of the nominations regards process or business model innovation.
- Among national BMO´s, the Association of Wood Processors of Kosovo has a positive approach and connection to companies. Sustainability is a problem as most of the interventions are donor financed and to-date no paid services are available.
- The sub-sector has proven potential to further develop and strengthen exports.
- Donors offer a multitude of projects and interventions, also to the wood sector in general. Donor activities are considered to be more supply than demand-oriented, and donor coordination is weak. Government ownership in this regard is little developed. The building material sub-sector is not much supported by donors.

Principal Recommendations

- As a consequence of this VC analysis, the embracing recommendation is to limit implementing individual and focussed interventions, but to consider the benefit of overall, systemic and holistic sub-sector upgrading as the best-practice solution for outcome and impact along the wood building material VC, with the positive side effect of potentially improved collective donor efforts and reduced overlapping interventions and strategies.
- As part of this VC analysis, more than 90 interventions are defined within seven intervention areas (market access and marketing, manpower and VET, business operations, certification and quality, linkages and upscaling and environment, VC support services and service providers, VC governance and regulatory framework).
- Recommended interventions cover the three intervention levels of the impact chain, in particular: at project activity level, output level for capacity development of partners, and output level concerning structural change at VC micro, meso and macro level.
- The recommended VC development strategy for improvement of exports and sub-sector competitiveness includes the four focus areas: economic growth, internationalization and competitiveness, EU membership and EU market positioning, competitive edge as key necessity, combination of furniture and building material production when suitable.
- Improving overall competitiveness, according to the competitive advantage model of the wood building sub-sector VC, requires: interventions toward company internal upgrading

for better cost advantages and cost leadership, definition and realization of differentiation advantages and leadership, creation and improvement of a pro-business environment geared toward supporting internationalization and export.

- Depending on the implementation strategy of a holistic VC upgrading and facilitation project (to be defined), implementation contains interventions with short-term (1 year), medium-term (2-3 years), and long-term (4-5 years) perspective.
- The industry needs to prepare for the digitization and new marketing trends by introducing e-commerce, digital media and social media marketing.
- It is recommended to consider starting a VC promotion and facilitation project, based on international donor initiative and conceptual guidance, in cooperation with a national public-sector implementation partner (e.g. KIESA or other suitable entities).
- A VC promotion and facilitation project can cover the two wood sub-sectors, building material and building material, as a large part of constraints, opportunities and recommendations are the same or similar. Supply, transport and production operators are largely the same. Technology and marketing related aspects are mostly different.

1. INTRODUCTION

1.1 OBJECTIVE AND SCOPE OF THE VALUE CHAIN ANALYSIS

This report is commissioned for the Department of Industry (DOI) at the Ministry of Trade and Industry (MTI), with the support of the Increased Competition and Export Promotion (ICEP) Project, which is implemented by International Development Ireland (IDI) and financed by the EU EuropeAid, which is represented by the European Union Office in Kosovo (EUOK).

During a pre-selection stage which preceded this report, wooden furniture and wooden building material have been identified to be among the most promising sub-sectors. The selection occurred based on a holistic approach, which integrated economic, environmental, social and institutional aspects.

The primary goal of the Value Chain selection and analysis assignment is two-fold. First, it intends to closely examines the existing situation of the wooden building material sub-sector with the relevant aspects, and to formulate short and medium-term interventions to tackle the main constraints and opportunities on each value chain (VC) function and level. Second, it was meant to be training exercise for DoI staff in regard to application of VC methodology for replication to other key sectors in the future.

The Government of Kosovo and various donors published numerous reports and assessments in the past years, including an overall wood sector Value Chain (VC) analysis. In the Kosovo Wood Sector Assessment (2015), Empower/USAID describes that all publications confirmed the general wood sector a high degree of development potential, besides the importance of being one of Kosovo´s strategic sectors for development.

By targeting export development, increased company and overall sector competitiveness helps to substitute import, hence also contributing to improving Kosovo´s unfavorable balance of trade. According to the theory of comparative advantage, export and trade readiness will be a primary driver for increased competitiveness.

Depending on the sector and specific sub-sector products, the economy of scale in the manufacturing of consumer or B2B products often represents an obstacle for local Kosovar companies as it does at least smaller producers of wood building material. This obstacle prevails as long as comparable benchmarks on cost efficiency, productivity and creation of competitive advantage cannot be matched by local companies for wooden building material.

The current Kosovan economic growth model still relies heavily on remittances to fuel domestic consumption. Therefore, further improvement of export competitiveness will require a grand effort of filling performance gaps along the involved functions of the value chain. This VC analysis will primarily focus on upgrading potential aiming toward export, but also consider required pre-conditions for improved export readiness.

(1) The Building Material Value Chain

This VC analysis, including findings and upgrading recommendations, describe the status quo, according to data available and information given by the interviewed VC operators at its present state. The scope of this wooden building material VC of export is analysis starts with describing the input supply but does not include availability, technical data, design, quality or cost considerations of alternative input sources.

Export figures of the wood building material VC output reveal that the volume rather insignificant, despite the fact that there has been growing export trend over the past three years. There are indications that the domestic market plays a major role for even smaller producers as the construction industry has been blooming. Precise numbers on exact market shares or production output is not available as the Kosovo tax administration could not disclose the data for confidentiality reason.

1.2 METHODOLOGY

The VC analysis follows a value chain framework approach, which to a large extend is based GIZ ValueLinks methodology, but also containing elements of other donor´s methodology and in addition own authors elements.

The holistic analysis of the wood building material downstream value chain, starting with supply of raw material focusses on core VC operators, VC service providers and institutional policy framework with impact to export competitiveness of the wooden building material sub sector. Analysis and recommendations are based on the feedback provided by the interviewed VC downstream operators, from the Kosovo Wood Association, and representatives of various institutions and donor agencies in Kosovo.

Substantial quantitative and qualitative base line data gathering covered the overall core wood building material VC. Data gathering was executed by a local research and consulting company. Further information was provided by wood sector stakeholders, in addition to input from sector reports originating from donors and other entities in Kosovo.

It cannot be ruled out that interview results reflect subjective data provided by the interviewees. The interpretation of the quantitative and qualitative inputs was done by the consultants, reflecting the experts view. In addition, sector stakeholders were asked to assess part of the analysis and recommendations made. Within the framework of a VC analysis, the focus of this study is strictly not to analyzing the building material industry at technical level, but to assess processes along the wooden building material VC, with a focus on export capability.

Further analysis, if required, as part of any potential future VC development implementation and upgrading will require to involve specialists in wood and building sector technology, building material marketing specialists and architects.

(2) Market study for wooden building material

Market studies are important for analysis of VCs and the definition of specific market driven upgrading potential. Therefore, market orientation and competitor research are core for any VC upgrading. Market trends have to be taken into consideration and current company performance must be matched with market requirements from the defined and suitable target markets. Subsequently, an upgrading plan needs be defined, which includes interventions for improving manufacturers performance in the defined target markets.

Market studies are not just part of the economic analysis of the VC, but an ongoing concern, and should ideally be conducted before implementing a VC analysis.

As it stands, there is no market analysis that tackles target segments and markets.

As all interviewed companies, with the exception of one only, report export growth, it seems that the producers do have their own basic market intelligence, that helps them to develop their own business. As most markets are linked to countries with a large group of Kosovan diaspora, market intelligence may also be linked to this group. Other primary market feedback likely origins from visited trade fairs in the EU.

1.3 SAMPLE FRAMEWORK

(3) Sample Plan

In order to obtain relevant data on the functioning of the value chains for wooden furniture and wooden building material, 90 interviews have been planned with production firms and other upstream and downstream actors of both sub-sectors (furniture and building material). Following is a description of the approach used to determine the sample plan. Provided that production firms constitute the major actors in the VC and given that they also possess information about the overall landscape, it was decided to conduct the largest number of interviews (n=63) with this category. The rest of the interviews were planned to be carried out with input suppliers (n=18); and transporters and exporters (n=9).

The next step in the sample planning was to split up interviews based on sub-sectors and other criteria that ensure a wider coverage of the VC actors. Because downstream and upstream actors predominantly work with both sub-sectors, there was no criterion foreseen on this level. However, there was a need to make a distinction among actors within each category. Of the input supplier category, half of the interviews (n=9) were planned to be held with wood input suppliers and the other half (n=9) with companies that supply accessories and/or other similar components. Of the exporters and transporters category, 40% of the interviews (n=4) were envisaged to take place with export traders, 30% (n=3) with transporters, and 20% (n=2) with customs brokers. One general condition for both categories was to capture all the relevant stakeholders that in one way or another are integrated (or could possibly be integrated) in the VC. The overall logic was to end up having an even distribution of interviews among the actors of both upstream and downstream categories.

On the other hand, a clear sectorial distinction among the wooden production firms was needed. To make that distinction, the initial step was to figure out the contribution of production firms from each sub-sector towards the total exports of the industry. The obtained ratio, with little adjustments that were required to have a reasonable number of interviews from the building material sub-sector, has been used as the main criterion (proxy) to distribute interviews into both sub-sectors. Using this logic, the plan was that of all the interviews with the production firms (n=63), 70% to be carried out with the wooden furniture enterprises and 30% (n=19) with wooden building material firms.

To be able to capture production firms with various characteristics, other within-sector stratification criteria were foreseen. From all interviews with production firms in each sub-sector, 80% of interviews were planned to take place with exporting firms, while 20% with near to export firms. Exporters were planned to be further divided by their export size. For a detailed sample plan, see Figure 01.

Figure 01: *Sample plan*

Stratification 1	Stratification 2	Stratification 3	Stratification 4	# of companies to be interviewed
Input suppliers (20%) n = 18	Wood (50%) n=9			9
	Components (50%) n=9			9
Producers (70%) n=63	Furniture (70%) n=44	Exporters (80%) n=35	Large (30%)	10
			Medium (50%)	18
			Small (20%)	7
		Potential exporters - No export/ large or medium companies (20%) n=9		9
	Building material (30%) n=19	Exporters (80%) n=15	Large (30%)	4
			Medium (50%)	8
			Small (20%)	3
		Potential exporters - No export/ large or medium companies (20%) n=4		4
Transporters & Exporters (10%) n = 9	Customs brokers (20%)			2
	Transporters (30%)			3
	Export traders (40%)			4

Source: Own compilation

(4) Actual sample for building material and its demographic data

The distribution of interviews took place as envisaged by the sample plan, with some small deviations as a result of some company-specific characteristics that could not be foreseen beforehand. A total of 17 interviews were carried out with production companies. Out of all these interviews, 59% (n=10) were conducted with companies producing wooden building material products only, 29% (n=5) with companies that manufacture predominantly (more than 60% in total shares) wooden furniture products, and 12% (n=2) with companies that produce both building and furniture products, with equal participation on the overall company sales.

More than 88% (n=15) of the companies are engaged in exports. All of the currently non-exporting companies (n=2) declared that they are either presently attempting or considering exporting in the following period.

Following are some further demographic data about the interviewed companies.

Of all the interviewed companies in the building material sub-sector, the majority or 76% (n=13) turn out to be small (19-49 employees), while 24% (n=4) micro (0-9 employees) and medium (50 - 250 employees).

As far as turnover is concerned, 19% (n=3) declared to have had a turnover less than 0.250 million EUR in 2017; 31% (n=5) from 0.250 million EUR to 0.5 million EUR, and 50% (n=9) more than 0.5 million EUR. The majority of them, 70% (n=12), were established before the year 2000, 18% (n=3) from the year 2011 to 2010, and 12% (n=2) after 2011. They are located in various towns across Kosovo. In this sample, those that are established in Prishtina, Gjakova, and Drenas dominate with 18% (n=3) each. Regarding legal status, 41% (n=7) are registered as limited liability companies, 29% (n=5) as individual businesses, and 29% (n=5) as other legal entities.

Furthermore, 22 interviews have been conducted with VC upstream and downstream actors. Around 59% (n=13) of the interviews were undertaken with input supply actors (wood and components) and about 31% (n=9) with exporters and transporters. Demographic data for upstream and downstream actors are provided in Section 3.4 and Section 3.5.

Figure 02: *Demographic data of the sampled and interviewed building material production companies*

Production Companies						
Size	**Micro (0-9 employees)**		**Small (10-49 employees)**		**Medium (50-250 employees)**	
	12%		76%		12%	
Turnover	**<50,000 €**	**50,000 - 100,000 €**	**100,000 - 250,000 €**	**250,000 - 500,000 €**	**500,000 - 1,000,000 €**	**>1,000,000 €**
	-	-	19%	31%	25%	25%
Year of Establishment	**Before 1990**		**1990-2000**	**2001-2010**	**After 2011**	
	29%		41%	18%	12%	
Location	**Prishtina**	**Gjakova**	**Drenas**	**Vushtria**	**Podujeva**	**Other**
	18%	18%	18%	12%	12%	24%
Legal Status	**Individual Business**	**Limited Liability Company**	**Joint Stock Company**	**General Partnership**	**Other Legal Form**	-
	29%	41%	-	-	29%	

Source: Own compilation based on company data collection

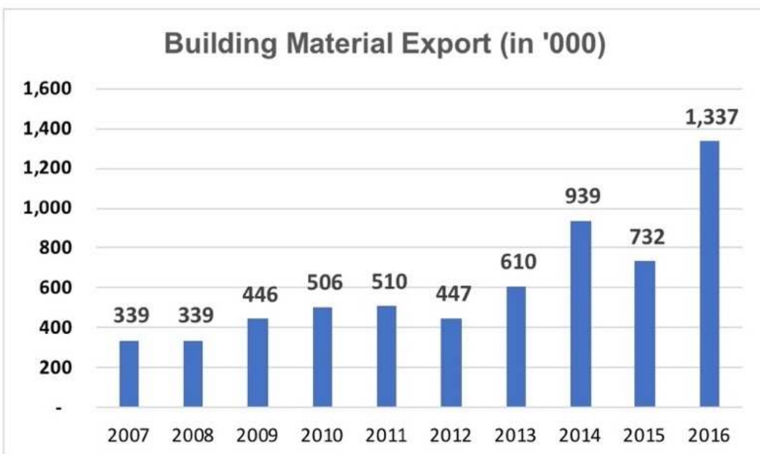
2. MARKETS AND EXPORT

2.1 EXPORT OF WOODEN BUILDING MATERIAL FROM KOSOVO

(5) Export figures and number of exporters

In 2016, exports of the building material sub-sector amounted to 1.3 million EUR. From 2007 to 2013, the average stood at around 0.450 million EUR. A rather significant rise (83%) occurred in 2016 compared to the previous year. Further analysis revealed that this rise in export sales is mostly due to the success of one company only. Without the increase in exports of this particular company, the sub-sector´s export turnover would have remained roughly at the level of 2014. For more information about export changes across years, see Figure 03.

Figure 03: *Building material exports, by years*



Source: Own compilation based on company data collection

Kosovo Customs indicates that there are around 93 firms in Kosovo that export wooden building material products. The majority of these enterprises (approximately 76%) export less than 10 thousand EUR annually. On the other hand, five production companies make up 59% of all building material exports. This highly uneven distribution of exports indicates that the majority of companies are still facing struggles to expand their exports.

Figure 04: *Wooden Building material exports, by firm size (2016)*

Range of Export Turnover (EUR) Companies						
	<10,000	10,000-25,000	25,000-50,000	50,000-100,000	100,000-250,000	Total
Building Material Exports (EUR)	160,335	174,024	98,932	103,815	770,679	130,7785
Enterprises (#)	71	12	3	2	5	93
Percentage total Exports (%)	12%	13%	8%	8%	59%	100%

Source: own compilation based on Kosovo customs information

(6) Scenarios, estimating overall sales and local vs. export shares

According to the official data from Kosovo Customs, total exports of wood building material stood at 1.3 million EUR in 2016. Relying on this export figure and on the (adjusted) share of exports in total sales provided by the surveyed companies, three different scenarios have been developed to estimate the overall amount of sales. In Scenario II (Baseline), the calculation of local sales and overall sales is based on the assumption that exports participate with 15% in the overall sales, on average. This assumption takes into consideration the fact that a large number of small companies were not part of the sample. In Scenario I and III, the assumption was that the share of exports is 10% and 20%, respectively. Based on these assumptions, the overall sales of the building material sub-sector in 2017 stood somewhere between 6.6 million EUR and 13.3 million EUR. According to the more likely scenario (Scenario II), overall sales were estimated to be around 8.9 million EUR.

If Scenario II holds true, then the overall sales generated by the wooden building material sub-sector are approximately one-third of the total estimated sales in the furniture sub-sector.

Figure 05: *Scenarios of export vs. local market sales and total sub-sector sales (basis 2016)*

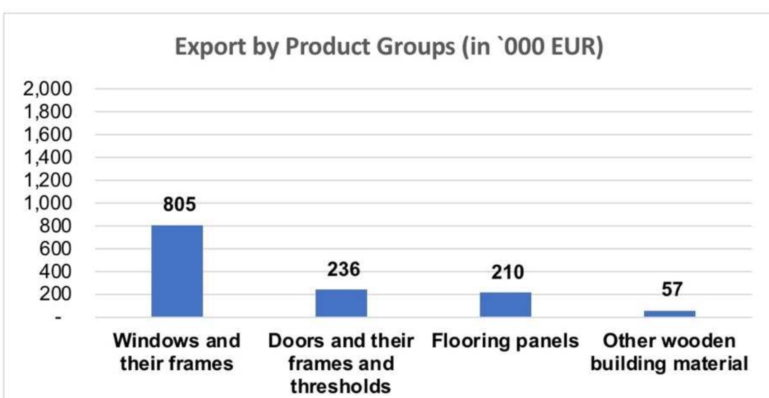
Scenarios	Exports (€)	% of Exports in Total Sales	Local Sales (€)	Overall Sales (€)
Scenario I	1,337,000	10%	12,033,000	**13,370,000**
Scenario II (Baseline)	1,337,000	15%	7,576,333	**8,913,333**
Scenario III	1,337,000	20%	5,348,000	**6,685,000**

Source: own compilation based on Kosovo customs information and survey data

(7) Exported wooden building material product groups

Disaggregating official export data by product groups reveals that *'windows and their frames'* is exported the most, with an overall amount of 0.805 million, making up approx. 61% of all wooden building material exports in 2016; followed by *'doors and their frames and thresholds'* with a total export value of 0.236 million EUR (18%), and *'flooring panels'* with 0.210 million EUR (14%). The rest, which constitute a lower portion, include other building material products (i.e. post and beams, stairs).

Figure 06: *Wooden building material exports, by product groups (2016)*



Source: own compilation based on Kosovo customs information

2.2 CURRENT MAIN EXPORT MARKETS

Figure 07 depicts the main export destinations for wooden furniture based on Kosovo Customs and survey data. According to Kosovo Customs, Switzerland is the leading importer with 0.670 million EUR, accompanied by Germany with 0.326 million EUR. Around 74% of all wooden building material exports go to these two EU countries. The survey data also indicate a somewhat similar picture. 73% (n=11) of the interviewed exporting companies export to Switzerland, 53% (n=8) to Germany. Note that although the ranking is to some extent similar, the customs data and the survey data are not completely comparable. The customs data lists countries based on export values, while the research data based on the number of exporting companies.

From the neighboring countries, Macedonia occupies the top position with 0.076 million EUR (6% of total exports) followed by Slovenia with a slightly lower amount, 0.072 million EUR (5%). In general, all other countries stay for 3% or less of total exports. Figure 07 provides further detailed information about the top 10 export destinations for building material.

A reason for this export pattern is the active Kosovan diaspora, mainly concentrated in Germany and Switzerland, through playing a crucial part in facilitating exports and helping producers to create contacts in the EU. To what extent the other serviced EU markets have to do with the presence of the diaspora is not known at present. At regional level, limiting factors are the competitive pressure from CEFTA producers and the current existing political and economic uncertainties related to cross-border trade and transport with Serbia, Albania, and Macedonia. Although CEFTA agreement foresees free movement of goods across member countries, adverse conditions (non-tariff) still exist.

Figure 07: *Export countries of Kosovo wooden building material products*

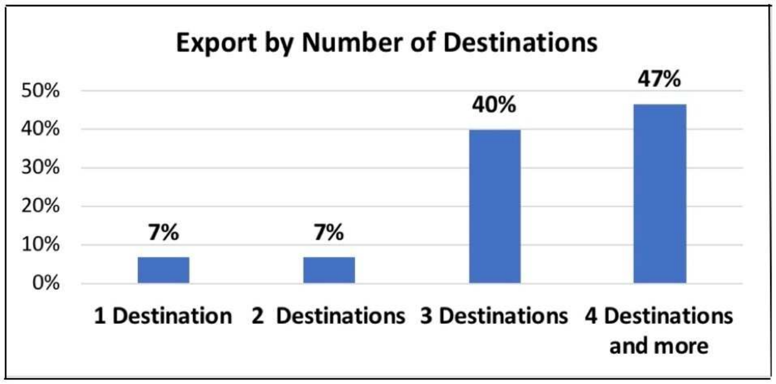
Country Name	Wooden Building Material Exports (EUR)	Share in Total Wooden Building Material Exports (%)	Surveyed Exporters (#)	Share in Total Surveyed Exporters (%)
Top Export Destination				
Switzerland	670	50%	11	73%
EU Countries				
Germany	326	24%	8	53%
Australia	53	4%	-	-
France	46	3%	3	20%
Norway	21	2%	-	-
Austria	10	1%	5	33%
CEFTA Countries				
Macedonia	76	6%	5	33%
Slovenia	72	5%	-	-
Albania	42	3%	7	47%
Serbia	5	0%	-	-

Source: Compilation based on customs data and own research

The majority of exporting firms, 87% (n=13), export to three or more export countries, while 14 percent (n=2) export to less than three destinations (see Figure 8).

Further market analysis is required to identify and describe alternative growth scenarios to other export markets for Kosovan wooden building material.

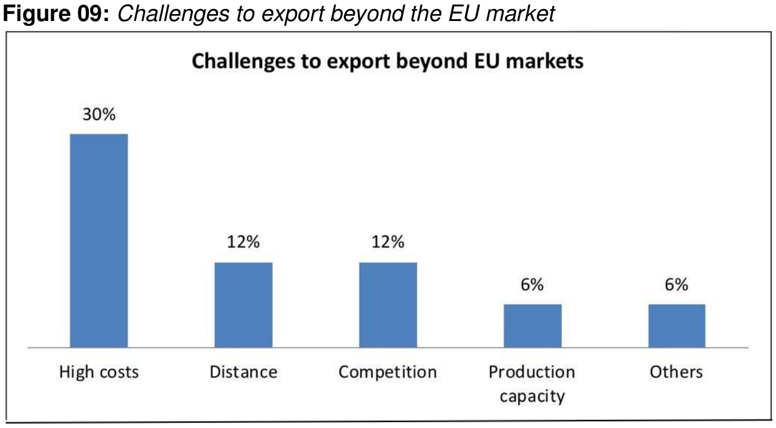
Figure 08: *Export by number of destinations*



Source: Own compilation based on company data collection

Companies were asked whether they consider exporting beyond the EU markets. 65% (n=11) reported that they are considering these markets, 23% (n=4) declared that they are not exporting beyond EU nor considering that option, and only 12% (n=2) stated that they ship beyond Europe. When asked about the challenges to export beyond the EU market, the following arguments (see Figure 9) were mentioned.

Figure 09: *Challenges to export beyond the EU market*



Source: Own compilation based on company data collection

Market opportunities in Asian niche markets cannot be ruled out. However, Kosovan manufacturers should be able to offer competitive prices, including costs of freight and insurance (either FOB or CIF), while at the same time adjusting their production and purchases of input material to different standards for building material in non-EU countries.

2.3 MARKET TRENDS

(8) The EU building material market

Tropical timber[1]:

According to information gathered from CBI, tropical timber doors and frames are popular product groups in the EU, which help exporters from countries with natural timber wood

[1] CBI, 2017; www.cbi.eu

resources. Any tropical timber products (e.g. doors and frames) require added value through sustainable certification, unique design and attractive wood species.

The species of tropical hardwoods sold to the EU depend on the target countries. Almost each country prefers different kinds and finishing of wood. This complicates sourcing, production and marketing for small producers, such as in Kosovo and provides advantages to countries which export large amounts.

Export countries´ preference on tropical timber products (doors, frames and windows)[2]:

- Germany: mahogany, red meranti, sipo, utile and wenge.
- Spain: sapelli, niagon, iroko, afromosia and doussie, spucaia, Asian teak and anigre.
- United Kingdom: sapelli, dar red meranti and iroko.
- France: meranti, mahogany, limba, tiama and tineo.
- Netherlands: merbau.

As far as market trends within the EU are concerned, about 65% of the overall demand is covered by member countries, while around 35% is covered by developing countries (mostly with tropical wood resources) and other countries.

In 2015, the EU imported doors and frames with an amount of 31 million EUR from developing or other countries. The EUTR regulation is strictly implemented in the EU. This will likely affect imports of tropical timber building material. All non-verified timber import is going to be banned in the EU. Competition among tropical timber product exporters from developing countries will be fierce and competitive advantages for timber products export from Kosovo with imported raw timber raw material is questionable.

In conclusion, the tropical timber production and export from Kosovo at larger extend is not a viable business.

Market reports and key market statistics of European (wood) building materials industries 2018-2022 as well as other building material reports can be purchased and are available at http://www.reportlinker.com .

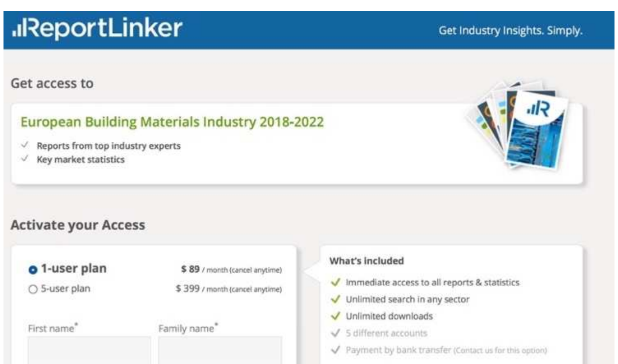


Figure 10: *Market information*
Source: ReportLinker

<u>Trends in windows glass properties:</u>

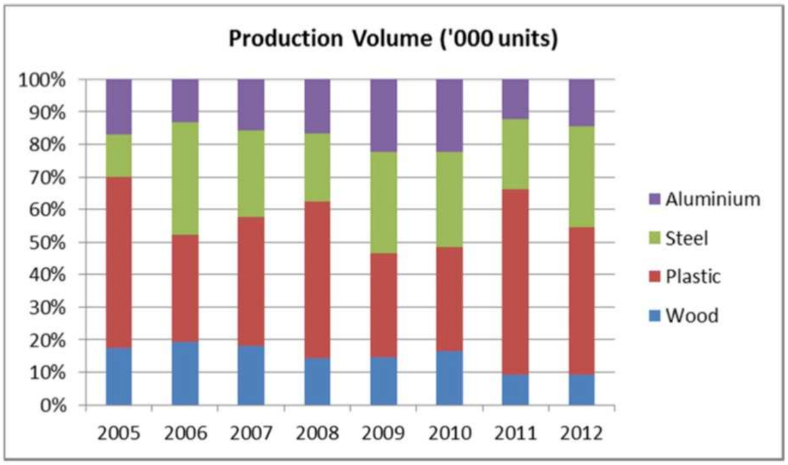
As 61% of all wood building material exported are *windows and frames*. The EU trends in product design and features for this product group is much linked to changing environmental and energy saving regulation in the various EU countries. This mainly refers to glass properties, with increasing market share of triple glass profiles with energy efficient glass. This trend is specifically prominent in climatic colder countries, such as Scandinavia, Germany, and

[2] CBI, exporting tropical timber doors and frames to Europe, 2017

others in Central Europe. In 2015, about 44% of the windows in the EU were still single glazing. Depending on national legislation, cost of heating and prevailing country climate, changes to double or triple glazing are often not replaced due to the high cost of windows replacement. New residential construction in Central Europe is nowadays mainly applying triple glazing.

Figure 11 provides an indication on the EU27 trend from 2005-2012 and distribution among windows and door production volumes by frame type. It indicates the very small share of wood compared to plastic and steel. Recently, there has been an increasing share of aluminum.

Figure 11: EU27 windows and doors production volume by frame type expressed as % of 100%



Source: VITO NV, 2015; Eco-design of window products

Typical consumer price for energy saving windows[3]:
An example on price level for new double glass windows in the German market indicates the different calculations of windows types at consumer level, including removal and disposal of old windows and installation of the new windows.

- Plastic window frame, approx. 500 EUR
- Wood window frame, approx. 560 EUR
- Wood and aluminum window frame, approx. 680 EUR
- Aluminum window frame, approx. 780 EUR

(9) Market and product segments

Small and medium-exporters, even though with small size exports, should focus on high-quality and value-added products. It is not profitable nor feasible to compete with producers, mainly from Asia, in the low-price segments at the low-end market segments. Low-price products require economy of scale, which is far from Kosovan production setup-realities. Typical low-cost countries are China, Bangladesh, Vietnam and Indonesia. These countries export products such as high quantities of wooden flooring.

Added-value niche markets at medium price segments refer to products with elaborate design (if not standardized) and durable wood species, all required certifications and an aspect of handmade quality (e.g. outside doors).

Another segment relates to “Ready-to-install” building material. This market segment, even though small compared to the overall figures of building material, is linked to the Do-it-Yourself DIY), which includes semi-finished timber building products, stair components, etc. This is

[3] Energieheld, 2018; www.energieheld.de

used in the construction of residential commercial buildings. DIY material is strictly based on pre-set product and design specifications.

Cross laminated timber (CLT):
The market for CLT products is rapidly growing in the EU. With the current low interest rate at the main Eurozone countries, residential building construction is still booming. Other building construction projects are schools, restaurants, warehouses, etc.

Examples of engineered wood products (EWP) are:

Figure 12: *Engineered wood products (EWP)*

Source: CBI, 2018; Exporting cross laminated timber (CLT) to Western Europe

According to market information published by CBI, CLT panels consist of several layers of structural lumber boards stacked crosswise and glued together.
The result of this production technology are strong panel products that can be used for structural walls, ceilings, etc.
The HS classification in the EU does not directly cover CLT panels. Most of the CLT is traded under HS 44189010 (Builder´s joinery and carpentry, glued-laminated timber).
CLT is constructed from softwood species, such as spruce, larch, fir, douglas fir, pine, etc.

Germany, Austria and Switzerland have been the trendsetters for CLT raw material product development. They were the originators of CLT and are also leading in CLT production. New production investments for CLT is planned in Finland, Japan, USA and Latvia.

The consumption of CLT in the EU is increasing, the forecast remains to be positive with the still booming construction market, requiring different kind of building material. In 2015, consumption amounted to more than 140 million EUR in the EU.

Experts say that CLT is one of the most advanced building materials[4]. CLT seems to gain more market share in building construction. However, it requires further research to what extend the Kosovan building material industry can take advantage of the trend, not being producers of the CLT boards, which are the basis for building construction projects.

[44] Popular science, 2014; CLT timber is the most advanced building material; www.popsci.com

2.4 COMPETITIVE LANDSCAPE

No information on the competitive landscape on wooden building material is available to the consultants. Likely due to the rather small export of the sub-sector, market studies haven´t been implemented by donor programs or market research companies. Production companies seem to have developed their own market contact, which, similar to the furniture industry, are connected to the Kosovan diaspora in Switzerland and Germany, both markets accounting for 74% (2016: almost 1 million EURO) of all exported wooden building material[5]. Competitors research will be an integral part of any in-depth market analysis.

2.5 EU AND SWISS IMPORT REQUIREMENTS

The most important trade agreement between Kosovo and the EU is the Stabilization and Association Agreement (SAA), signed in 2015. The SAA is a trade liberalizing instrument that, amongst other things, allows free access to one of the World's largest markets, namely the EU market - which consists of around 500 million customers. Through this agreement, Kosovo and the EU create the foundations for a bilateral free trade area in support of the free movement of goods, services, and capital. It specifies that all industrial products of Kosovo (including wooden products) can have access to the EU market at zero tariffs and without quantitative restriction. Customs duties are going to be progressively relaxed within 5, 7 or 10 years[6].

(10) Compulsory and voluntary requirements for importing wood building material products to the EU[7]

Any import of wood products to the EU, including wood building material, has to comply with some compulsory regulation, such as product safety requirements and the European Union Timber Regulation (EUTR), among others.

Besides, European B2B buyers of wood building material products may request additional voluntary certification, like the wood raw material Forest Stewardship Council (FSC) certification.

Voluntary certificates when provided by exporters are potentially adding value to their export competitiveness. These include ISO certifications and EU ECO labels. The ECO label enables the final consumer to identify officially approved "green products", which has an increasing impact on customers decision-making pattern.

A summary of compulsory and voluntary certifications is further explained below in figure 13.

Details on compulsory certifications[8] are:
The CE marking for timber products used in construction is mandatory for all wood material that is permanently incorporated into construction works, such as doors, windows, flooring, stairs, glued laminated timber, panels made of plywood, cladding and structural timber.
A product with a fire classification obtained under the harmonized standards can be CE-marked if other properties in the Construction Products Directive (89/106/EEC) have been

[5] Kosovo Customs information
[6] EU Neighbourhood Policy, 2018; https://ec.europa.eu/neighbourhood-enlargement/news_corner/news/2016/04/20160401_en
[7] CBI, Centre for the Promotion of Imports from developing countries; https://www.cbi.eu/market-information/timber-products/buyer-requirements/
[8] CBI, what requirements should timber products comply with in the EU market, 2017

verified. The Construction Products Directive contains six requirements applicable to the finished building, one being the fire properties[9]. The corresponding document can be found at the EUR-Lex website[10]

Chemicals in timber are regulated by REACH. Preservatives, such as arsenic, creosotes and mercury are used to prevent rot and to improve durability. The REACH regulation does not allow application of the substances with very few exceptions, such as in industrial installations and railway sleepers. Other restrictions apply on chemical treatment for wood doors, windows and floor parts are use of glue varnishes, paints, if the concentration of cadmium is at or above 0.1% by weight of the paint on the painted product.

More detailed information on policies on chemicals in wooden building material can be found in the following sources:

- ECHA, European Chemicals Agency, www.echa.europe.eu
- EUR-Lex, Access to European Union law, www.eur-lex.europa.eu
- Wood Protection Association, www.ttf.co.uk

Figure 13: *Compulsory and voluntary requirements of wood building material import to the EU*

Compulsory	Voluntary at certification level	Voluntary at company level
• **EUTR** (European Union Timber Regulation). EUTR controls legal origin. • **REACH** (EU Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals). REACH controls use of chemicals. • **CE** (Product Certification Mark on Conformity to Health, Safety and Environmental Protection). CE assures adherence to product standards. • **CITES** (Convention on international Trade in Endangered Species of Wild Fauna and Flora). • **Packaging** (Council Directive 2000/29/EC, OJ L-169 10/07/2000). Reduction of: waste, noxious and hazardous substance, material recycling. • **Product Safety** (is ruled by the general product safety directive 2001-95-EC). If there is no regulation or EU safety standards of the specific product group, national standards apply. Part of the CE marking is the European system of fire testing and classification of products and elements.	• **EU ECO label** for wood doors and frames (flower logo/community ECO label). It is awarded when complying with criteria according to Commission Decision 2016/1332/EU. Regulation (EC) No 66/2010. • **FSC** (Forest Stewardship Council). Setting standards on forest products, certifying and labelling them as Eco friendly. • **PEFC** (Program for Endorsement of Forest Certification). It promotes sustainable forest management through certification.	• **ISO 9001:2015** (Quality Management Systems) • **ISO 26000** (SR-Social Responsibility) • **ISO 14004** (Environmental Management Systems) • **CSR** (Corporate Social Responsibility). Individual CSR standards of exporters/importers that certify adherence to standards related to society and environment, also linked to ISO 26000)

Source: Compilation based on CBI, 2017 and own concept

(11) SWISS import requirements

Some differences of import regulations to Switzerland compared to the EU regulation, require the attention by Kosovan building material exports. The Mutual Recognition Agreement (MRA) between the EU and Switzerland deals with bilateral agreements on the standards and

[9] RI.SE, 2018; www.sp.se
[10] www.eur-lex.europa.eu

conformity assessment. The MRA is an instrument for abolishing barriers in the trade between both economic zones and came into effect on the 1st June 2001. The agreement covers more than 25% of all Swiss exports to the EU and about 35% exports from the EU to Switzerland.

For export to Switzerland from non-EU countries, the following applies.
Comparison between compulsory and non-compulsory requirements for wood building material import to the EU and Switzerland:

- CE marking is not mandatory in Switzerland, but CE marked products are allowed to enter the Swiss market.
- Switzerland has introduced a similar regulation controlling legal origin, as compared to the EU EUTR regulation.
- REACH is not accepted in Switzerland. The Swiss Chemicals Ordinance (ChemO) regulates requirements for import of products with chemical substances (includes chemicals).
- The CITES convention is applied in Switzerland. CITES Secretariat is located in Geneva/Switzerland.
- EU Packaging and labelling rules do not apply in Switzerland.

Voluntary requirements for certification require verification by the specific importers, whereby company ISO certification credits will be added value for Swiss importers.

(12) Voluntary standards

For the better competitive advantage of Kosovan building material producers, ISO 9001:2015 certification plays an increasingly important role for non-diaspora importers. The additional benefit of ISO 9001 certification for wood building material exporters are improved processes and quality management with lower overall production costs and a higher focus on client satisfaction.

(13) Perspective of building material production companies related to importance of standards and certificates

Of all responses from companies in regard to required quality standards and certifications, the first most frequent response (47%, n=8) concerned ISO standards. the second most frequent response was related to the EUR 1 certificate (41%, n=6).

EUR1 is a requirement for export, which needs to be followed by all exporters. Furthermore, the company´s responses reveal a rather limited knowledge on the three standard levels as shown in Figure 12. In terms of compulsory standards, at least EUTR, REACH and to some extend EU product safety, are important issues to be tackled.

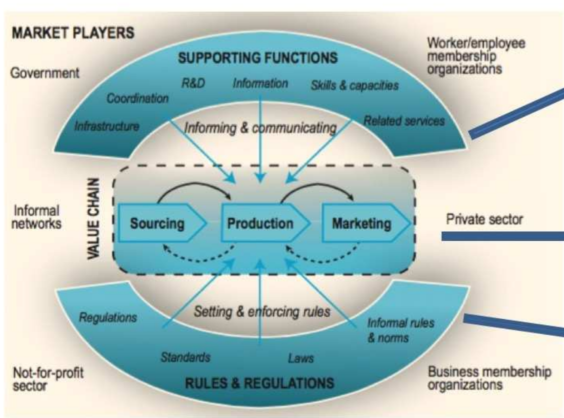
3. BUILDING MATERIAL VALUE CHAIN ANALYSIS

3.1 Wood Building Material Value Chain Map

(14) Components of the VC map

The value chain map is the basis of the analysis. It demonstrates the basic structure of the core chain and is a visual description of the current functions and connected chain operators and their linkages. It indicates the relationship between the VC players from supply to market. The VC analysis starts with the current VC map, displaying the building material core VC, services and information at the meso level, and legislative level.

Figure 14: *Integrated Value Chain Market System, displaying the core VC, meso/service and macro level inputs*



- **Services and Information:** consulting, design, access to finance, transport, trade promotion and export marketing information, certification, training and VET, design input
- **Building Material Core VC:** input/supply → manufacturing → distribution/export
- **Regulatory Framework:** business environment, certification, taxation, customs formalities, labour legislation and environmental laws

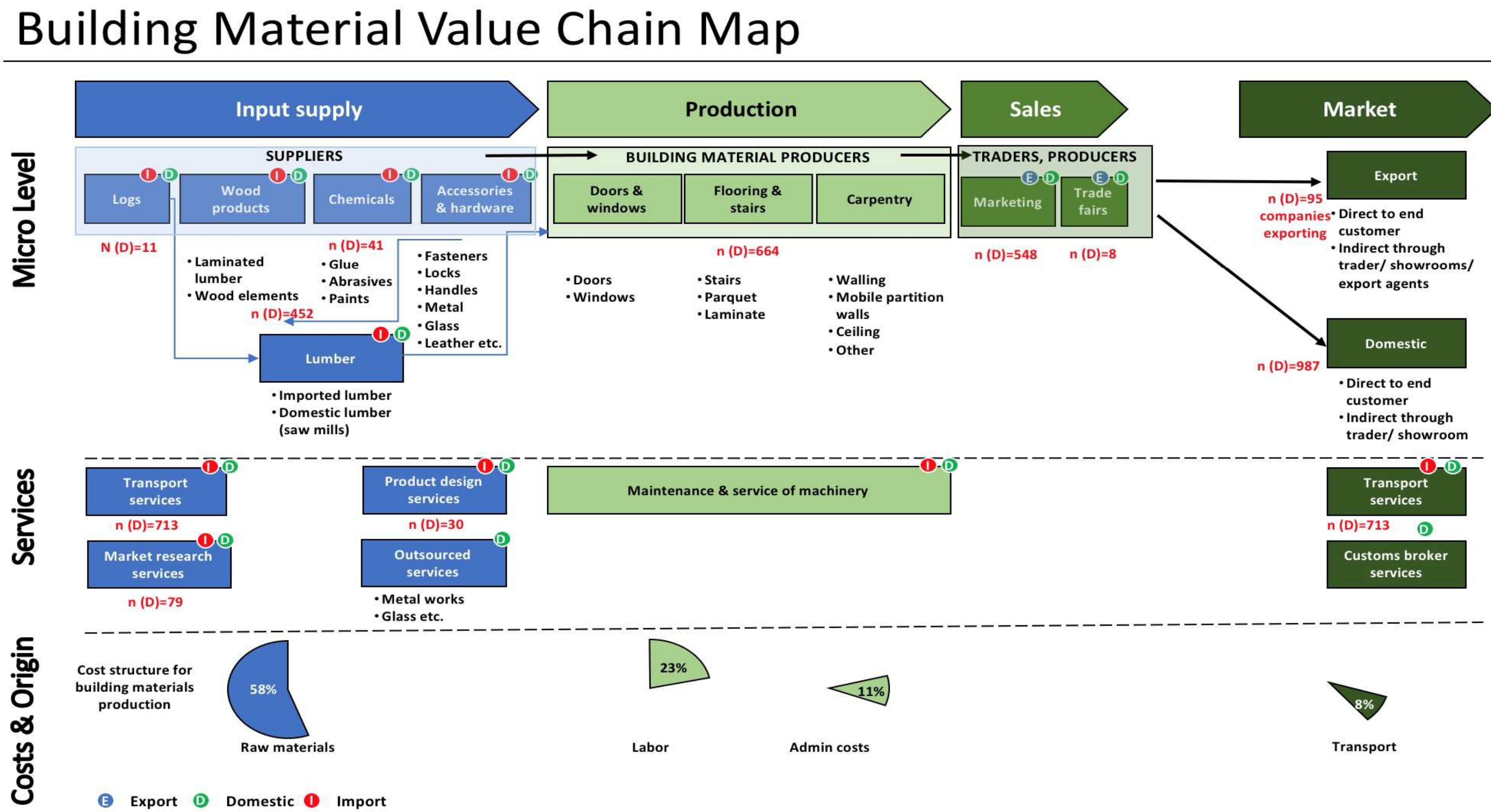
Source: ILO Value Chain Methodology

(15) Building material VC map in Kosovo (Figure 15):

- The indicated numbers (n), which represent the actors along the VC functions, are based on the Kosovo Business Registration Agency (KBRA) and Tax Administration of Kosovo (TAK table). Some of the indications on number of operators (e.g. supply, transport, domestic trading) are high because they do not only serve the wood industry. Marketing companies are active in the market and produce ads, brochures, banners, besides offering other marketing services. They are not necessarily specializing in market research.
- According to information gathered at manufacturers´ level, 76% (n=13) producers are exporting their products directly to their target markets, either B2B or B2C, while 24% (n=2) export through intermediate traders. There are indications that most of the intermediaries are at the foreign markets.
- In addition to the value chain structure, a spatial dimension indicates imported and domestic pre-products, raw material and accessory supply. At one stage, almost 100% of the input for the building material industry is imported. Only saw mills create significant added national value in refining supply input, before selling their intermediate products to manufactures.

- At the bottom of the VC map, major approximate cost categories are along the VC are indicated.
- The zoomed-in meso and macro level map shows all primary VC enablers and supporters (see figure 35).
- At this stage it cannot be determined how many of the officially registered companies (n=664) are still fully involved in building material. Because during the post war years the wood construction industry was sky rocketing, most of the wood companies that were established, had building material registered as their main business activity. Now, as the local construction market is getting more saturated, a great number of these companies are either switching to furniture production or are becoming mixed product manufacturers. The companies do mostly do not change the officially registered activity and are therefore still considered building material manufacturers only.
- Transport companies do not exclusively provide services to the wood industry, but to all business that require some transport for their goods. This is the reason for the high indicated number of transport services (n=713).

Figure 15: *Wood Building Material VC map*



Source: Compilation based on VC data research

3.2 Economic Analysis of the Wood Building Material Value Chain

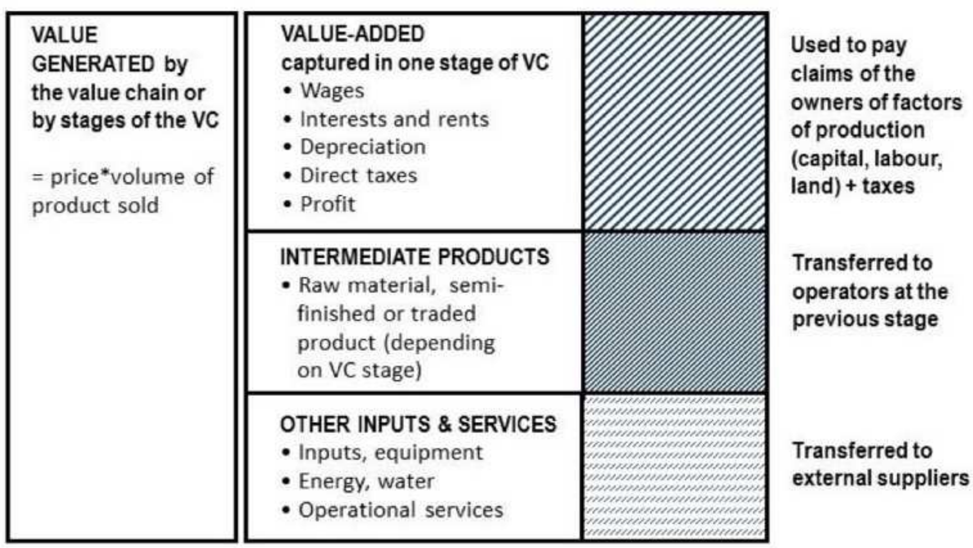
(16) Total added value and value captured along the VC

The quantitative information with many variables does not allow for a serious and realistic analysis of total value generated or captured value along the building material VC, in particular as there is only limited information (costs, margins, etc.) available from VC operators that contribute to the value added along the VC (supplier, pre-processing by sawmills, manufacturing, transport, distribution).

Companies do not calculate cost distribution/added value along the VC as these data are not their primary concerns. This data only becomes important when the VC operators understand the economic VC concept of optimizing business along the VC.

In order to calculate the actual value that is created by each of the building material VC operators, a number of components and information are required. Overall, value generated is composed of raw material (imported wood, wood composites and non-wood components), intermediate products (output from saw-mills) or accessories (pieces of metal, hinges, glass, aluminum profiles, glass, etc.) and factors of production such as depreciation, wages.
According to indication by several sector specialists and companies, the average profit margin by individual operators across the wood sector is in the region of 20-25%.

Figure 16: *Value added along the wood building value chain*



Source: ValueLinks 2.0

3.3 Environmental Considerations along the VC to finish

For a sustainable growth of the sub-sector, key environmental considerations should be considered as well, particularly the positive and negative effects of the value chain on the environment and vice versa. The environment does not have any significant impact (neither positive nor negative) on the building material sub-sector. On the other hand, the latter can have a three-folded impact on the environment, even though not very significant in all cases.

While upgrading the VC of the wood building material and supporting growth of the sub-sector, new opportunities are created for the pellet industry, predominantly relying on the wood leftovers. This, in turn, increases the demand for pellet as a heating source, and as such reduces the demand for less environmentally sensitive sources, namely electricity produced from coal and traditional timber, which currently constitute the two primary heating sources in the country. However, it should be noted that the pellet ovens used by households should be of high efficiency and in accordance with environmental standards, thus releasing fewer particle emissions.

The survey data reveal that 47% (n=8) of interviewed companies indicate that leftovers are mainly used for heating the premises, 23% (n=4) converted it mostly into pellet to be sold, and 30% (n=5) of the companies are mostly giving away the leftovers for heating purpose (see figure 17 for more detailed responses). In general, the figure suggests that there is potential for the leftovers to be converted into pellet as a more efficient source of heating or for any other industrial use. Information on tonnage of leftovers in the sub-sector are not available. The input from companies shows the pattern on how chipped wood and leftovers are being used and it does not consider any multi-usage.

Improving the micro-environment of the work setting and applying eco-friendly measures is a precondition for minimizing adverse health effect as well as help in preventing potential environmental damages. In response to the question about ecological measures, 41% claim that they use ecological packaging, 20% do not apply any action at all, and only 18% use air filters and ventilation in production. Only 6% of the companies use the wood leftovers for recycling purposes (see figure 17). In general, recycling for fiberboard production faces difficulties of collection and transport to fiberboard producers. The feasibility for national collection of left-overs requires an economic viability assessment.

Other determinants that would decrease wood dust exposure at the work place are adequate exhaust ventilation, sanding with adequate exhaust ventilation and special cleaning staff. In general, fully automatic machinery is linked to higher exposure given that this kind of machinery works with higher speed, which in turn generates more dust[11].

Leftovers are 15-20% from MDF/fiber boards and 40-60% from massive wood production.

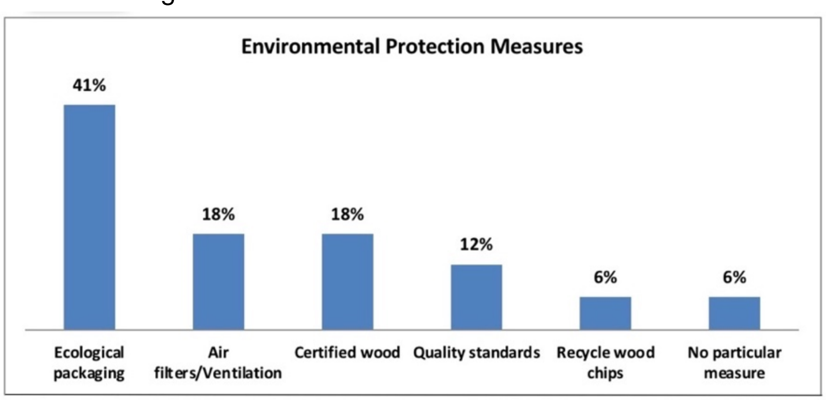


Figure 17: *Production companies´ environmental protection measures*
Source: Own compilation based on company data collection

[11] Gitte Jacobsen, 2007

3.4 Value Chain Function: Sourcing and Supplies

(17) Overview

13 input supplier companies of the wood building VC have been interviewed. Primary demographic data of suppliers is as follows:

- *Year of establishment*: 38% (n=5) of the companies have been established between 1990 and 2000, while 31% (n=4) have been established between 2001 and 2010. The rest have been established either before 1990 or after 2010.
- *Legal status*: 46% (n=6) of the companies were registered as Individual Businesses, while 38% (n=5) as Limited Liability Company. The rest of the companies have another legal status that is allowed in the country.
- *Number of employees*: 77% (n=10) of all the interviews are 'small (10-50 employees), while 23% (n=3) 'micro' (0-9 employees).
- *Turn*-over: 38% (n=5) of the interviewed companies had a turnover of between 1 million to 2.5 million EUR in 2017, 23% (n=3) had a turnover of more than 2.5 million EUR in 2017, while the rest had a turnover of below 1 million EUR.

3.4.1 Operations

(18) Turnover development

92% (n=12) reported to have had an increase in turnover compared to the previous year. Out of these, the majority, 62% (n=7), experienced a turnover increase between 6% to 20%; 23 percent (n=3) marked a turnover increase between 21% to 40%. The rest (n=2) reported to have had an increase of 91-100%.

(19) Product and service portfolio

Most of the companies sell sawn timber – lumber for construction, veneer, solid wood components and products, composite wood products, and other components. Almost all of the companies who sell the above-mentioned products, import them. A very insignificant number of companies receive the composite wood products locally. In 2015, 69% (n=8) of the interviewed companies were engaged in direct import, where they imported between 91% to 100% of their accessories and wood products. In 2016 and 2017, only around 54% of the companies imported directly 91% to 100% of their products. This might be a sign of more available material at local dealers who in some instances add some value to the imported wood products before they sell them to producers. Most of the suppliers sell to both sub-sectors, the furniture and building material.

The majority of companies import their products from European countries. Many companies declared that they import from Germany, Italy, Turkey, Austria and Finland. Some other companies import also from the neighboring countries including Bosnia and Herzegovina, Montenegro, Serbia, Slovenia, and Romania.

(20) Customs import procedures

Out of all the interviewed companies (n=13), 54% (n=7) say that it takes nearly 24 hours to clear all the custom procedures (from when shipment reaches the border till customs clearing); 31% (n=4) declare that they can deal with all custom procedures within 5 hours. For the rest 16% (n=2) it takes several days to go through all these procedures. Companies explained that clearance procedures often depend on company´s record of compliance and potential issues occurring in cooperation with customs before. In general, clearing procedures would be completed within the day for companies with positive reputation, not engaged in any illegal or import tax evasion action before. Customs is playing a positive role in educating companies toward legal performance.

(21) Membership at association and institutions

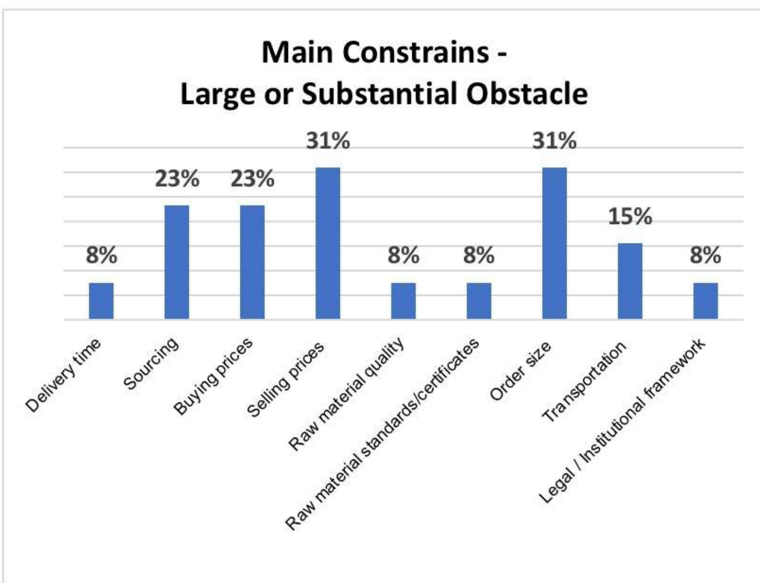
Overall, only 38% (n=5) of the companies are members of an association or institution (AWPK and KKC mostly). The majority of the members indicated that they never received any assistance or benefit from associations. Some indicate that there is some sort of discrimination or non-equivalent treatment between members of the associations, usually in favor of the larger ones. Overall, most of the companies claim that associations are not well equipped to be able to offer effective services to member companies as they lack qualified staff, funds, and infrastructure.

3.4.2 Main constraints and interventions - input suppliers perspective

(22) Constraints

Across the sample, 36% (n=5) of the surveyed companies rated the order size and selling prices as large and substantial obstacles. The issue with the order size is attributable to the inability of the companies to meet the needs in the market. On the other hand, unfair competition and the overall informal economy, which are very much present in the country, affect the selling price of formal and 'honest' companies. Other constraints are provided in Figure 18. More detailed information is available in Annex 01.

Figure 18: *Main constraints perceived by suppliers*



Source: Own compilation based on company data collection

(23) Interventions – input suppliers' perspective

Supply companies have been asked about their preferred intervention for improvement of business activities along the overall wood building material VC. Most of the companies realize that overall business development would also help improve their business activity in general. Some of the priority intervention areas include:

- Vertical integration upstream
- Vertical integration downstream

- Fiscal policies
- Development grants
- Improving quality of packaging
- Workforce development
- Improved transportation

3.5 VC Function: Upstream and Downstream Transport

Demographic data of the nine interviewed transport businesses are:

- *Legal status:* 89% (n=9) are Limited Liability Companies (LLC).
- *Number of employees:* 67% (n=6) are `small` companies with 10-50 employees, and around 33% (n=3) `micro` companies with 0-9 employees.
- *Turn*-over: In 2017, 25% (n=2) of the interviewed companies had a turnover of more than 2.5 million EUR, 38% (n=3) had a turnover of 1.0 million to 2.5 million EUR, 13% (n=1) from 500 thousand to 1.0 million EUR, while the rest had a turnover of below 500 thousand EUR.

Transport services are not limited to specific product groups in the wood VC. Truck transport is usually not administered according to specific products, but other criteria such as optimization of truck loading, just-in-time requirements, common destinations, truck availability, economic utilization parameters, among others.

(24) Turnover development

Of all, 44% (n=4) experienced a turnover increase between 1% to 20%. The remaining 11% (n=1) experienced a slightly higher increase, from 20%-30%. 11% (n=1) marked a turnover downturn of somewhere between 10% to 20%. The rest of the companies declared to have had no change compared to 2016.

(25) Active transport business in Kosovo and international destinations

The interviewed nine companies did not have a common understanding of their competitors in the country and they provided different answers to the question on active transport businesses in Kosovo mainly for transport of wood furniture and building material. To their best knowledge, there is a higher number of active foreign companies as compared to local companies.

The majority of the surveyed transport companies responded that the main countries to which they export furniture and wooden building materials are Germany and Switzerland, followed by Italy and Belgium and Austria and France, Turkey, Slovenia and Sweden.

(26) Use of transport companies vs. producers' own transport facilities

According to the interviewed transport companies, there are numerous competitive advantages that small or larger wood sector producers can benefit from utilizing the transport companies´ services instead of using their own transport facilities.

These are:

- Utilizing the forwarding capacity of transport companies.
- Lower costs of using transport companies as intermediaries.
- The demands of numerous producers, both small and large, are consolidated in one transport.
- Professionalism, security and quality services.

- Information on the export market and the most favourable costs that producers can get to export their products.
- The responsibility and accountability of transport companies to carry out their services.
- Door to door concept, guaranteeing that exports reach the final destination without problems incurred during the transportation/export process.

3.6 Value Chain Function: Building Material Production

3.6.1 Turnover development

Of all interviewed companies, 90% (n=16) declared to have had an increase of turnover compared to the previous year (2016). 41% (n=7) had an increase between 6-10%. Only one company reported a decrease between 6-10%. The turn-over increase is mostly attributable to improvements in production capacities and increases to export.

3.6.2 Manpower

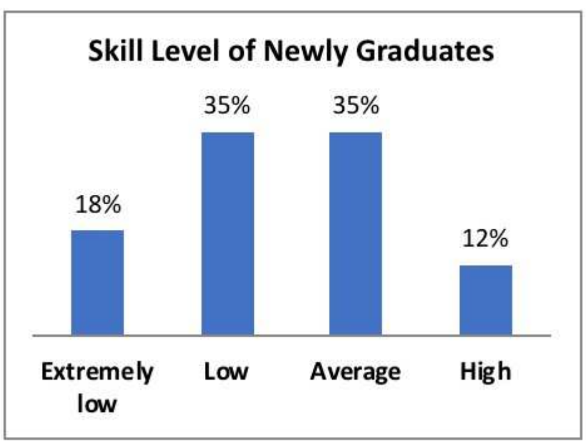
(27) Skills

The interviewed businesses are struggling to find candidates that are properly prepared for carpentry work as well as for machinery operation and high technologies, such as CNC machines. The poor VET system and the general education system constitute the main reasons why the internal labor market is not able to fulfil the company needs.

Around 70% (n=12) of production companies indicate that the level of recent graduates is either average or low. Due to this, companies have no other option but to look out for workers in the international market. Around 24% (n=4) of companies declared that they employ workers from Albania, Montenegro, Bosnia Herzegovina and Turkey.

Low labor skills and qualifications and experience that does not fit the companies` requirements constitute the most cited challenges. More details are shown in figure 19.

Figure 19: *Skills level of graduates*

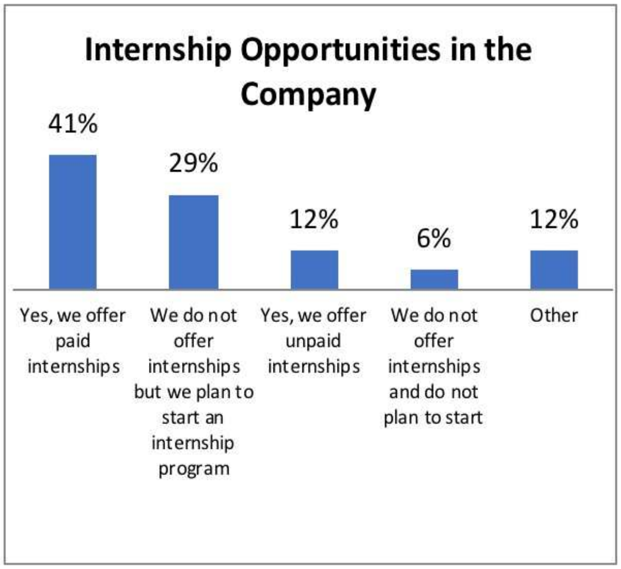


Source: Own compilation based on company data collection

(28) Internship

Generally, the companies offer internships for those who enter the labor market. 53% (n=9) of companies offer internships, and the majority of them pay the internees. The issue, however, is that these internships rarely or never lead to employment in the hosting company. On the other hand, 35% (n=5) don’t offer internships at all and the majority of this group are considering starting an internship program soon. Institutionalizing of an internship program for the wood sector can be directed by either VET institutions and/or supported by the AWPK.

Figure 20: *Offered internships*



Source: Own compilation based on company data collection

(29) Training needs

Following is a table that depicts the needs of businesses with regards to enhancing management and workers skills at suppliers and producers level. Export related, commercial trainings are considered as most important by companies.

Figure 21: *Training needs for workers and managers*

	Workers	Management (Business and Export Development)	
Production Companies	• CNC programming • Semi-automated machinery operation • Carpentry • Product design • Quality assurance • Work organization • Communication skills	• Business and Strategic Development • Export Promotion and Development • Sales/Marketing Management • Market research methodologies	• Technology Advancement • Production Processes • Quality Management • Accounting and Costing • Supply Chain Optimization • IT management, applications • Implementation of EQMS • Communication skills
Suppliers	• Machinery operation (saw mills) • IT skills • Communication skills	• Sales Management • Quality Management • Marketing • Communication skills	• Accounting and Costing • Supply Chain Optimization

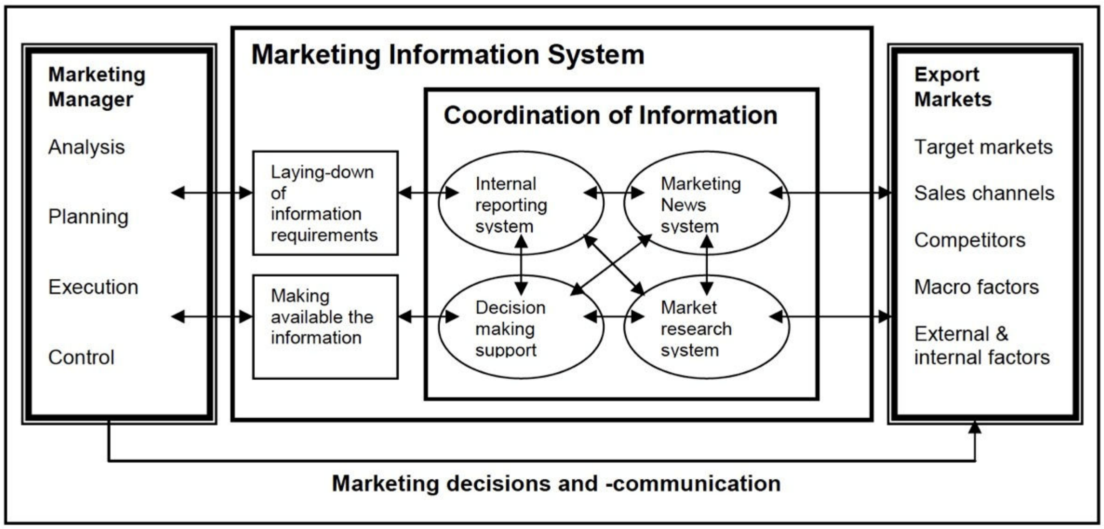
Source: Own compilation based on company data collection and feedback from stakeholders

Some companies realize the need to employ export managers in their company. International trade is a somewhat new concept in the country, also for building material industry and internationalization ask for knowledgeable and experienced sales and marketing professionals. The need for professional marketing and sales management is even more prominent as growing export will call for handling of strategic and operational export and sales management.

Figure 22 indicates the combined benefit of having an export manager in place who can do both, coordinate export sales and processes, and integrate market research into a company internal export marketing information system[12].

Integration of continuous export market research in a marketing information system asks for an experienced manager who can organize this rolling continuous process. The marketing manager is the key resource person for analyzing markets and competitors and for implementing the export marketing and sales strategy (if existing in the companies).

Figure 22: *Integration of market research into a marketing information system*



Source: Kotler, Bliemel

3.6.3 Production capacity utilization

Only 18% (n=3) of the surveyed companies declared that they are using 100% of their production capacity, the rest (n=14) are using only between 50%-90% their production capacity at 1-shift operations. The main reasons provided by companies include: low market demand (36% of the cases), outdated technology 21%), inefficient labor force (7%), and other reasons (29%).

Low capacity utilization increases overall operational costs due to largely invariant fixed costs (depreciation of machinery, salaries, etc.), with the effect of not being able to enter in lower price-level product segments or providing temporary promotional pricing without generating losses. Ideally, increased sales need to improve capacity utilization in single shift operations, with the option to entering in a second shift instead of considering investing in increased production capacity. The main reason given for low capacity utilization relates to *low market demand*. Whether low market demand is cause or the effect of an insufficient export market analysis requires further analysis.

[12] Kotler, Bliemel; market information system

3.6.4 Quality and certification

The Kosovan wood building material export enters, even though at small scale, into global value and supply chains. They look for a “level playing field” when dealing with clients in a highly competitive business environment. The Kosovan entrepreneurs have to accept that no more own standards and expectations are valid, but international rules apply. This also applies to quality and certification standards. A well-functioning and internationally harmonized quality infrastructure (QI) will essential for the company´s successful export, and overall sustainable economic growth in the country. Standardization, conformity assessment and accreditation, market surveillance and metrology will become a fundamental requirement for Kosovan industrial production facilities, including those of the wood sector, from raw material to final product.

According to feedback received from companies, *quality* is considered the main selection criteria for selection of suppliers and nominated as most important competitive export benchmark, a harmonized QI from purchase to supply, from supply to production, and from production to the client will be a key requirement. The applied standards need to reflect international and client demand and not local company´s quality standard levels (selection of raw material suppliers, local suppliers, production companies).

At a national level, there are no operational wood quality assurance laboratories that are necessary for product certification. There is a great need to support the establishment of quality and testing labs/facilities. The Italian CATAS Institute for Quality Testing[13] could be a model for implementing these services. CATAS Institute implemented a research on how a workshop and testing space can be implemented. Such a laboratory would be able to provide tests on three levels: physical-mechanical examination on primary materials, checks on the finished products and other tests.

Provided that neighboring countries face the same issue, a laboratory in Kosovo can provide paid services to wood production companies in the region.

3.6.5 Business operations

3.6.5.1 Purchasing practices

A rule in business states that “gains are in the right purchase”. Prices (cost) at purchasing level are considered a critical criteria of supplier preference. Besides suppliers´ sources for import, also mark-up are conceivable variables. It was indicated, that 20-25% is a typical markup, applied by both, suppliers and producers. It remains to be analyzed to which extend supply can be more streamlined and optimized in terms of cost-value ratio, quality optimization and delivery and payment terms.

Some of the purchasing and pricing options of raw material and accessories are preset due to either mandatory client specifications, or a market that is controlled by only a few suppliers, such as for chipboards. Supply chain optimization is a primary consideration for improved VC integration.

(30) Number of suppliers

On average, manufactures collaborate with 7 suppliers/importers of raw material. The majority of the companies prefer to directly import the raw material, but in practice they source it from the local traders. The reason for the discrepancy between *what they do* and *what they prefer to do* cannot be explained with the available data. Unlike in the case of raw material, companies

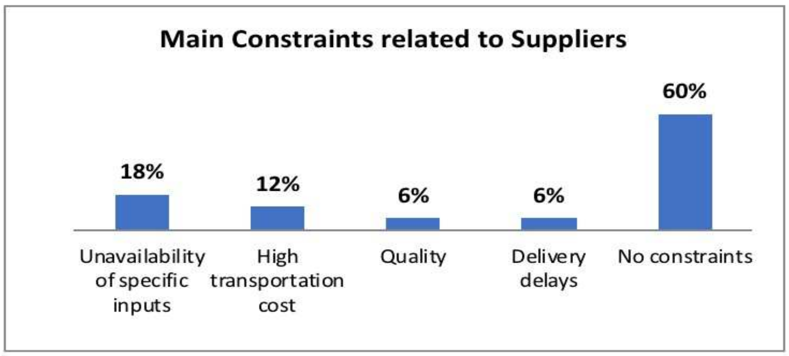
[13] CATAS; www.catas.com

prefer to use mostly domestic traders for their imports. This is likely the case because they cannot afford to buy large quantities all at once and domestic traders are readier to deal with smaller quantities.

(31) Preferred suppliers

Companies were asked to define the main constraints related to their business relationship with suppliers. It is notable that around one-thirds, 60% (n=10) did not have any complaint. On the other hand, unavailability of specific inputs and high transportation cost are perceived as large or substantial constraints by 18% (n=3) and 12% (n=2), respectively. Other constraints are provided in Figure 23.

Figure 23: *Constraints related to suppliers, from manufacturers perspective*



Source: Own compilation based on company data collection

Finally, manufacturers were asked to determine the main criteria when selecting their suppliers (1=least important; 5=most important). According to the weighted average, the quality level of the product supplied is the main criterion, whereby delivery time is the least decision-making criterion. The cost criterion is also weighed high (Figure 24).

Figure 24: *Criteria by manufacturers for selection of suppliers*

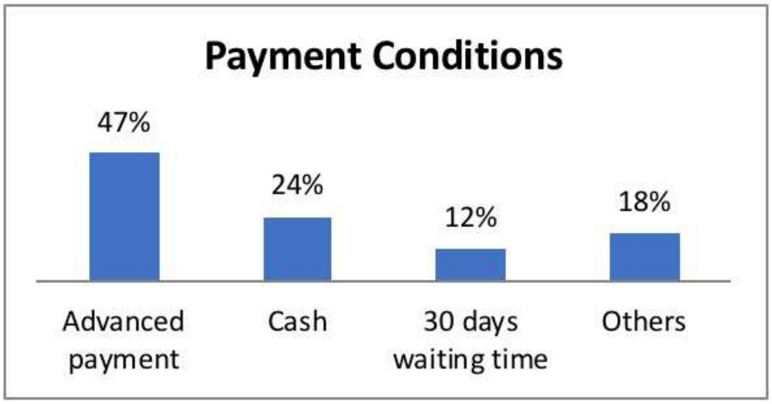
	Quality	Delivery Time	Capability	Cost
Average Rates of Selection Criteria	4.9	3.2	3.2	3.04

Source: Own compilation based on company data collection

(32) Payment conditions

According to Figure 25, the dealings between manufacturers and suppliers are arranged with *advanced payment* (49%; n=8) and *cash* (24%; n=4). It is rather unusual to deal with such a high percentage of advanced payments. This creates cash-flow problems for the manufacturers. Companies hardly operate according to standardized commercial rules, such as INCOTERMS. By doing so, risks and responsibilities of the dealings can be better determined and shared between the parties.

Figure 25: *Payment conditions of suppliers*



Source: Own compilation based on company data collection

3.6.5.2 Raw materials and origin

Almost all wood and non-wood raw material and accessories are sourced from outside of Kosovo. The more significant share is imported by local retailers and wholesalers and later sold on to manufacturers. Part of the imported raw material is further refined before it reaches the manufacturers. It is unknown to the consultants to what extent the refining takes place and how much value is added to the products. A smaller portion of raw material is imported directly by manufacturers.

Figure 26: *Raw material and its origin*

Raw Material	Local Purchase	Direct Import	Country of Origin
Sawn timber; solid wood boards (4407)	41%	35%	Austria, Germany, Other
Veneer – Sliced or rotary cut (4408)	29%	18%	Germany, Croatia, Other
Plywood and Oriented Strand Board (4410)	18%	12%	Germany, Austria
Particle board, MDF and HDF	29%	35%	Germany, Other

Source: Own compilation based on company data collection

The same pattern holds for intermediate and non-wood raw material and products.

Figure 27: *Intermediate products origin*

Intermediate Wood Products	Local Purchase	Direct Import	Country of Origin
Fibre-joined and glued elements (4418)	29%	18%	Germany, Other
Glued window scantlings (4418)	24%	6%	N/A
Glued door scantlings and other doors components (4418)	29%	6%	N/A
Bent wood, curved wood	18%	0%	N/A
Stair treads	24%	6%	N/A
Other	6%	0	N/A
Intermediate non-wood Products	**Local Purchase**	**Direct Import**	**Country of Origin**
Doors and windows hardware	24%	0%	N/A
Stains, Paints, Finishes and glue	47%	24%	Germany, Other
Sanding and abrasives	35%	6%	Turkey, Germany, Sweden

Other	12%	12%	N/A

Source: Own compilation based on company data collection

3.6.5.3 Cost structure

Information provided by companies in regard to their cost structure is indicative and must be interpreted with caution. Presumably only very few companies are operating with a state-of-art costing system in place that clearly differentiates between cost categories, such as fixed, variable and mixed costs. It is crucial to have clear evidence of costs in order to establish export price alternatives and improve overall cost related benchmarks that support cost sensitive in-company improvements. Costing systems can be hybrid systems, variable costing or absorption costing[14]. Variable costing allocates only variable manufacturing overheads to inventories, while absorption costing allocates both variable and fixed manufacturing overheads to products. Variable costing calculates contribution margin and can include break-even analysis for pricing decisions, while absorption costing is based on relevant gross profit.

Figure 28: *Cost structure at manufacturers level*

Raw material 58%	Raw material costs represent the highest proportion of total costs. Reasons are:100% import of wood and non-wood supply, accessories. Intermediaries (suppliers) create additional transaction costs and mark-up, low discounts on purchase due to small purchasing quantity.
Operational costs including labour 34%	Operational cost includes administrational costs, labour, utilities, fixed costs and others.
Cost of transport for supply and ready goods 8%	Evaluation of transport costs is difficult, as it is not known to what extend exporters´ sales contracts are based on INCOTERM standards, which clearly rule cost distribution regarding transport, risk transfer, and transport insurances, taxes and duties[15]

Source: Own compilation based on data collected at companies

On the basis of the above-mentioned indications no recommendations for cost optimization or sector typical costing benchmarks can be made. This is partly because the cost allocation cannot be reliably proven and typical average benchmarks of the sub-sector in Kosovo are not available.

Labour costs (23%) seem high, considering the indicated average monthly salary payments of EUR 405 in the building material companies (ranging from as low as EUR 282 to a maximum of EUR 651). One reason for high labour costs can relate to low labour productivity, lacking production process management and idle times in production due to seasonal or other reasons.

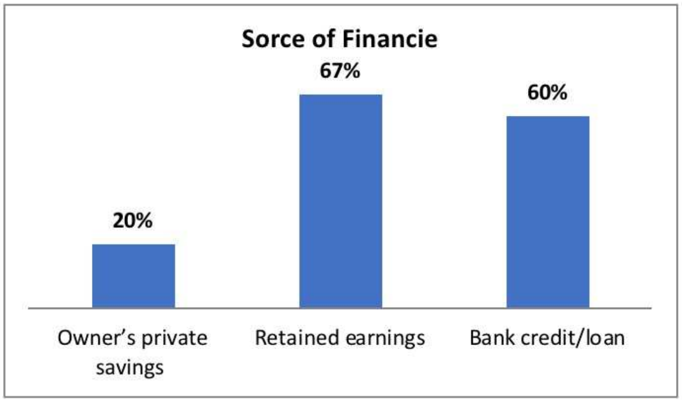
3.6.5.4 Investments and financing

High equity coverage is an essential factor in the corporate finance strategy and bank loans are an important building block for investment. According to company feedback, the main sources for financing the investment were retained earnings (67%) and bank credits/loans (60%), followed by owner's private savings (20%). Note that the total is more than 100% because the interviewed companies could select more than one option.

Some companies reported strong seasonal fluctuation of export business and limited chances to cushion those by on short-term increasing their local business. It is essential to have enough equity to assure short-term financing of fluctuating running costs and to keep high flexibility for the financing of investments and projects should the bank's credit line be exhausted.

[14] Accounting Explained, 2018; https://accountingexplained.com/managerial/cost-systems/
[15] ICC, 2018; https://iccwbo.org/resources-for-business/incoterms-rules/incoterms-rules-2010/

Figure 29: *Source of financing*



Source: Own compilation based on company data collection

(33) Allocation of investments

Investment planning is on the one hand a result of a strategic business planning with focus to market demand, but also has implications in all below-mentioned operational business fields.

According to data from companies, most of the investment is made in technology and production space enlargement. The overwhelming number of companies hardly invests in marketing and product development with max. 1-5% of the total investment. The largest share are non-defined and unallocated investments.

Technology investments in new machinery make Kosovan companies technically comparable with global producers, which creates pressure to companies to increase their cost efficiency in order to compete on international level. Very few of the interviewed companies have a written business strategy or business plan in place that sets out priorities of their business and defines the implementation of strategies on operational level, concluding where to focus investments and resources by envisioning a longer-term business direction. In addition, the business plan tackles operational issues such as purchasing and supply chain, production planning and technology application, demand driven marketing and client communication, HR development, IT development, and financial management.

3.6.5.5 Business linkages

Normally, VC operators relate to each other both, horizontally with similar companies at the same stage of the VC, and vertically between suppliers and buyers at different stages and membership at the wood association or other potential cooperatives and entities, such as for central purchasing.

Service provision and subcontracting are also business linkages by definition but differ from vertical business linkages as they do not become owners of the wooden products that define this specific VC. One of the aspects of an optimized the VC integration is the degree of functioning and value creating linkages within the VC.

Companies were asked in a multiple answer question to what extent they work together with other companies and service providers at supply, production and marketing level. Most of the indications refer to linkages related to transport/logistics (80%) and subcontracting (33%). Note that the total is more than 100% because companies could select more than one option.

Type of Cooperation	(%)
Transport/Logistics	80%
Subcontracting	33%
Trade intermediary services	27%
Outsourcing activities	20%
Franchise	13%
Co-production for larger sales lots	7%

Figure 30: *Linkages and company cooperation*
Source: Own compilation based on company data collection

As part of a VC upgrading project, linkage promotion will be an important aspect that helps to create additional growth potential and to optimize existing factors of production, service and support within the building material VC.

3.6.5.6 Client acquisition and market expansion

Considering that 74% of all wooden building material export is realized in Switzerland (50%) and Germany (24%), the two countries with the largest single Kosovan diaspora in the EU (Germany approx. 100.000 persons; Switzerland approx. 150.000 persons)[16]. It is well accepted that connections to family and friends in these countries play a significant role in new client search and networking, even though not at first place for identifying new clients. Figure 30 indicates the opinion of the surveyed companies with regards to the most preferred ways of client acquisition. Own market research, which turns out to be the most preferred means, requires more company´s investment into market scanning and research. Before potential clients will contact Kosovan companies, the image “Made in Kosovo” should become a better known and appreciated mark. Internet research does not substitute for personal contacts in the market. Company owners, better even marketing managers should be present at main EU target markets, visit suitable traders or retailers, be aware of common practice regarding customer communication and representation of their company, international commercial practices and ability to discuss B2B or B2C delivery and commercial conditions on the spot.

Figure 31: Rating of the most and least successful methods to identify new clients and export market

Source: own compilation from data collection at company level

3.6.6 Competitive benchmarks

Companies were provided with a list of potential competitive benchmarks they consider most essential for the success in the export market. The company´s evaluation reflects a healthy degree of realism regarding the criteria supporting successful export.

Although the competitive benchmarks shown in Figure 32 likely correspond to the actual reality of demand in export markets, it has to be further analyzed to what extent companies are able to fulfil the real market requirements. This particular aspect is not within the scope of this VC analysis study.

[16] Website Kosovo 2.0, 2017; http://kosovotwopointzero.com/en/kosovo-diaspora-dreams-political-change/

It is advisable that the donor-funded company upgrading and training programs in Kosovo not only define curricula and programs for their training and expert advice interventions that are mostly based on needs assessment at a company level. Important fundamental criteria, besides obvious in-company training needs, are market requirements and international standards that set the benchmarks for local wood sector production companies.

Main Competitive Benchmarks	Average Rating: 5 - most important 1 - least important
Quality	4.9
Innovative Design	3.9
Price	3.4
Specific Raw Material	3.3
Delivery Time	3.0
Transport Cost	3.0
Flexible larger orders	3.0
Punctuality	2.9
Small lots with quick delivery	2.8
Packaging	2.6
Easiness to export from Kosovo	2.5

Figure 32: *Competitive benchmarks for successful export*
Source: Own compilation based on company data collection

Before implementing interventions for better company´s performance related to market driven competitive benchmarks, baselines need to be established at company level in order to be able to measure and evaluate any indented improvement measure. Such baselines contain company´s labour productivity, cost efficiency and fixed cost percentage, utilization percentage, followed by the export company´s ability to quickly to adjust to complex and specific export client requirements quickly that is reflected by lead-times from order signed, purchase of inputs and production time, to delivery to clients. Other baseline relates to quality assurance and defect analysis.

With consideration of market-driven competitive benchmarks, companies will have to build their specific value propositions and competitive edge for export to specific target markets and client segments. This process is complex and requires external moderation and mentoring as company internal personnel, mostly the owner only, has the tendency to stick to his or her own experience only, and application of state-of-art tools are key for a successful process.

A useful tool to be applied is the Business Model in combination with the Value Proposition Canvas[17] (value mapping versus customer profile and definition of value proposition for key customers and/or market segments, Annex 02). Elements considered are client retention, transactional or recurring revenues, earnings vs. spending, company´s cost structure compared to known competitors, value creation by own business or external parties, business growth and scalability and competitive strength.

Companies` were asked what they recommend for the upgrading of the overall wood VC and thus improve sector competitiveness:
Approximately 20% of the respondents indicated various *upstream vertical integration* actions that would improve value chain, and the overall industry performance. 13% indicated that *stronger business associations* could support them in coordinating their efforts.
17% of the respondents indicated towards better *regulatory environment* in relation to payment collection and guarantee in terms of payment between buyer and seller. *Development grants* were also identified as having a positive impact on improving the overall value chain (11%).
In conclusion, these potential interventions reflect improvements on the legislative side, adjustments to the business model between suppliers and producers, and better services at institutional level.

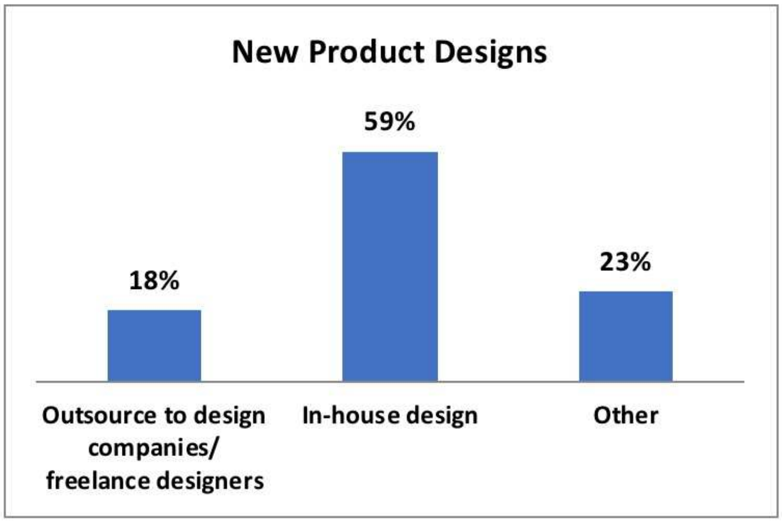
3.6.7 Design

59% (n=10) of the companies develop their designs in-house (mostly customized) for their clients. Most larger export companies have in-house-designers, who are also needed to

[17] Strategyzer.com, https://strategyzer.com/canvas/business-model-canvas

translate designs into production orders and to define specifications for purchasing. See Figure 33 for more information.

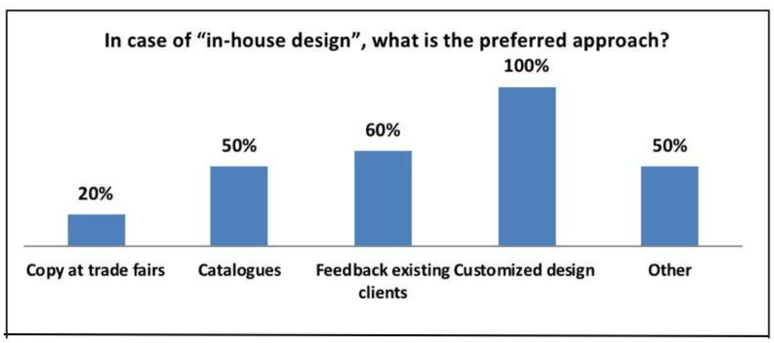
Figure 33: *Design development by companies*



Source: Own compilation based on company data collection

Many building material products are manufactured in more or less standardized format, which leaves only limited room for creative designing. This explains the high percentage of feedback by clients and customized design (Figure 34).

Figure 34: *Design development by companies*



3.6.8 Main barriers hindering exports

Companies provided input about internal and external barriers that are hindering their export development (Annex 03 shows all indicated barriers).

The five most critical external barriers that have been determined by the interviewed building material production companies are (1 = no barrier; 5 = large barrier):

- Difficulties of personnel to travel to EU countries (4.29)
- Shortage of labour with sector specific skills (4.12)
- Perception of "Made in Kosovo" products (2.95)
- Certification/quality standard requirements (2.89)
- Difficulties in obtaining export financing (2.59)

The five most critical internal barriers are:
- Lack of personnel with export knowledge and experience (3.24)
- Difficulties in finding clients and distributors abroad (3.24)
- Lack of modern technology (3.76)
- Skills of the employed labour force (3.18)
- Lack of finances for innovation (3.00)

3.6.9 Innovation

All companies said that they are engaged in innovation practice. The most innovative practices cited by companies include: *innovative products* (35%), *new products* (24%), *product features* (18%).

Regarding the concept of innovation management, there are three types of innovation in companies:
- product innovation
- process innovation
- business model

It is noted that all interviewed companies only mention product innovation.

In reality, process innovations are among the lowest-risk and are often important drivers of revenue increase. Process innovation at the building material companies should be supported by process management SME specialists.

Process innovation at Kosovan building material companies should be supported by experience process management SME specialists in the wood production. Typical fields of concern in Kosovan wood building material company are supply and delivery change processes, methods used for accounting and introduction of cost management and cost calculation processes, change of equipment, tools or software. Business model innovation aims for improvements of competitive advantages, better linkages along the VC and cost-conscious decision making.

3.7 Description of Meso and Macro Level VC Actors

Figure 35 depicts the overall setup of meso- and macro-level policy framework actors that are directly or indirectly involved in providing support services and establishing better enabling environment, respectively.

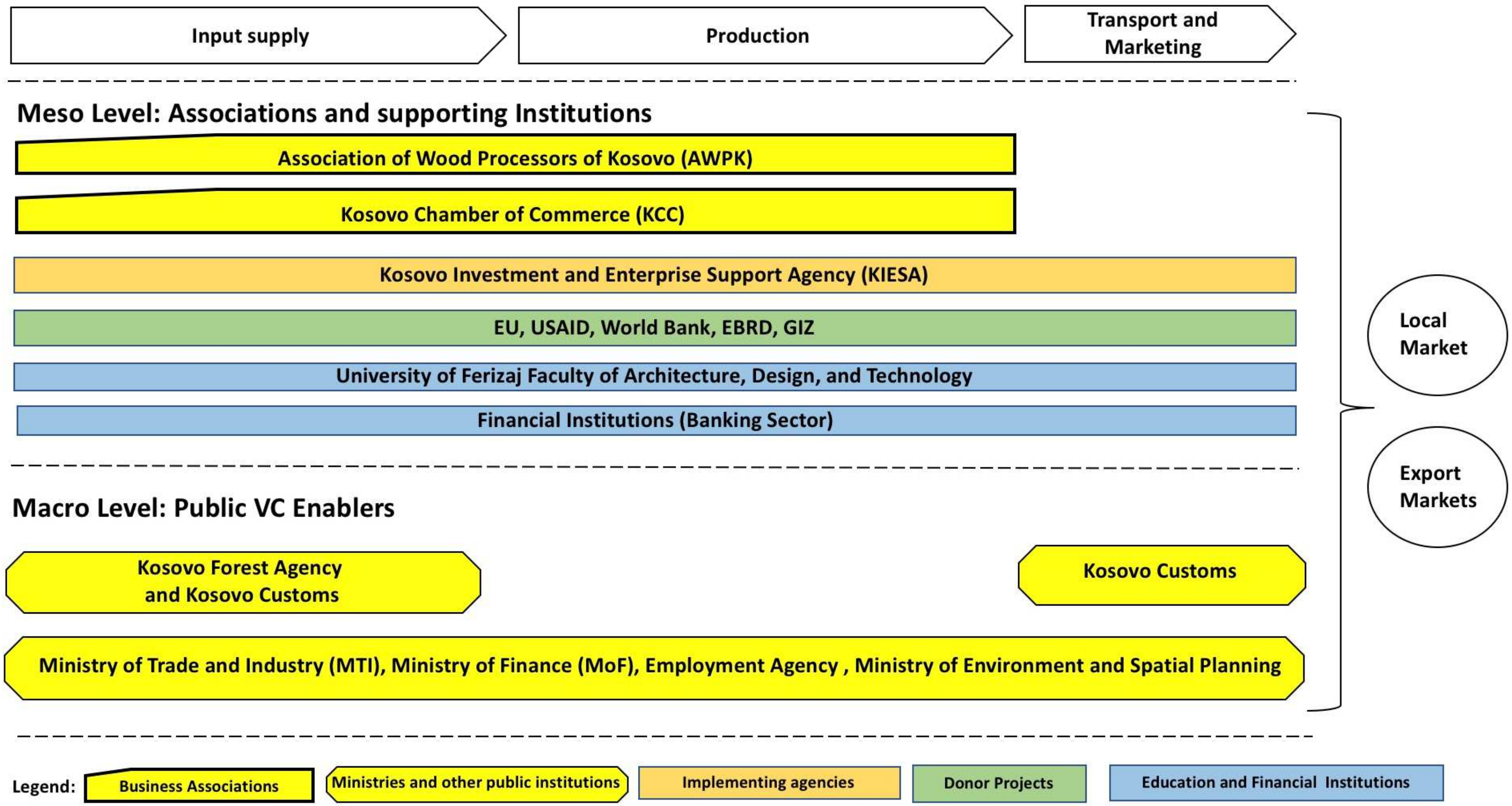
The overall map looks well integrated with the representation of VC enablers (macro) and VC supporters (meso and services). Some main challenges are described below.

Some of the challenges are:
- Creation of economically viable BDS service providers.
- Due to limited funding, the wood association is unable to provide more support to their members. Moreover, the interests of smaller companies are quite often underrepresented.
- Budget constraints limit the KIESA capacity to effectively and comprehensively implement sector specific support programs that are specifically design for the wood building material sub-sector (e.g. certification information, market intelligence).
- Donor interventions for the wood related industry (including building material) are not sufficiently considering upgrading of the overall VC under holistic aspects but rather aim

for specific interventions to individual actors. Furthermore, donor coordination and effective Kosovo government ownership on coordinating donor input is an issue with room for improvement.

- By providing grants to larger companies mostly, the donor community somehow distorts the market and minimize the chances for smaller companies to catch up.
- Although relevant education institutions seem to exist, they largely fail to provide programs that equip students with the skills that correspond to market needs.
- Besides issuing loans, financial institutions do not provide investment funds or venture capital.
- The Kosovo Forest Agency has no responsibility over national forests that can potentially be sources of industrial logs for the wooden building material sub-sector. Kosovo forests are generally characterized by under management, illegal harvesting, and other informal practices. Moreover, the agency still does not issue FSC forest management certification.
- As a result of weak control mechanisms, there are indications that Kosovo customs fails to register all the exports and imports taking place in the wooden building material sub-sector – thus creating an incomplete view about the trade flows.
- While all other important governmental bodies exit along with a quite advanced legal framework, there are no effective mechanisms in place that ensure a systematic implementation and consequent inspection.
- Due to the small amount of companies (overall industry and wood sector) that are ready-to-pay for BDS, the Business Development Service market is underdeveloped.
- Enforcement of environmental compliance legislation at supply and production level, such as illegal logging in Kosovo, installation and maintenance of fine dust air filters in production, etc.

Figure 35: *VC sub map of meso and macro actors*



Source: own compilation based on data research

3.7.1 Business environment for the wood sector

According to the latest Doing Business Report, which is also applicable to the targeted sub-sector, Kosovo is among the top 10 countries worldwide with the most significant improvement in doing business reforms. Currently, Kosovo ranks 40th out of 190 economies in ease of doing business, 20 places higher compared to the previous year.[18] Among various regulatory aspects, it performs best on starting a business and getting credit, while it struggles about trading across borders and protecting minority investors.

It is noteworthy that if these regulatory reforms are not adequately and consistently implemented, only very limited impact on productivity gains at company level and through company and foreign direct investments can be achieved.

Recently, a new fiscal package (2.0) was introduced. It contains 22 measures that intend to promote investment in Kosovo by granting incentives (e.g. no import tax for raw material) for producers and sectors that show growth potential[19]. The doing-business report measures mostly the regulatory framework and institutional setup, which does not necessarily translate into favorable doing-business conditions.

Independent of regulatory improvements, describing the business environment, Kosovo is characterized by political instability, limited regional and global economic integration, endemic corruption, unreliable energy supply, informal economy and tax evasion, a weak rule of law with lack of contract enforcement. All these aspects have negative impact to Kosovan industrial development and competitiveness, which also includes the wood building material sector.

3.7.2 Meso level actors and institutions

3.7.2.1 Education:

(34) University and other professional training institutions

Kosovo has six public universities and several private colleges, which predominantly provide programs on social sciences (economic and legal programs mostly) in addition to about 89 vocational schools of different technical fields, currently hosting approximately 45,000 students.

(35) Faculty of Architecture, Design, and Technology

Regarding wood and building material, the Faculty of Architecture, Design, and Wood Technology at the University of Applied Sciences in Ferizaj is the only institution of higher education that provides programs focusing on wood processing. In addition to this institution, there are three Regional Vocational Centers (high school level) – which offer courses on wood processing on carpentry, forestry and design.

In the wood building material sub-sector, there is limited cooperation between education institutions and existing firms. This, in turn, leads to sizable skills mismatches that negatively affect the employability of job seekers, on the one hand, and limit the access of firms to the skilled labour force, on the other hand. According to the Ministry of Education, companies are often hesitant toward more connection between schools (mostly public sector) and industry (only private sector). Regional councils in the country are designed to improve the interests of the private industrial sector interests and the VET content of the public education sector. Companies complain about the quality of specific technical knowledge by graduate students.

[18] World Bank 2018. Doing Business Report
[19] Ministry of Finance 2018. Fiscal Package 2.0

Besides required specialized technical skills, companies commented on student´s lack of communication and soft skills. Another comment referred to the lack of internationally recognized certification of VET courses, also in the wood and building material sector.

3.7.2.2 Business membership organizations

(36) The Association of Wood Processors of Kosovo (AWPK)

The role of AWPK is to connect all businesses in the wood industry, advocate for their interest, provide access to information concerning markets and sector expertise, and help them expand in local and international market. AWPK does not specifically focus with its inputs to the wood building material industry as the export is small (2016: 1.227 million EUR), compared with the export of the furniture industry (2016: 4.193). All activities of the AWPK are entirely donor driven and mostly depend on external funding. One of the AWPKs principal objectives is to serve as hub between the donor community and wood companies.

The current principal membership services are:

- <u>Advocacy</u>: Representing interest of the wood sector (incl. furniture and building material towards national government and donor community. Advocacy also supports smaller furniture producers that are not members. AWPK is also linked to the European Furniture Manufacturers Federation (UEA) in Brussels, but not as formal member, as UEA membership fees are high compared to the AWPK´s annual budget of about € 20,000 (on average € 200 annual fee per paying member). The linkage with UEA is important to improve the countries´ reputation as producer on national and international level, to be part of the international business network and to receive first-hand information on certification and business trends. The EU commission contributes to payment of membership fees for association members in EU member countries only, which excludes Kosovo.
- <u>Consulting and training</u>: AWPK organizes consulting and training input to member companies. These interventions are mostly financed by the donor community due to high costs of international technology experts. More general training and information sessions are often financed and held by AWPK. Training needs analysis is implemented by donors before providing services through the AWPK as implementing intermediary. Companies often do not know their real needs.
- <u>Export and national market promotion</u>: A few years ago, Kosovo´s furniture sector was not very well known at markets. Through promotional campaigns such as the annual national wood trade fair, AWPK assembles 65 companies presenting their products. By promoting exports (participation at trade fairs and information sharing), Switzerland, Luxembourg and Germany became the largest markets for the sector.
- <u>Sector information</u>: members receive information on sector novelties. The wood convention, taking place once per year in Pristina, covers both, the furniture and the building material sector.

(37) Kosovo Chamber of Commerce

KCC is the largest business association in Kosovo. The main goal of this body is to promote entrepreneurship, enhance the competitiveness of its members, and improve the overall market economy.
The KCC is engaged in the following services:

- Advocate for the harmonized interests of the entire membership with new initiatives.
- Cooperate with governmental institutions in formulating strategic documents for economic development.
- Participates in the economic and social dialogue jointly with the other business associations, interests' associations, and trade unions.

- Promotes foreign trade by organizing business contacts between domestic and international partners.
- Participate in the permanent innovation process and improvement of the quality of products and services.
- Provides advice for development, particularly with regards to gaining of the financial validity.
- Provides professional assistance and consultations about business-related issues.
- Other similar services.

3.7.2.3 Implementing agencies

(38) KIESA

The Kosovo Investment and Enterprise Support Agency (KIESA) is a governmental entity under the Ministry of Trade and Industry (MTI). It is primarily responsible for promoting investments, protecting investors, supporting exports and economic zones, as well as developing policies/programs in support of SMEs.

KIESA provides the following two incentive schemes:

- *Product Certification Vouchers* – Helping Kosovo SMEs with product certification by covering a portion of the total cost.
- *Counselling Vouchers* – Covering the cost for counselling services in areas, including management and planning, finance, marketing and promotion, human resources, public relation, electronic engineering and IT, quality standards, legal issues, and business plan.

3.7.2.4 Business service providers and BDS

(39) General business consultants

Over the past few year, with new market dynamics, demand for Kosovo business consultants has increased. However, compared to the more significant economies in the region, there is still ample room to improve and grow. Parallel to consulting companies, plenty of independent consultants are competing in the market. The client confidence in the consultant industry is rather high, and only 1% of businesses do not trust consultants as an external source of support.[20]

(40) Specialized consultants on wood building material

Most of the specialist consultants are coming from EU countries. They cover specialty consultancy in the wood industry, such as technical processes, costing, design and marketing. Due to the rather high cost for international consultancy only few larger Kosovan companies are in the position of hiring international consultants by their own. Most of the specialized consultancy is sponsored by donor initiatives.

(41) Product design services

There are no companies that focus on product design besides architects.

(42) Market information services

Kosovo Agency of Statistics (KAS) is the primary public body responsible for producing general statistics in the country. Due to limited capacities, it does not much generate data on specific sectors or markets. On the other hand, there are around 79 companies/research institutions

[20] Business Consultants Council (2017). Kosovo Consulting Market.

that provide market research services at different level for the Kosovan market. This includes industry analysis, identification of key market players, market assessment, forecasting market size, and similar services. Provided that the market for research industry is rather small, none of the companies is specialized in wood processing.

Specialized building material export market scanning and analysis services, competitor analysis, benchmarking, is not available in Kosovo.

3.7.2.4 Donor projects

The donor community is very much present in Kosovo, supporting projects in financial and technical assistance. Many donor programs offer overlapping interventions and support programs to the furniture sector. Although donor coordination has always been an issue, recently they have developed a system where they meet regularly and share their plans. According to feedback from the Ministry of Trade and Industry, coordination between donors and government, but also within donors is not yet up to the desired standard.

Following are some institutions/projects that in one way or another can or currently support the development of wood processing industry. Some of the benefiting companies reported an “overload” of offers for training and other similar upgrading activities.

For the wood industry and general industrial development, donor´s support in institutional support and development helps to make for national institutions and BMO sustainable. In addition, the strengthening of private sector service providers and associations are crucial for sustainable wood sector development.
Avoiding advances in companies by providing cheap or no-cost subsidies by donors to VC operators is critical and needs to be well considered to evade “cost-traps” in companies after termination of donor activities.

Different from the furniture industry, the building material industry primarily does not receive much attention by donor programs. However, due to the fact that many wood working companies produce both, furniture and building material, many general business inputs also have positive effects to the building material sub-sector.

(43) European Commission, EuropeAid

The European Union provides financial assistance to Kosovo through IPA funds. The new phase, IPA II, started in 2014 and will be in place until 2020. The overall budget allocated for Kosovo for this 7-year timeframe amounts to around 646 million EUR. IPA II is different from the previous phase. It is more focused on socio-economic projects and objectives (e.g. economic competition, employment, social policies innovation, education and similar). Following are three relevant IPA projects that are envisaged to play a positive role in improving Kosovo’s capacities for export. The benefits spill over to all sectors with export potential, including building material, even though to a limited extend.
Projects are:

- *Free Movement of Goods***.** The objective of this project is to further align the Kosovo legislation in the area of quality infrastructure, market surveillance and consumer protection with the EU ‘acquis’ and to provide capacity building to the relevant institutions. This should enable local staff to implement legislation in the internal market in Kosovo in line with the SAA requirements.
- *Further support to Development of Trade*. The goal of this project is to support the MTI in developing, negotiating and implementing trade policy per international trade requirements and EU best practices.

- *Increasing Competitiveness and Export Promotion*. The purpose of this project is to support Kosovo companies in improving their performance and overall competitiveness and to increase export of products and services generated in Kosovo, as a means of reducing the trade deficit. The project is approaching its end. An Exporters Development Programme (EDP) will be launched with the primary goal of linking companies to export markets.

(44) European Bank for Reconstruction and Development (EBRD)

The bank provides the following assistance with relevance to building material:
Support to Kosovan business consultants for broadening national consultancy expertise. Implementation of training courses on essential skills, resources and techniques for effective and impactful consulting, facilitation of connection between companies and consultants for the service provision on quality management systems, marketing strategies and new governance structures.

(45) Empower Private Sector (USAID)

One of the two main sectors supported by this project is Wood Processing. The project implements activities that aim to identify and evaluate job-creating opportunities. It enhances product design and quality, improves workforce skills in conformity with business opportunities, and facilitates access to finance and trade fair participation.
Empower currently supports eight wood companies in achieving their ISO 9001 certification. Empower, and EBRD closely cooperates in programming training input and supporting ISO certificated companies for re-certification.

(46) Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ)

From 2018 onwards, GIZ implements an export promotion program that focusses to the IT sector, wood processing, agro-processing and other productive sectors. In the framework of this project, three international consulting companies will assess mostly EU markets and competitors in the target sectors. The cooperation with KIESA includes support to trade fair participation, B2B matchmaking, also focusing on the wood sector.

(47) World Bank (WB)

Competitiveness and Export Readiness Project: The goal of this project is to enhance the business environment and build capacity in public and private sectors for increased competitiveness through supporting the national quality infrastructure, reforming the business inspection system, and strengthening export readiness of SMEs.
Kosovo Investment Climate II: The two components of this project are to (a) improve the business environment through better regulations, and (a) support foreign investments and exports.

3.7.3 Policy framework and macro actors

Over the past few years, the legal framework for private sector development and environmental protection improved. It is mostly in line with best practices and standards of the EU.
Despite having a relatively advanced legal framework, Kosovo institutions struggle with developing the necessary mechanisms that ensure implementation of the legal framework indiscriminately and to enforce compliance.

(48) Ministries and other public institutions and relevant rules and regulations

Figure 36: *Rules and regulations*

Body	Relevant Primary Legislation	Description
<u>Ministry of Trade and Industry</u> The chief role of the ministry is to create conducive conditions for private sector development, with particularly focus to SME.	**Laws on**: • Business Organizations • Accreditation • Standardization • Industrial Design • Design • Trademarks • Patents • Strategic Investments • Foreign Investments • Economic Zones	All the laws create conditions for private sector development and promote foreign investments, exports and SME development.
<u>Tax Administration (Ministry of Finance)</u> is responsible for the fiscal tax policies. Kosovo's fiscal system is based on best-practice and policies of the EU. This applies to both tax and customs policies including direct and indirect taxes.	**Laws on:** • Value Added Tax • Corporate Income Tax • Personal Income Tax • Tax Administration and Procedures	All these pieces of legislation set the main rules and procedures for the tax regime in the country.
<u>Kosovo Customs (Ministry of Finance)</u> Kosovo Customs is the main body to ensure the application of fair and uniform customs regulations and other provisions applicable to goods, subject to customs supervision. Apart from customs duties, Kosovo Customs also collects VAT and excise tax. Kosovo Customs operates in accordance with EU standards.	• Law on External Trade • Customs and Excise Code	The laws set the general rules for the exercise of external trade
<u>Employment Agency</u> This agency is a public service provider in the labour market, aiming at managing the labour market, supporting employment creation and vocational training policies.	• Law on Labour Force	This Law regulates the rights and obligations deriving from employment relationship.
<u>Kosovo Environmental Protection Agency (Ministry of Environment and Spatial Planning</u> is the main institutional body responsible for environmental-related matters.	• Law on Environmental Protection	This law promotes the establishment of healthy environment Kosovo by gradually implementing EU environmental standards.
<u>Kosovo Forest Agency</u> This Agency operates under the Ministry of Agriculture, Forestry and Rural Development (MAFRD) and is responsible for forestry-related matters in Kosovo. In spite of the fact that a considerable part of the national territory is covered with forests, their use in the building material industry is limited. The best yielding and higher quality forest units are official national park areas. Kosovo forests suffer from under management and illegal harvesting.	• Law on Forests	The main purpose of this law is to protect and promote the forests of Kosovo whilst allowing for coordinated and regulated sustainable development of the resources within those forests.

Source: own compilation based on data collection

3.7.4 Financial Institutions and access to finance

(49) Financial Institutions

The banking and financial system consists of commercial banks, branches of foreign banks, microfinance institutions, non-banking financial institutions, foreign exchange offices and money transfer agencies. The average interest rate on loans stands at 6.83%. For the manufacturing sector it is slightly lower with 6.23%. Double bookkeeping, “grey economy”, lack of business plans, collateral related problems have a negative impact on the access to finance.

(50) Access to finance

In 2018, the EBRD plans to implement a credit facility for improved access to finance. The facility includes a grand scheme for the wood processing sector, development and provision of Business Development Services (BDS), support program to Free Movement of Goods and support activities toward Single Market Opportunities.

Access to finance improved considerably over the past years. It does not appear to be a rather serious barrier, in particular for medium- and large-size firms. The introduction of the private bailiff[21] system and the Kosovo Credit Guarantee Fund (KCGF) cover up to 50% of the potential risk for loans issued to SMEs. Both played a significant role in lowering interest rates. The financial sector is now liquid, and investment loans have grown considerably as a result of low-interest rates. The share of commercial loans (63%) is higher vis-à-vis comparator countries.
Smaller firms have limited access to formal loans. One reason is their difficulty to fulfil collateral requirements and to keep formal financial statements. Finding collateral is even more difficult for women-owned firms. Because of cultural norms, inherited property is often registered in men’s name.
Firms often complain that there is lack of access to investment funds or venture capital.

[21] Kosovo Chamber of Bailiffs, systems for enforcing agreements and decisions

4 VC DEVELOPMENT STRATEGY AND ANALYSIS OF EXPORT DEVELOPMENT POTENTIAL

4.1 Strategic VC Upgrading Options and Rational for Interventions

4.1.1 Pillars of export driven wooden building material VC development

Considerations related to strategy formulation for developing the wood building material VC has to start from economic and market opportunities and has to address competitiveness issues.

Sector vision and strategy formulation needs to reflect the perspective and expectation of the VC operators involved along the overall wood building material VC. After all, VC operators are supposed to invest in VC development after having established a broad acceptance of the concept of systemic VC upgrading that reflect the interests of all operators involved in the creation of added value along the Kosovan building material VC. It is important to note that due to different responsibilities and tasks public and private actors often have different priorities. Only some of the larger companies have a written business plan, determining strategic directions and around 70% of the interviewed companies do not have a company vision as part of a written planning document.

Interviewed company´s visions are mostly focusing to growing their export. Some of the mentioned visions are:

- Export growth (objective 100% export) increasing profits by improving their technology and image at export markets.
- Expanding export share (50% export, 50% local market).
- Improving profit margin.
- Investment in technology with the purpose of promoting export.
- Local market is small; therefore, export is the future.

The three pillars, economic growth as result of company´s increased export competitiveness, better and more employment, and protection to environment ideally complement each other. Economic growth of the sub-sector has to be environmentally sustainable and socially inclusive.

The (1) first pillar of the building material VC development focusses to strengthening economic growth and export competitiveness. Under the premise that local demand has limited growth potential, export development to the EU and to other international markets is critical for growth.

The (2) second pillar is a consequence of economic growth, which calls for more and better-prepared availability of labour and quality of work, not only on operators, but also on management level.

The (3) third pillar considers environmental aspects, such as wood certifications, control against illegal logging, and control of pollution in processing.

4.1.2 VC development strategy as baseline for VC promotion and upgrading

A provisional VC development strategy includes the following essential elements:

Economic growth:
Focus on economic growth, with VC actors aiming for internationalization, competitiveness, innovation and better integration of the wood building material VC. In addition, only economic growth (more export) triggers improvement on employment level. Investments into production facilities will have to be based on quickly evolving standards in the EU regarding energy saving construction of windows and door profiles with consideration of the variety of individual national preferences in EU countries.

EU membership and EU market positioning:
The longer-term strategic focus is the expected EU membership and further regional integration, which will further help the sector to maintain competitive advantages within the EU and regional market. Companies believe that, once fulfilling EU standards, other international markets can be easier approached.

Competitive edge:
Establishing the competitive edge is a key requirement of the VC development strategy. Low-cost manpower cannot be a sustainable differentiator in the future. Important aspects will be increased efficiency and productivity, low percentage of leftovers and suitable fixed cost level. Considering production of windows and doors, design has some but not the most important effect on competitiveness, as many specifications are pre-set by export clients including standards and dimensions, as is use of raw-material. This at least to some extend refers to *windows*, being the most prominent export product line. With the implementation of semi-automatic CNC machinery and standardized processes, companies are becoming internationally comparable, which increases urgency of identifying other differentiating competitive edges.

Combination of Furniture and Building Material production:
Almost all the top exporting wood processing companies are manufacturing and exporting both, wooden furniture and wooden building material, however with main focus to furniture. It is of strategic advantage to combine both product lines, helping the companies to improve their average utilization through reduction of seasonal effects. The five largest producers make up for about 59% of all building material export. Of these five companies, only two producers exclusively produce building material and three companies are combined producers of building material and furniture.

4.2 Development Potential of the Wood Building Material VC - Focus to Export

4.2.1 Key observations

Since 2007, the sub-sector´s export showed positive performance, even though with low overall turnover and some setbacks in the years 2012 and 2015. Due to the lack of available internal company data, market demand sourced from market studies and other economic statistics, a more in-depth assessment of future growth potential and assessment of economic stability of companies could not be elaborated (e.g. value creation and distribution along the national VC, development of profit margins, among others).

On the other hand, the positive export turnover figures of the last years and positive feedback, visions expressed by entrepreneurs and operators along the VC show some confidence of the industry toward growth of export.

Based on the analysis, feedback from sector stakeholders and data input in this study, the consultants consider a positive export potential. However, a number of constraints require action and improvement in the sub-sector. The missing market demand analysis leaves a considerable gap in any potential analysis.

The following observations are conditional to export potential, and help to evaluate the sectors´ future export development potential:

- Building material companies need to be economically sound and able to invest in export development before aiming for export.
- The VC analysis has identified several constraints along the VC with a focus to core VC companies from supply to distribution, company export capability, company upgrading requirements, business environment, institutional frameworks´ effectiveness.
- Companies are able to adjust to new market trends, and product requirements, such as the trend that wooden window frames are on a slight down turn in the EU.
- The quickly adapting regional and international competition in the building material markets and rapidly evolving and changing export market environment require quick and effective action in making Kosovan producers more efficient, productive, and competitive.
- Many company owners need to change entrepreneurial mindset with more openness to share responsibilities with external specialized managers and disregard family-driven employment decisions as long as they are not in-line with best-practice. Company owners need pay competitive salaries in order to find best-suited manpower, on workers and management level. The continuous adjustment to international business practices is key.
- Company´s Investment and innovation strategies need to be based on measures for improved internationalization, export competitiveness and better performance.
- An improved sustainable service landscape and conducive business environment is key for more and better export. Unfair business practices and corruption need to be fought at all relevant levels as these practices damage image and competitiveness of the sub-sector.
- Better value chain integration and supply chain management includes more and better horizontal and vertical linkages with the chance to reduce transaction costs.

All these factors will be crucial for either failed development, survival, or positive growth of the Kosovan export focused industry.

4.2.2 Pre-requisites for a more competitive value chain

The degree of currently prevailing export competitiveness and future potential depends on the sub-sectors ability to create competitive advantages. Competitive advantage is key to avoid a “me-too” image at clients. Low-price strategies have negative implications for investment in research & development, design, purchase of high-quality and new type raw material and components, to hire specialist workers, and to pay for operationalization of export marketing and communication strategies.

According to the competitive advantage model for the wood building material sub-sector (see Figure 37), efforts of the VC operators need to concentrate toward gaining and maintaining *cost and differentiation leadership*. This implies company upgrading and external improvements in regard to services and business environment.

1 *EXTERNAL conducive business environment* needs to provide advantages to the overall building material value chain and to facilitation of export.

2 *PEST: Optimization of factors supporting "better business" at 4 levels* at political, economic, social and technological level.

Political: Grants, legislation, regulation and de-regulation, taxation, fiscal incentives.
Economic: Interest rates, labour costs, better connection to impact of internationalization, motivating "wealth and value added" distribution along the sub VC.
Social factors**:** Education and VET, social and cultural changes as long as it is required for better internationalization, mobility, social concerns such as environmental issues.
Technological factors**:** Supportive R&D and growing culture for innovation in-country, expanding communication technologies.

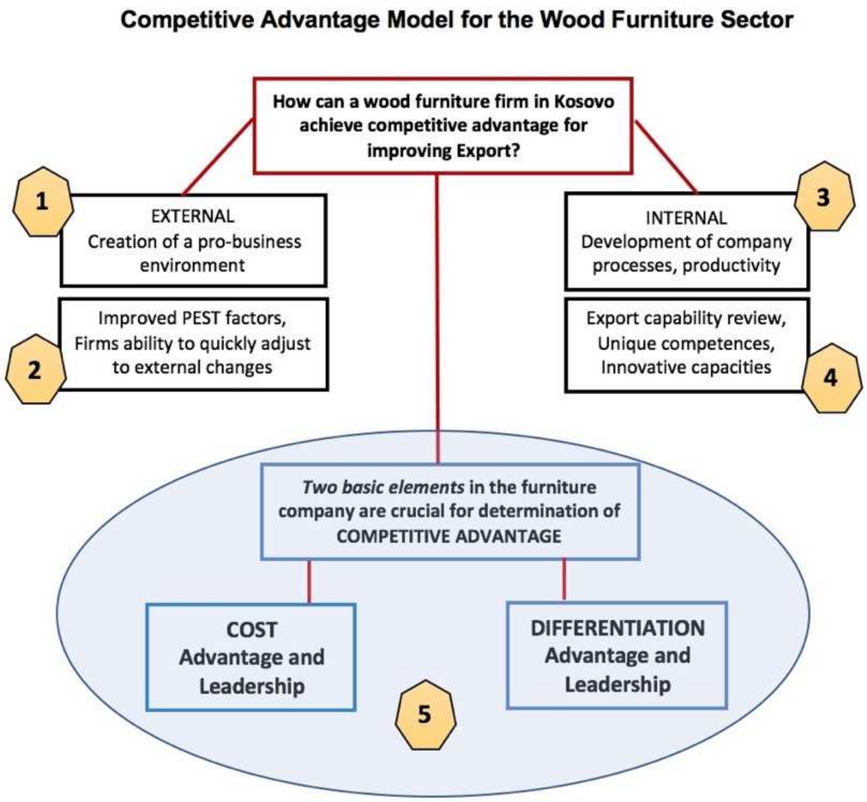
3 *INTERNAL company business review and upgrading*: Implementation of export quality management systems (EQMS)[22], improvement of productivity and implementation of marginal costing system for definition of contribution margins and break-even points for export pricing purposes and job-order costing.

4 *Unique competencies and innovative capacities*: Implementation of export capability review (ECR)[23], avoidance of "me-too" image at export markets, investment in R&D and quality management, suitable QI structure along the VC, ISO 9001.

5 *COST and DIFFERENTIATION advantage*: These two aspects endorse upgrading of the overall value chain, aiming for best-practice services, focus to cost-value purchasing and supply, productive and cost-optimized production processes, tackling cost drivers for better company and VC efficiency, investment into strategic and operative international export marketing, R&D, pattern of capacity utilization, functioning management teams, training and formation of specialist workers, and a political and economic system that supports conducive business environment.

[22] ISO 9001certification and implementation of export typical company internal processes
[23] Export Capability Review, own concept W. Wiegel

Figure 37: *Upgrading model for improved export competitiveness*



Source: own compilation from Michael Porter competitiveness model

5 FROM CONSTRAINTS TO INTERVENTIONS

5.1 Intervention Areas along the VC

The Intervention areas are covering the main elements of the provisional VC development strategy (Paragraph 5.1.2) and support the three pillars (economic growth, more and better work, healthy and protected environment) of the export-driven building material VC development.

The intervention areas are:

- Market access, marketing and distribution
- Manpower, vocational training, capacity development
- Business operations
- Certification and quality
- Linkages, upscaling and environment
- VC support services (service providers, financial services, BMO, BDS)
- VC governance and regulatory framework

5.2 Constraints and Opportunities

Prioritized constraints and opportunities are collocated across the corresponding intervention areas and covering the various VC actors across the VC.
When implementing the holistic VC promotion and facilitation project, project implementation strategies will likely be reconsidered and adjusted to changing prioritization and sub-sector realities regarding to constraints and opportunities. Final prioritization of constraints, opportunities and its connected interventions will also depend on the proposed implementation time horizon and the required time for implementation of interventions, outputs and outcomes (either short-term (1year), medium-term (2 to 3 years) and long-term outcomes (5 years or more). Also see figure 40, logic model of VC upgrading.

Constraints, opportunities and recommended activities are not ordered based on priority or importance as this will have to be agreed with VC lead actors and stakeholders during the setup and project planning phase of a VC facilitation and upgrading project. Some of the constraints and activities are overlapping as constraints in different intervention areas look at the VC system from different perspectives.

5.3 VC Upgrading Activities

Proposed activities are presented in the following table. It needs to be pointed out that the activities recommended in this section cannot cover all possible and potential enhancements or upgrading requirements. When the VC promotion and facilitation project is initiated, both the VC upgrading strategy and priorities will need to be reviewed and finalized according to priorities on input, outcome and impact level.

Figure 38: *Constraints, Opportunities and recommended Activities*

Intervention Area 01 **Market Access, Marketing, Distribution**			
Involved Functions	**Constraints**	**Opportunities**	**Recommended Activities**
• Production • Sales	**Insufficient and unreliable market data.** Market and client's segments are not sufficiently known in different target EU countries, resulting in vague marketing, product and client communication strategies	**Taking advantage of market opportunities based on current competitive advantage.** Access to more markets avoids dependence from limited number of clients and helps balancing seasonal fluctuations, beyond other strategic advantages.	• Support export companies (training) to enhance their own market research capacities and transfer it into marketing strategies and improvement of segmented competitive edges. • Strengthen capacity of existing service providers and AWPK in undertaking systematic market analysis (BDS training). • Implement market newsletter (4 times/year) that covers different target markets/product groups (e.g. by AWPK).
• Production • Sales • Transport • Supply	**Application of international commercial standards between business partners, such as Incoterms not frequently used.** Unclear communication of tasks, costs, basis of pricing between business partners. Clarification of mutual risks associated with pricing, transportation and delivery of goods. Companies also complain about problems with collection of due payments.	**Become a serious and "internationalized" business partner at export markets.** International business requires application of state-of-art business rules and standards. Incoterms reduce risks, improve business practices and payment processes, also on national level in dealings between VC actors.	• Provide training of best-practice commercial standards, focus to implementation of Incoterms as standard of trade. • Start implementing international commercial standards in-country between the VC operators before initiating at import and export level. • Support a business-like culture along the VC actors, such as default charges, improved ruling regarding quality standards, compensations, complaint management, etc.
• Production • Sales • Transport • Supply	**Segmentation and positioning at different markets is most not pro-active but reactive and opportunity driven.** Kosovo building material companies are required to gain and maintain	**Strengthened product & market positioning in parallel with cost and competitive advantage leadership wins market shares and enables access to new markets.**	• Apply the tools *Business Model canvas* in combination with *Value Proposition canvas* by individual exporting companies (Annex 02) – <u>Competitive advantage.</u> • Implement hybrid system, or variable, absorption costing – <u>Cost advantage</u>.

	competitive advantage in their different market/client/product segments.	The increasing competitive pressure within the upper medium and higher price segments requires strong focus on marketing, product and pricing strategies. If applied, profitability of export will potentially, increase which also includes company internal upgrade and best suitable external business environment.	• Implement regular building material sector round table talks with representatives of all involved VC actors with the objective to improving linkages, to streamline costs and to economize supply chain/logistics integration, which are strictly based on client demand determinants.
• Sales and Market	**Kosovo unfocussed image at wood building material export markets.** In general, Kosovo building material products are in danger of being considered "me-too" products by clients if image and perceived competitive edge isn´t further developed. Regular up-to-date market studies are at large not available to the building material manufacturing community.	**Create the image-enhancing measure "Made in Kosovo Trademark".** A trademark improves business opportunities and adds uniqueness to Kosovo-made building material products. Furthermore, it strengthens export target in corresponding price and market segments. Creating a national trademark and brand is a long-term project. Making the trademark work for better market opportunities depends on whether "Kosovo-building material" can establish a competitive benchmark or national branding. A trademark is only useful when backed-up by a real customer benefit.	• AWPK to initiate a consultant moderated "trademark and branding project" with reviewing and building basics for Kosovo Trademark, integrating all main exporters (market analysis and competitor´s profiles). This could also be considered as *overall wood sector trademark.* • Sharpen image and competitive edge in each of the export markets and market/client segments through better market and competitor research, and professional marketing communication. • Capitalize national brand value by aiming for additional private brands of key manufacturers.
• Sales and Market	**Most Kosovo building material companies have not sufficiently approached new communication and sales channels that might be useful and emerging in the building material export business.** Business (B2B) or private clients´ (B2C) expectations regarding quick availability, novelties and combined product + service concepts are quickly changing. Many Kosovo building material companies often do not know why the loose business or do not get award of contract.	**Application of innovative concepts, such as: export agents, e-commerce and introduction of alternative marketing strategies as innovative new marketing communication and sales acquisition tools.** Quick adjustment to new trends for part of the exporters market/client segments reflect whether a manufacturer from Kosovo is perceived as modern, customer-oriented and solution-oriented for both client groups, B2B and B2C clients. All of these are building blocks for a modern image "Made in Kosovo". Creative, innovative adaptions in addition to	New marketing approach (requires expert input): • Calculate expected cost/benefit of new marketing approaches before doing investments. • Engage export agents, paid by groups of companies, to connect with customers and better integrate supply. • Consider e-commerce for B2B only with suitable partners in target countries. • Increase personal market presence (key account plans, one face to the customer, active selling) for B2B and B2C. • Plan for installation of a company representative in the most important export countries and plan for intermediate storage facility and showrooms.

	Kosovo building material companies do not have the required specialist personnel for either in-house preparation and servicing of web services, new media marketing, export and communications specialist, representative in target export countries. This requires introduction of an HR plan and a medium- term introduction of new VET training content.	conservative market approaches are advantageous for helping both income streams, B2B and B2C. Young people in Kosovo are growing into the digitization age and are assets for companies. Selling and servicing (installation) of products are in the trend. *Service marketing* training as additional curricula in the VET system can add value to producers´ product + service portfolio. In case of visa problems for own personnel, subcontracting can be the solution.	• Improve web presentation with interactive web sites. • Start new communication and social media. • Introduction of new media and communication training courses in VET structure for industrial application. • Help companies to identify specialist marketers in export countries that can help to penetrate markets and to acquire subcontracting service and installation personnel (e.g. installation of windows).
	The large part of all export sales of the Kosovan building material industry is going to two countries only (Germany and Switzerland). Potential of expanding export and exploring market opportunities in the EU are neither adequately analysed nor rigorously developed. Both methodologies, market scanning and market analysis are largely not implemented by companies. Huge market potentials are not discovered.	**Expand to other EU markets.** Although still small-scale compared to international standards, building material producers have a huge potential in other EU markets. Only doubling exports, helps companies to improve one-shift utilization of installed capacities to a healthy and economically viable level, which should be above 85%.	• Introduce a combined market scanning and analysis methodology in the building material industry that reduces or eliminates risk investments in new markets that do not fulfil minimum requirements regarding general framework and export marketing conditions. The concept on scanning before analysing markets is attached at annex 04). • Implement a systematic export market development, starting with market segmentation, followed by market targeting/differentiation, and market positioning for a tailor-made marketing mix for each determined market segment. The concept is attached at annex 05).

Intervention Area 02 **Man Power, Vocational Training, Capacity Development**			
Involved Functions	**Constraints**	**Opportunities**	**Recommended Activities**
• Production • Sales	***Salaries and Payment:***		
	No performance-based salary structures. workers are paid on basis of fixed salary only. Workers´ efforts are minimal to improve own productivity or to aim for better quality consciousness.	**Motivated employees help to improve product quality, reduce production cost, improving overall company competitiveness.** Performance-based salary is one trigger for improving worker´s initiative and motivation to learn, improve and become more quality conscious.	• Establish a pilot case on blending basic salary with a performance-based element. AWPK as moderator and a pilot lead company should analyse potential benefits and risks involved in new salary scheme (baseline of variable component according to actual vs. desired productivity, performance measurement, cost/benefit, quality statistics).
• Production	***Vocational Training:***		
	Labour skills and qualifications often not in-line with manufacturer´s requirements. Most manufacturers complain about unprepared and unskilled workers. Curricula are more supply than demand-oriented, even though regional employment centres attempt to improve cooperation for better public/private education efforts.	**Companies are able to find and employ workers that provide required skill sets. The result is increased work productivity, quality output and potentially salary payment.** Implementation of institutionalized internship programs as conceptual part of the vocational training in the sub-sector. This way, the industry provides practical skills training and insights/input to actual skill requirements for definition of curricula.	• Implementation of regular company-based training-needs assessment and strengthened public/private dialogue between training schools + companies. • Updating of all relevant curricula in close cooperation between companies and VET institutions. • Initiate a building material industry internship program, to be organized between companies and VET institutions. • Initiate a pilot project for best-practice internship application model.
• Production	**The national VET system (here wood building material) does mostly not comply to international standards**. Certification of VET courses and curricula is not the standard. Modern dual theory and practical teaching systems are only marginal functional and not institutionalized.	**The VET system for the wood manufacturing sector is based on best-practice and standards that combine theoretical and practical training elements.** Curricula are demand oriented and industry employ professionals who have received training that is relevant for the labour market. Market driven technical	• Support public VET providers (piloting on wood processing, building material) on dual system approach options that best fit the national situation. • Support national public and private VET providers in introducing and upscaling new and reformed training courses. • Research international VET standards and curricula and certifications in order to adapt those to national system (focus wood processing).

		education improves conditions for better productivity, reduced costs, improved employment opportunities and less “imported labour” from neighbouring countries.	
• Production • Supply	***Management Upgrade:***		
	Lack of experienced management and administrative personnel. Companies are lacking managers in export marketing, financial and quality management. Owner-driven companies´ preference for employment of family members instead of business need-based employment.	**Professional management helps larger companies to become more competitive when employing key management personnel.** Reduced owner involvement in key areas in the company whilst employing specialists in marketing, financial, quality management will enhance overall company performance and export competitiveness. International export clients will be better served, and client communication will improve.	• Provide in-house and external training courses for management personnel. In-house training includes consulting input on process implementation (e.g. strategic and operational (export) marketing, business planning, costing systems, quality systems). • Combine on-the-job training input with consultancy. • Implement attractive payment schemes for key management personnel in export focused companies. • Provide additional motivational packages for future and existing management personnel (opportunities to participate in trainings, clear terms of contract, performance-based payment).

Intervention Area 03
Business Operations

VC Function	Constraints	Opportunities	Recommended Activities
• Production, Marketing • Supply	**Lack of adequate costing systems**. Companies have limited decision making capacity when break-even calculation for new products is not known and sales price differentiation is difficult to determine as long as costing is not properly implemented. It was reported that companies are losing	**Building material companies are able to determine price floors and to fine tune export pricing strategies.** Precise knowledge of fixed and variable costs enables companies to apply strategic or tactical pricing (defensive or offensive pricing strategies), break-even points, price ceilings and boundaries (fix-cost coverages,	• Implement suitable costing systems in the building material industry. Determine a pilot case with a suitable company to sell the idea to other producers. • Provide on-the-job training on export pricing concepts and pricing decision making (competitive pricing, optimum pricing, defensive and offensive pricing, medium and premium price-quality positioning, break-even analysis, etc.).

	export business as they are unable to determine precise and immediate tactical and short term low-price offers to clients.	determining economy of scale), better price-quality positioning, and pricing decisions that are based on market competition and not on "want to have" profit margins.	
• Production, Marketing	**Unbalanced investment allocation.** Investment in Marketing, R&D and product development is often insufficient, especially when aiming for export expansion and better client focus.	**Investments are balanced and consider "Market is Key" for business success.** Building material production companies are convinced that investment in production expansion or technology has to consider whether investments effectuate more and better market opportunities or export. Additionally, companies are enabled to improve productivity.	• Provide in-company training for investment planning and investment strategies, that are integrated to business planning. • Provide in-company training and external training course curricula that deal with export financing.
• Production • Supply	**Inability of companies to fulfil larger export orders.** Due to the small size of most Kosovan companies and production limits in fulfilling building material orders, larger market demand cannot be satisfied.	**Companies gain additional market shares.** Larger orders and shorter delivery times can be realised by companies through more and better horizontal linkages and co-working between producers.	• Enhance the capacities of the AWPK to provide services that help companies to integrate and be able to satisfy larger market demands. • Support the idea of creating more trust between companies for more and better horizontal linkages and subcontracting.
• Production • Supply	**Lack of strategic business planning.** Most of the companies operate without business plans including marketing and export plan. Companies do not have clear vision and objectives and often operate on ad-hoc basis.	**Strategic planning creates focussed business goals.** Strategic planning helps the companies to become proactive while allowing them to define business and export road maps, pursue opportunities and run daily operations in a more economically viable way. The business strategy and operational business plan defines objectives, vision, resources, and business processes.	• Provide training to companies on how to develop strategy documents. • Train them on SMART techniques, SWOT analysis and on other tools that help them develop strategic business planning. • Train them on specific software packages that are dedicated to developing business strategies. • Provide in-house on-the-job implementation of business planning.
• Production, Marketing • Supply	**Limitations of movement of management and service personnel to the EU.** Difficulty of getting visa creates problems for managers and service personnel to visit clients or provide	**Companies have better access to export markets and stop outsourcing after-sales services.** Granting visa-free traveling creates opportunities for Kosovo managers to find international clients and develop business	• This has to be addressed on high-level political instances. Nothing can be done on a technical level.

	fitting and servicing orders for building material.	partnerships. It also reduces the cost of companies as they can send their technicians to do the fitting and after-sales servicing.	
• Production • Supply	**Innovation management and prioritization of innovation measures toward sector and company internationalization is not sufficiently developed across the sector.** Companies do often not differentiate between the potential of product and process innovation.	**Innovation management is a driver to better revenue and competitiveness.** Besides product innovation, process and business model innovation measures are useful for improvements in production companies and suppliers toward internationalization. It pays to take advantage of the "innovative spirit" of some of the larger exporting companies.	• Provide consultancy input for a small number of potential lead companies that are ready and willing to consider innovation management. • Start a building material sector "innovation round table" for sector coordination of innovative networks, think-tanks and cooperation. Moderation by the wood association and a selected consulting company who understands innovation management and internationalization issues.
• Production	**Lack of adherence to proper corporate governance structures.** Most of the companies are family-owned where family members keep multiple roles and responsibilities.	**Setting corporate governance structures right improves company performance.** Good corporate governance framework establishes role and responsibilities of owner(s) and executive management. It assures that company's finances and other operational activities are professionally conducted.	• Conduct a thorough diagnosis to assess how companies stand in terms of corporate governance. • Organize training programs with companies on corporate governance structures.

Intervention Area 04 **Certification and Quality**			
VC Function	**Constraints**	**Opportunities**	**Recommended Activities**
• Production • Supply (national & international)	**Fulfilment to certification and quality standard requirements.** This is considered to be one of the main constraints by production companies. Causes are multiple, reaching from lack of input supply quality control, ineffective or non-existing quality management	**Quality consciousness has multiple positive business effects, adding to sector´s competitiveness.** This supports lower overall costs, better quality of imported raw material, positive customer retention, less second grade and material losses, better trained personnel,	• Implementation of quality management systems in stages: quality control system, quality management process toward overarching quality management process, and ISO 9001. • Introduction of QI as overall building material product quality system that includes specification, purchasing and supply.

	systems, non-existing VC integrated quality infrastructure (QI), untrained labour in regard to quality assurance methods.	improved image at export markets, potential to sell at higher priced segments, besides others.	• Initiate and promote installation of product quality testing laboratory at AWPK premises that helps to create a wood sector quality infrastructure. • Support a national wood and building material database of preferred suppliers, based on defined standards (national products and international imported products and suppliers).
• Production • Supply (national & international)	**Lack of adherence to ISO 9001:2015 standards:** Companies, particularly the smaller ones, have not adopted ISO 9001. They fail to recognize the importance of a quality management system and the confidence it brings to potential business partners.	**Better internal operation and greater potential for partnerships, more acceptance at export markets.** Complying with ISO 9001 standards improves internal processes and quality management systems, it creates trust in the eye of potential business partners.	• Provide further awareness raising campaigns about the importance of ISO 9001:2015 standards. • Develop incentives for companies to adopt these standards. • Start an initiative with implementation of Export Quality Management Systems (EQMS) and ISO 9001:2015 certification preparation. • Implement ToT for local consultants for ISO preparation at company level, aiming for certification.
• Supply (national)	**No provision of FSC forest management certificates.** Although national standards for FSC Forest Management certification have been developed, the Kosovo Forest Agency still does not issue FSC Management Certificates.	**Exports of building material produced out of Kosovo-harvested logs.** By being able to obtain FSC forest management certificates, building material producers can manufacture and selected product lines that are (partly) produced with domestic-origin logs.	• Amend the Law on National Parks that prevents harvesting for industry. • Assist the KFA to complete the system for issuing the certificates.
• Production	**Limited knowledge about integrated and advanced quality systems**. Poor quality management systems, lack of formalities and procedures, none or insufficient use of quality records are typical challenges when considering advanced quality systems.	**Positive effects through long-term implementation of Lean Six Sigma (LSS)**. LSS will reduce defects by likely more than 25%, reduce waste by at least 15% and increases productivity considerably. It improves the quality consciousness in companies.	• Create a pilot case with implementation of LSS in a larger producer/exporter that already applies or is open to implement best-practice processes. • Prepare baselines in the participating companies before and after implementing a LSS “light” program in order to prove verifiable improvements in regard to productivity, number and kind of defects, waste percentage, etc. • Train key personnel and local consultants in LSS processes and implementation (green or blue belt Six Sigma specialists).

Intervention Area 05 **Linkages, Upscaling, Environment**			
VC Function	**Constraints**	**Opportunities**	**Recommended Activities**
• Supply • Production • Transport	**Supply chains are not optimized.** Some of the constraints related to supply chain optimization are: commercial standards, quality systems, cost optimization, preferred suppliers, group purchasing. It is likely that cost- and quality sensitive optimization potential has not been exhausted yet.	**Supply chain optimization of sub-contracting leads to more cost efficient and just-in-time delivery standards.** Competitive lead-times with just-in-time focus will gain more clients. The producers´ ability to apply shorter lead time between contract and delivery determines client´s choice of suppliers. Some clients business model requires “just-in-time” delivery and quick response from building material producer.	• Support a leading “pilot” in best-practice supply chain optimization, optimized order-to-delivery process and implementation of functioning sub-contracting linkages. • Help AWPK to become a useful hub between suppliers and producers with the capabilities to mentor supply chain optimization for a win-win benefit of all involved VC operators. • Arrange round-tables between producers, transport companies and suppliers to create better cooperation and common solutions for improved VC integration.
• Production • Supply • Transport	**Lack of horizontal linkages between companies.** In most of the cases local companies perceive each other as main competitors and not as potential partners to improve the odds for export.	**Horizontal linkages improve the capacities of companies to export.** By joining forces and streamlining the production lines, companies will be able to produce at a larger scale and meet the demand of importing companies from the EU and elsewhere as a result. Linkage promotion helps to better integrate the building material VC.	• Provide grants that condition companies to seek for partnerships. • Help AWPK to develop mechanisms that lead to the creation of partnerships among similar companies. • Implement regular sector round tables between companies with specialist contributions on VC and supply chain subjects.
• Production	**Insufficient use of wood leftovers for recycling purposes, like conversion into fibre boards, pellet.** The number of leftovers (chips, sawdust, shavings) in wood manufacturing is huge and recycling is not organized at larger scale.	**Recycling of wood leftovers creates new opportunities for employment and considers environmental aspects.** Leftovers are collected by recycling companies or collectors on national level and sold to fibre board producers, if practicable, or others.	• Implement a basic feasibility study on wood recycling options, economic viability and income/job creation potential, considering the overall wood VC leftovers in production. • Identify national recycling companies or collectors as potential partners. • Identify suitable and environmentally sensitive recycling options.

Intervention Area 06 **VC Support Services (Service Providers, Financial Services, BMO´s, BDS Provider)**			
VC Function	**Constraints**	**Opportunities**	**Recommended Activities**
• Supply • Production	***Financial Services:***		
	Lack of finance for innovation and investments. Companies have come to appreciate the role of innovation in business expansion, but they lack the funds for engaging in innovation practices. Most investment is linked to technology, but image promotion, market development and client communication are often more important than investment in technology.	**Implementation of client focussed investment planning**. Investment plans, part of business planning help companies to improve businesses where it is needed and avoid investments in fields that are not critical for better competitiveness and positive export development.	• Implement a regular round table between private sector companies and financial service providers to develop mutual concepts that can improve access to finance. • Start a "business plan initiative" for the building material industry that is based on an overall strategic plan and includes marketing and export plans with strict focus to EU target markets, followed by investment planning that is based on market requirements and competitiveness aspects. • Introduce "business plan contest" with private sector panel representing specialists from financial institutions, AWPK, donors.
• Supply • Production	**Limited access to finance for women-owned enterprises.** Due to cultural norms, in most of the cases family property and other assets belong to men. Because of this, women face difficulties to find collateral to apply for bank loans.	**Inclusion of women in the wooden building material industry.** Property registered in the names of women enables better access to funds and creates greater opportunities for business expansion.	• Develop awareness raising campaigns to educate citizens about the role of women in business. • Develop incentive packages that encourage women to claim ownership on the property that essentially belongs to them.
• Supply • Production • Transport	***Business Membership Organizations, Wood association (AWPK):***		
	Lack of self-funded internal training centre at AWPK. Provision of training is always determined and funded by donor projects and not necessarily by need	**Opportunities for better trainer, offering a greater range of topics, more independence from donor funding.** An internal training centre allows the AWPK to prepare training development plans based on the real needs of its member and	• Provide institutional support to AWPK: improving the membership model; adding, improving and upscaling of business services for members; creating sources of income, like over-the-border services with quality laboratory services or building material market study services. Final objective is a

	and demand. Overlapping training input cannot be excluded.	avoids the likelihood of offering the same training to the members more than once. Increase number of trainings paid by companies.	better sustainability and independence from donor input.
• Supply • Production	**Limited availability of product quality laboratory testing and certification services**. Larger companies have their own laboratories or seek services outside the country. Smaller companies have limited access to quality assurance and certification services.	**Helping to improve quality and product reliability.** By establishing a test laboratory and production certificate resources at the AWPK, there will be a higher number of companies with tested and certified products, which can have higher changes to penetrate to export markets.	• Cooperate with CATAS to facilitate the establishment of the lab that can provide: chemical analysis, physical and mechanical tests on raw materials, components and finished products of the wood.
• Production	**Limited support for exports.** The AWPK provides limited support to members toward better integration into regional and global markets.	**Advancing export is critical for sound sector development**. External conditions are favourable to expand to more markets. Production capacity is currently available, with at least 30-40% potential improvement of utilization installed capacity, not considering seasonal considerations.	• Implement a web-based Kosovo Export Portal for wood products. Strengthen the AWPK to develop skills to initiate this additional service to member companies. • Identify the entity that will be enabled to start, run and maintain the Kosovo Export Portal. • Implement an export council that only deals with solving export related constraints.
• Supply • Production	**Underrepresentation of smaller members.** The AWPK mostly focuses on helping larger companies and has the tendency to neglect smaller companies.	**Fair treatment of members creates opportunities for inclusive growth.** Non-discriminatory treatment of business members creates conditions for fair competition in the wood industry and promotes inclusive growth.	• To form nuclei within the AWPK. A “Nucleus” is a circle of companies which are sufficiently homogeneous, but also sufficiently heterogeneous enough to create space for companies to exchange their different ideas, challenges and solutions. This structural change enhances the bargaining power of the underrepresented groups within the association.

Intervention Area 07 **VC Governance and regulatory Framework supporting Export Development**			
VC Function	**Constraints**	**Opportunities**	**Activities**
Along all VC actors	**Some businesses are able to offer more competitive prices through engaging in unfair practices.** This is caused by tax evasion and informal economy.	**Equal treatment of businesses creates opportunities for growth. By creating a level playing game, businesses would be more willing to invest.** Fostering an environment conducive for doing business increases the willingness of business to invest, become more innovative and improve their overall performance as a result.	• Adopt and enforce serious anti-corruption policies. • Improve the efficiency and modernize significantly public administration. • Implement audit rates that capture firms with different characteristics. • Optimize audit rates as to treat competitors equally. • Increase the number of inspectors.
Along all VC actors	**Challenges in implementing a rapidly evolving policy and legal framework.** Kosovo has managed to develop a relatively advanced legal framework on paper, but the capacities of respective governmental bodies to implement this framework are weak.	**Effective implementation of the legal framework improves business environment.** A proper implementation of the legal framework creates a level playing field and trigger further domestic and international investments in the industry.	• Develop capacity enhancement programs to train public officials on the new legislation. • Improve monitoring and control mechanisms to ensure a better implementation of legal framework.
Along all VC actors	**Weak judiciary system.** Delays occurring on the judiciary are long and harmful in cases related to tax administration, customs duties, or regulatory disagreement.	**Strong judiciary system has a positive impact on doing business.** A strong and efficient judiciary system create conditions for more investments, trade, and partnership agreements.	• Increase the number of judges and develop anti-corruption mechanisms.
Along all VC actors	**Weak control mechanisms at Kosovo customs**. It seems that Kosovo customs fail to register or wrongly register exports and imports taking place in the wooden building material sub-sector.	**Regular evidence of trade flows for better sector analysis.** Keeping evidence of all trades in line with the standards in place improves the planning and decision making both at business and governmental level.	• Intensify control procedures at Kosovo Customs. • Increase penalties for those who try to under-declare the traded goods.

5.4 Risk Assessment

Even though at rather small scale, the export growth potential of Kosovan building material manufacturers is considered positive. But there are risks and threats, both external and industry internal that can have a negatively affect toward sub-sector growth and export development.

Potential threats are:

- Political and economic stability is not guaranteed.
- Wood building material sector is not able to adapt to EU changing technical standard requirements (e.g. material mix, insulation coefficients, etc.).
- Kosovan companies are unable to assure a “level game” when facing increasing competitor´s pressure, considering that the EU wood building material market is a typical buyer´s market with more export from the EU than importing into the EU.
- National VET system is unable to adapt to companies´ human resource requirements.
- Management specialist personnel is not available because salary and personal growth perspectives are better in other countries.
- If the consequence of any visa liberalization to EU countries is not well monitored as the likelihood exists that well educated and potential manpower leave the country.
- VC actors are not buying-in to an integrative and holistic VC development project approach, thus reducing the potential promising gains that relate to better VC integration and systemic upgrading of the sub VC.
- Donors do not consider supporting of an overall VC promotion concept with, in this case, reduces gains for the sector when interventions are overlapping or not considering a best-suitable systemic sub-sector upgrading effort.

6 VALUE CHAIN PROMOTION AND FACILITATION

(51) VC promotion and facilitation project only for the wood building material sub-sector:

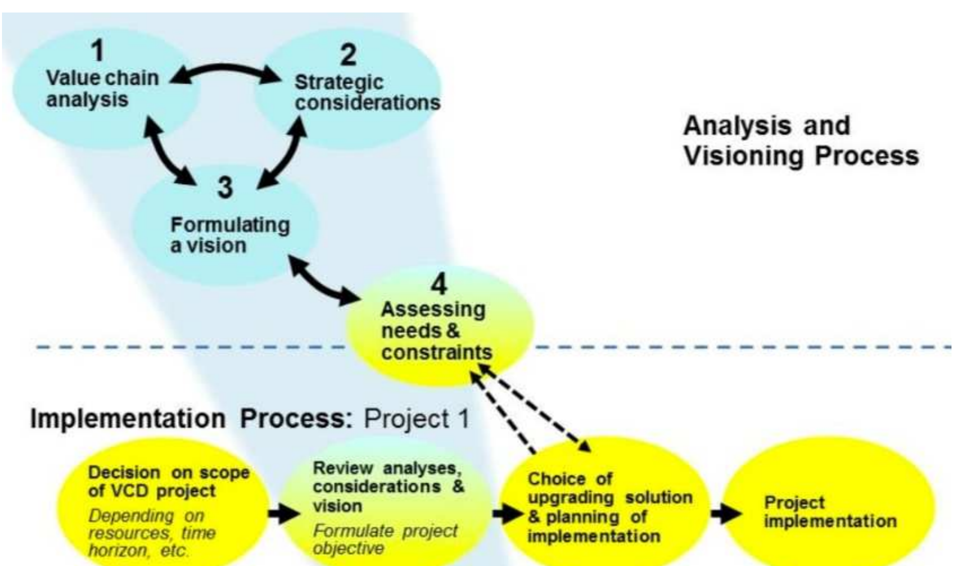
It is not recommendable to consider setting up a VC promotion and facilitation project for the Kosovan wood building material only as the economic impact is considerably lower as compared to the wood furniture value chain. Furthermore, large furniture production companies have a combined production output and any upgrading in these companies has positive effects to both, furniture and building material output. VC development projects, such as an innovative integrated upgrading for the wood furniture and building material sub sector VCs, can take from 3-5 years. Combining both sub sectors can be a realistic option as there are many overlaps and similarities across the VC, including the same stakeholders. Various constraints and opportunities relate to both VCs at the same time. Many interventions would benefit both sub-VCs.

(52) VC promotion and facilitation project process:

In a typical donor funded VC development program, the funding donor takes up responsibility of the VC development program management, together with a national public or private sector entity that has close relationship and connections to the core wood building VC. The selected or proposed national implementation partner is required to have a holistic focus to VC upgrading.

The VC implementation process is a logical consequence of the VC analysis and visioning and strategic design phase (Figure).

Figure 39: *From analysis, visioning and strategy – to VC upgrading*



Source: ValueLinks 2.0

VC promotion and facilitation (project programming and implementation) has to be undertaken with a national lead actor who provides sufficient experience (or is ready to learn) in managing and steering a VC upgrading cycle. The lead actor has to assume responsibility to drive the

VC development. Principal actors involved in VC promotion are part of the value chain system and play a regular role in its functioning (e.g. lead companies, association). They are part of the VC and indicated in the VC maps (see figure 14+42). Development agencies or donors are only present temporarily and are external to the system[24].

Lead actors in the VC development of the wood building material VC can be:

- Development agencies, donors (financing and facilitating the VC promotion).
- Private companies (VC operators along the core VC, pilot companies, lead firms).
- Business associations (AWPK, others).
- Government and public administration (Ministry of Trade and Industry, KIESA, others).

VC development underlies a large array of variables, besides the constantly changing dynamics of markets and economic systems. VC upgrading triggers opportunities and change. However, it cannot be easily anticipated which, and to what extent external or company internal interventions will or have triggered which kind of change. The attribution gap always exists. To reduce this gap, transformation and measurable improvements across the VC and attribution of change through VC upgrading interventions require implementing a well-defined and connected learning and monitoring cycle starting with programming and planning, monitoring interventions and evaluations (ex-ante and ex-post).

Another useful outcome of a VC development project relates to improved public-private dialogue and public-sector ownership. It supports Kosovan governments´ subsector policy development and endorses creation of a national competitiveness agreement. A competitiveness agreement is a national policy to promote the integration of private companies in the national and world markets and to further improve the competitiveness rating, but also consequent implementation of required measures, of the country in World Bank reviews. This concept has been successfully implemented in eight Latin American countries. Institutionally, the policy follows the levels of administrative hierarchy: The minister of economic development or industry presides over a national competitiveness committee or council integrating the representatives of private sector organizations.

At a lower level, stakeholders of a particular industry, sub-sector or in a particular region constitute roundtables initiating a multi-stakeholder policy process under the competitiveness agreement. Roundtables coordinate the implementation of the action plans. This can be implemented within the overall VC development program implementation[25].

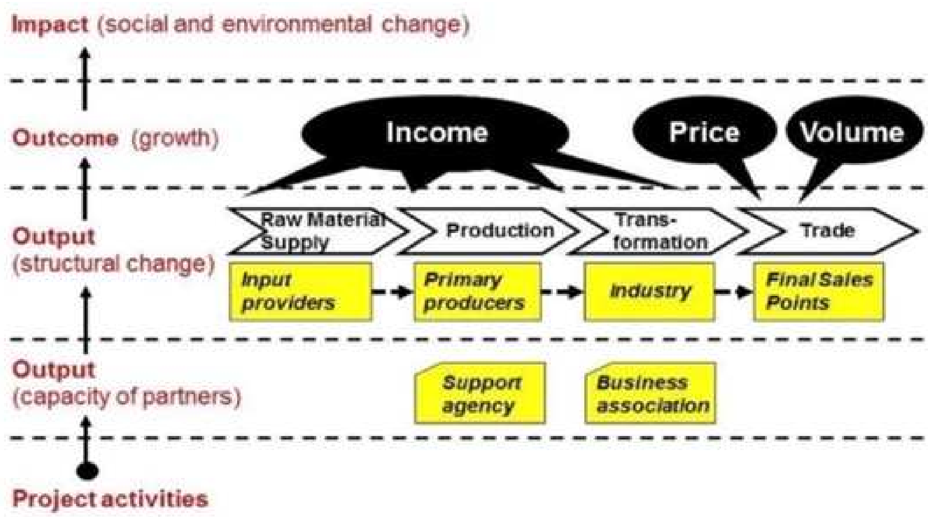
Some typical tasks for the implementation of a VC promotion project are:

- Methodological guidance and strategic orientation.
- Implementation of VC upgrading strategies.
- Validation workshops and public/private stakeholder development.
- Formulation of individual upgrading projects and its implementation.
- Recruitment and monitoring process of multiple short-term experts.
- Capacity building for staff and local partners on VC methodology.
- Development of materials for training and ToT.
- Implementation of VC internal and external visibility and information material.
- Creating and enhancing linkages and partnerships.
- Identifying pilot cases and lead companies
- and more aspects.

[24] GIZ, ValueLinks 2.0, 2018
[25] ValueLinks 2.0

According to the logic VC upgrading model (Figure 47), interventions can occur at different levels. Measurable output, outcome and finally impact require a well-coordinated VC upgrading and implementation strategy with suitable M&E methodology that aims at achievement of sustainable results at output and outcome level. Any measurable impact will likely not much be measurable within a short project implementation time table.

Figure 40: *The logic model related to VC upgrading input and results*



Source: ValueLinks 2.0

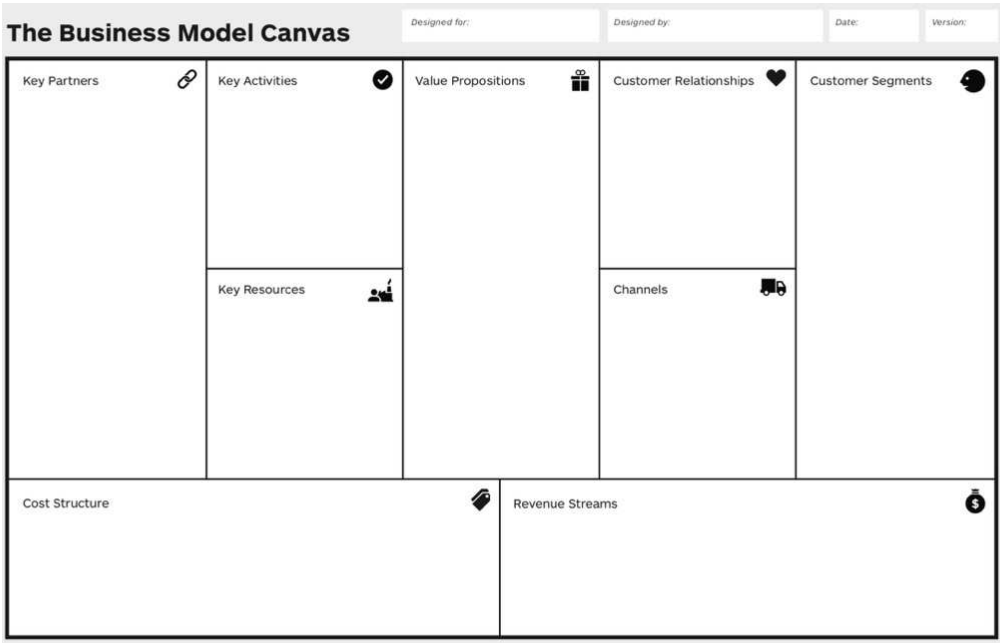
7 ANNEXES

ANNEX	
01	Ranked constraints at supply level
02	Tools: business model canvas, value proposition canvas
03	Main external and internal barriers to export
04	Market scanning and analysis tools
05	From market segmentation to market positioning

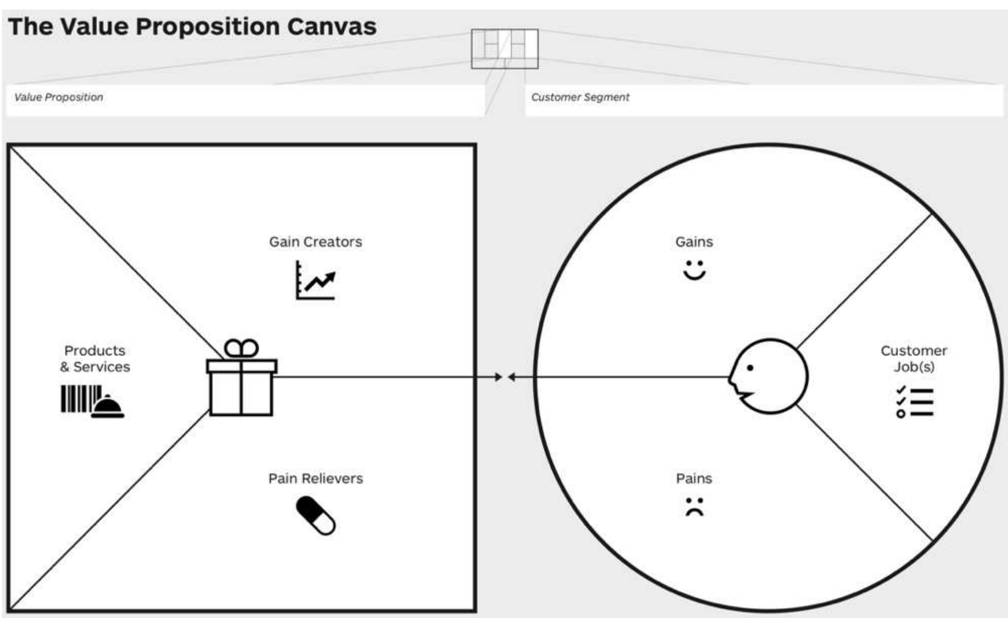
Annex 01: Ranked constraints at supply level

Main constraints	Is a large obstacle	It's a substantial obstacle	It's somewhat of an obstacle	It's a small obstacle	Is not an obstacle
1. Delivery time	1	0	1	4	8
2. Sourcing	0	5	3	1	5
3. Buying prices	2	1	7	2	2
4. Selling prices	2	3	5	1	3
5. Raw material quality	1	0	1	2	10
6. Raw material standards/certificates	0	1	1	2	9
7. Order size	2	3	1	6	2
8. Transportation	1	2	3	1	7
9. Legal / Institutional framework	1	2	5	2	3

Annex 02: Business model and value proposition canvas

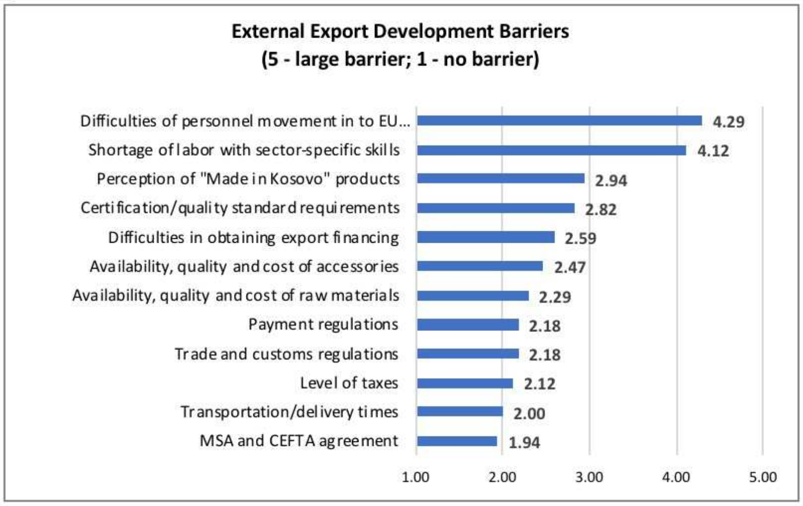


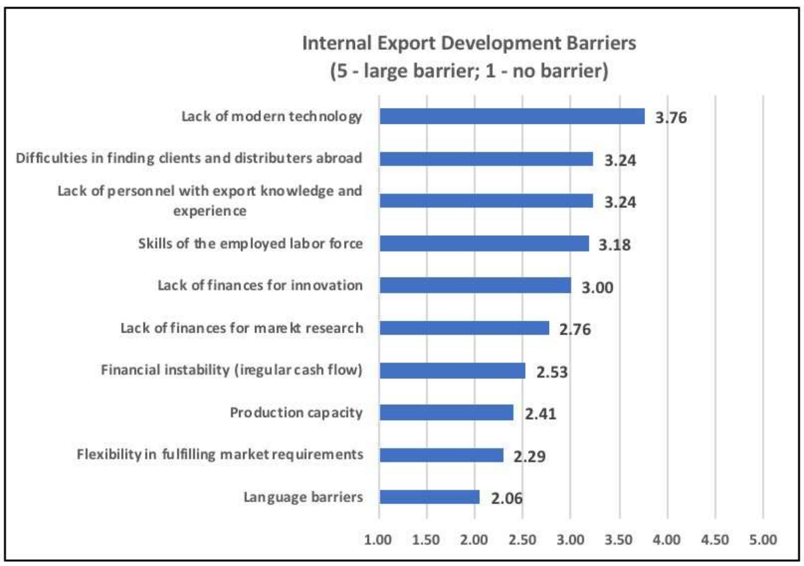
Source: Strategyzer.com, https://strategyzer.com/canvas/business-model-canvas



Strategyzer.com, https://strategyzer.com/canvas/business-model-canv

Annex 03: Main external and internal barriers to export





Source: own compilation from data collection at company level

Annex 04: Market scanning and analysis methodology tool

General framework conditions	*Export marketing conditions*	*Product requirements*	*Cost – Benefit optimization*
• *Political conditions* • *Legal restrictions (Import restrictions)* • *Credit worthiness of the country/country rating* • *Monetary risks or other hindrances*	• *Price and quality level of national industry* • *Competitive situation of international competition* • *Sales options* • *Market potential* • *Market development*	• *Legal requirements* • *Safety / Health* • *Warranties* • *Packaging* • *Labeling*	• *Best fit for export product* • *Easy access (language, culture, transport)* • *Best prices* • *Best distribution channel* • *Best cost/benefit ratio*

Selection process – facing out countries – focusing

Annex 05: From market segmentation to market positioning